Bank 2

20 November 2015

Dear CMA,

Following the report into the Current Account market, we submit the following response, in order that the views of a smaller bank – soon to launch a personal current account – are added to the discussion and final recommendations.

In late 2016/early 2017 we will be launching a personal current account with debit card and online/mobile banking. In advance of this we have produced a detailed business case which of course includes a view of the current market dynamics, and the costs and revenue streams of Personal Current Accounts (PCAs). It is clear that there are only a small number of revenue streams (from non-packaged accounts), including interchange, net interest margin from balances, penalty fees and charges, and cross-selling based on using the PCA as a relationship gateway acquisition tool. In our opinion, the latter two require particular consideration.

Penalty fees and charges have long been criticised for being, in some cases, excessive relative to costs and/or for being hidden. This revenue is generated from a relatively small proportion of customers, who cross-subsidize the majority, in some cases incurring financial hardship on top of existing difficult conditions, i.e. the cross-subsidy can be paid in some cases by the more vulnerable.

Secondly in relation to cross-selling, it could be argued that a need to drive value from a wider relationship started via a PCA could encourage mis-selling such as we have seen in recent years.

Against this backdrop and given the substantial costs incurred in offering a PCA when fully costed through the supply chain, we would challenge the notion that PCAs are profitable in the Free If In Credit (FIIC) model, and believe that in order to make this assertion you need to look at a portfolio level which includes all customers and their wider relationship, and ignores the dynamics underneath. This analysis of the market is supported for example in a recent PWC report titled "There's no such thing as a free lunch – Why fees are the future for current accounts".

We want to see action to provide more transparency, more choice, and more fairness in the current account market, which we believe is dysfunctional and is dominated by a small number of large banks. It is clear that the last few decades have created a situation and expectation which is hard to unwind for various reasons including majority public opinion and expectation, and first mover disadvantage – but we do not believe that these difficulties mean we should say that the current system is acceptable and functioning as it should. The UK free banking model (an anomaly when compared to much of Europe) is subsidized by penalty charges and fees which can be hidden or excessive, as mentioned above. We believe that a more sustainable model would be a flat charge for the provision of banking services, to cover, at least in part, the costs of offering a current account, alongside penalty charges which are transparent and which broadly reflect the costs to the bank.

We feel that this is a rare opportunity to shake up the UK banking market, and the regulator should go further in addressing issues around cross-subsidy of the “free if in credit” model, to help move to a fairer and more sustainable system. The report rightly highlights that the market has complex charges, and a lack of engagement by customers resulting in low levels of switching. We support moves to encourage comparisons of offers and competition, and welcome any review by the PSR that may help new banks, but would like to see more action to drive real change.

We would welcome the opportunity to discuss this further should you wish.

Yours sincerely,