



## **Response to CMA Provisional Findings and Remedies**

This brief submission focuses on two broad areas: firstly, a more general point that addresses the Authority's decision to rule out structural remedies to competition in the Retail Banking market (paragraph 181-186 in the Provisional Remedies document); and secondly, some specific responses to aspects of the Authority's findings.

### ***Structural Remedies***

Move Your Money believes that ruling out structural remedies misses an open goal for fundamental banking reform in the UK. We note several aspects of the Authority's findings that suggest that only structural remedies would stand any chance of genuinely improving real competition in the banking sector:

- The market share of the UK's 4 largest banks has collectively declined less than 5% since 2005 (see Summary of Provisional Findings para. 40). This is despite the largest financial crisis in living memory, and the addition of several challenger banks
- There have been 10 market investigations into competition in the last 15 years, all of which to greater or lesser degrees have focused on switching and customer, demand-side remedies, which have done little to alter the structure of and provision in the market
- 91% of customers say they are satisfied with their PCA account (see Summary of Provisional Findings, para. 51.b.)

With such low levels of customer engagement and switching shown over the last ten years, despite regulatory attempts to improve such engagement, it seems unclear why further focus has not been directed upon motivations and incentives to engage. The provisional remedies offered by the CMA are in the main sensible and considered remedies that would enable customers to more easily engage once that decision has been made, but little focus has been given in the remedies as to what would trigger that decision in the first place outside of remedy 1.

With "pushes" rather than "pulls" being more influential in determining customer switching behaviour, and with satisfaction amongst customers so high, it seems unlikely that making the process to switch easier will have much impact on encouraging people to make the decision to engage in the first place.

Market concentration, a lack of product innovation, and large-scale ongoing incumbency advantages – described as the "main barrier by the CMA - cannot just be solved with reliance to demand-side remedies that encourage people to switch. Historically such approaches have been tried before and have done little to address the fundamentals of the market. For example, the CASS service has seen switching return to pre-CASS levels, after initially prompting a boost in switching, despite the huge costs and initial advertising involved.

Consequently, supply-side reforms must also be considered. Given the experience of other developed economy nations, we contend that the UK's lack of stakeholder banks – that is, mutual, co-operative, public and geographically-limited banks – is a key driver in the lack of competition in the UK retail banking market.

On average Stakeholder banks lend more as a proportion of assets to the productive economy, invest more patiently in long-term and sustainable projects, hold fewer derivatives and more real-economy assets, and command much higher market share than they do in the UK. They also regularly command market shares in business and SME lending that is disproportionate to their size. With such banks acting so qualitatively and quantitatively differently from standard shareholder or private banks, particularly amongst SME clients, incumbent banks are forced to innovate and compete to a much greater degree than they do in the UK, where only four shareholder banks overwhelmingly dominate the market.

The CMA suggests that 'breaking up a large bank which has a high proportion of inactive customers... might simply create two smaller banks, each with a high proportion of inactive customers'. Such a claim demonstrates a very narrow view of competition. Genuine structural reform would encompass the diversification of the UK retail banking market to include greater market share for stakeholder banking models, not just the proliferation of more shareholder banks that would likely operate and compete in similar ways to incumbent shareholder banks, with the same results of customer inaction and market concentration.

In other words, genuine competition does not just mean more banks of the same type; it means more types of banks. Only in this way will there be genuine diversity, and therefore incentive and structural drivers for product innovation, qualitatively different customer relationships, and customer engagement and action with regards to switching.

As such, we would recommend examining again structural remedies that do not just split an incumbent bank into two smaller versions of the same operating and governance model, but rather that the incumbent bank be qualitatively transformed into a scaled stakeholder banking network. Given the current public ownership of RBSG and the demonstrable public interest in both enhanced competition in the banking sector and an enlarged stakeholder banking sector, we would suggest that structural remedies be studied with reference to RBSG in particular.

Indeed, recent nationally representative polling conducted by Populus on behalf of Move Your Money suggests that the public is in favour of such an approach. Our research found that 82% of respondents agree that RBS should act in the public interest, and 58% of respondents agree that the bank should be restructured to serve local and regional economies. Full results of the research can be found at

[https://gallery.mailchimp.com/c9b157c9d89ca0bdb156c5128/files/Polling\\_Results\\_w\\_sig\\_tes ting.pdf](https://gallery.mailchimp.com/c9b157c9d89ca0bdb156c5128/files/Polling_Results_w_sig_tes ting.pdf)

with further analysis of the research found at <http://moveyourmoney.org.uk/guest-blog-can-learn-rbs-polling/>

Incumbency advantages have proven so strong as to limit the growth of challenger banks, and to have greatly suppressed the growth of stakeholder banking market share. For example, the credit union sector's total assets is worth less than 1% of RBS total assets alone, and it is naïve to assume that organic growth will allow it to develop to comparable size. This is in addition to the fact that existing bank divestments have not fundamentally disrupted market share or customer behaviour.

As such, the refusal of the CMA to recommend structural remedies that demonstrably increases the market share and proliferation of alternative banking models, including stakeholder banks, co-operatives and mutuals, is a significant missed opportunity. Unfortunately, the focus on switching and the narrow definition of competition mean that the remedies proposed largely constitute more of the same but expecting different results.

Consequently, we implore the CMA to look again at structural remedies, with reference to the effect a diversity of governance and ownership models has had on product innovation, customer engagement and market concentration in countries such as the USA, Germany and Japan, where stakeholder banking holds a much greater market share than in the UK. We would recommend that this would also include serious consideration of structural remedies being achieved through RBSG in particular, which could radically and fundamentally reform

both competition in and market concentration of retail banking in the interests of the UK economy and the taxpayer.

## *Specific Responses*

The CMA notes several times that “awareness and confidence in the Current Account Switching Service is still low”, referencing its own market research that suggests only 51% of people were aware of the service, and 42% fear that something may go wrong.

Why, then, does the BACS reporting of the CASS service suggest a different story? In its most recent “Switch Service Dashboard” BACS reports awareness of the CASS service at 73%, with 78% of respondents saying it would be easy to switch banks. See here:

[http://www.bacs.co.uk/Bacs/DocumentLibrary/CASS\\_dashboard\\_-\\_published\\_21\\_October\\_15.pdf](http://www.bacs.co.uk/Bacs/DocumentLibrary/CASS_dashboard_-_published_21_October_15.pdf)

These two findings are dramatically different, and thus inhibit the confidence with which assessments can be made or remedies can be recommended with regards to customer knowledge of and confidence in the CASS. Given that the CASS service takes such a central role in the CMAs collected remedies, it is incumbent on the CMA to explain this huge discrepancy, and to make recommendations as to the strengthening of BACS and CMA measuring of customer knowledge and confidence in CASS. Without undertaking this work, any remedies or recommendations based on consumer knowledge of and confidence in the CASS service risk being seriously undermined, or worse, counter-productive.

With regards to remedy 2, paragraph 55 of the provisional remedies document asks about advertising campaigns for the CASS service.

Given that the previous CASS advertising service was reported as being a “multi-million pound” campaign, on top of the c. £750m that was spent on implementing the service, we suggest plotting a comparison between expenditure on advertising versus account switching figures. Given that switching figures have now returned to pre-CASS levels, we would not be surprised if advertising expenditure and switching figures were directly correlated. If that were the case, then advertising for CASS would need to be near constant to have continued success, as other submissions have suggested.

Regarding 55. f., the CMA asks how such advertising be funded. We would strongly suggest that the CMA discounts the suggestion that those institutions that have done best out of the CASS service be the ones to pay for increased advertising. This could create perverse incentives that decrease the desirability of attracting new customers for banks, and thus perpetuate market concentration and a lack of customer engagement. Given the sizeable challenges already existing in both these areas, it would be unwise for the CMA to introduce another such barrier.

Move Your Money UK

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