Retail Banking Market Investigation

The Royal Bank of Scotland Group plc
Response to Provisional Findings Report
and Notice of Possible Remedies

1 Introduction

This submission sets out the views of The Royal Bank of Scotland Group plc (“**RBS**”) in response to the Provisional Findings Report (the “**PFs**”) and the Notice of Possible Remedies (the “**NPR**”) issued by the Competition and Markets Authority (“**CMA**”) on 22 October 2015 as part of its market investigation into the supply of personal current accounts (“**PCAs**”) and of banking services to small and medium-sized enterprises (“**SME banking**”) (the “**Market Investigation**” or “**MIR**”).

Section 2 below provides an overview of RBS’s overall position in relation to the PFs and NPR. More detailed commentary on each respectively is provided in the two annexes attached:

- **Annex 1**: RBS’s comments in relation to the PFs; and
- **Annex 2**: RBS’s comments in relation to the NPR.

2 Executive Summary

In relation to the CMA’s key findings of adverse effects on competition (“**AECs**”), and as the CMA may expect from its prior submissions, RBS broadly agrees that additional reductions in perceived and actual barriers to switching may further intensify competition.

However, RBS submits that the CMA can justify pro-competitive measures in consumer banking without an exaggerated view of the gains that most PCA consumers could make from switching provider. For example, the PF estimate that, on average, PCA customers could gain £70 a year[1] from switching is heavily influenced by the larger gains to a relatively small number of customers only - typically heavy overdraft users and those customers with unusually high balances. Excluding overdraft users, the average gains from switching are considerably lower at £33 per year[2] and could easily be accounted for by differences in quality (e.g. customer service, brand value, trust, strength of online, mobile and traditional channels to interact with the bank) which the CMA has not controlled for and which must, by definition, be relevant in a differentiated market.

RBS is also a broad supporter of pro-competitive measures that benefit SMEs in their banking affairs. Again, however, in terms of a quantified justification for such action, the CMA’s analysis of price differentials in SME banking is limited to BCAs and raises methodological concerns. For example, the PFs draw comparisons between the cheapest and most expensive BCA providers[3] (and therefore do not represent the average gains from switching available) and do not take into account all charges and incentives nor differences in services provided (e.g. differences in overdraft facilities and terms and access to business support). Notwithstanding these limitations, the PFs conclude that the

1 See PFs (dated 22 October 2015) at paragraph 51.

2 See PFs (dated 22 October 2015) at Appendix 5.4, Table 3.

3 See PFs (dated 22 October 2015) at paragraph 6.82.

average difference between the monthly cost of a BCA at each bank, and the cost of the cheapest BCA, is only £6.[4] Set against the annual expenses of an SME for all its needs, RBS would query if the appropriate means to justify a remedies package is based on a £72 per annum saving per average SME.

As to the NPR, RBS notes that a great deal of careful thinking underlies the CMA's broad and evidence-based remedies. The transformational effects of well-designed price comparison websites ("**PCWs**") are well-known,[5] and there is considerable pro-competitive potential in introducing this innovation for SMEs, and improving existing PCWs for PCAs, as well as improving the awareness and scope of CASS and consumer / SME confidence in it.

At the same time, RBS does not support every aspect of all 15 proposed remedies, some of which may be redundant and which in aggregate may overload consumers with prompted information (and so undermine their effectiveness) and translate into a substantial implementation burden with many millions of pounds of ongoing as well as one-off initial expenses. The CMA should be acutely conscious of the need for a sharply cost-controlled focus on "bang for the buck", such that the package is tailored to generate the most consumer benefit per £ million spent, not least given the accelerating impact of technological and other change in retail financial services that risks making well-intentioned but expensive measures distracting and potentially swiftly redundant.

In setting the context for any final remedies package, RBS draws attention in particular to the following core themes that emerge from the PFs.

Encouraging base level of customer engagement

RBS remains of the view that improvements can be made in relation to customer engagement in both PCAs and SME banking. However, it notes that the levels of engagement that the CMA has uncovered as part of its MIR should in fact be seen as encouraging. In particular, the GfK PCA consumer survey revealed that:

- 22% of PCA holders had engaged in shopping around by either searching but not switching (16%), switching provider (3%) or switching within a bank (3%) in 2014.[6]
- 35% of PCA holders had either searched but not switched (21%), switched provider (8%) or switched within a bank (6%) in the last 3 years.[7]

For SMEs, the CMA's analysis of the Charterhouse data revealed that:

- 42% of start-ups had compared providers when opening a BCA.
- 33% had considered switching at the end of their free banking period.
- 22% of SMEs of between two and five years' maturity had compared the costs of their BCA with other providers.
- 64% had made some comparison before selecting a lender.[8]

[4] See PFs (dated 22 October 2015) at Appendix 5.4, Table 3.

[5] See, for example, FCA review "*Price comparison websites in the general insurance sector*" (dated July 2014) at page 3; CMA's provisional decision on remedies in the private motor insurance market investigation (dated 12 June 2014) at section 4.4; CMA's final report in the private motor insurance market investigation (dated 24 September 2014) at section 8.4; CMA's provisional findings report in the energy market investigation (dated 7 July 2015) at sections 8.103 and 8.104; CMA's notice of possible remedies in the energy market investigation at paragraph 66.

[6] See PFs (dated 22 October 2015) at paragraph 7.17 and Figure 7.3.

[7] See PFs (dated 22 October 2015) at Figure 7.3.

RBS does not view these results as pointing to "low" levels of customer engagement in either absolute terms – 22-64% are not low percentages – or in relative terms (compared, for example, to other retail services in the UK, or to other countries). Nor does it believe that it is necessary to mislabel these encouraging statistics as being "low" as a prerequisite to justify the "stimulus package" of remedies.

Key remedial focus in overcoming switching inertia

The more important aspect of the CMA's research lies in the apparent lack of follow-through from searching to switching. Of course, even in a perfect model, one would expect a large proportion of searchers to find they have no reason to switch, but the "drop out" rates from searching and switching are still noteworthy.

- Of the 19%[9] of PCA customers who searched in 2014, less than 16%[10] of that subset (i.e. 3% of total) actually switched banking provider.
- For SMEs, of the 33% of customers who considered switching banks at the end of the free banking period, only 18%[11] (i.e. 6% of the total) eventually switched.

RBS would regard this drop out rate as the key competition issue revealed by the MIR to date. In helping to understand how to best tackle it, the CMA's PF analysis points to (perceived and actual) obstacles, namely: (i) the ability of customers to make a meaningful comparison due to uncertainties and complexities in deciding which offer is best for them; and/or (ii) a lack of confidence in the switching process itself. For example, of those SMEs that considered switching but did not, 70% reported that it was either: too much hassle, takes too long, or were worried about continuity of payments/disruption to the business.[12] These issues work in tandem, such that for too many customers, the uncertain longer-run benefits of switching ("it's hard to tell if I will be better off if I switch") are outweighed by actual/perceived short-run costs ("switching sounds like a hassle and I am worried that things may go wrong"). This complexity and uncertainty makes it rational for them to "stay put" with their existing bank, thereby lessening the rewards to banks who offer their customers better service or pricing (which can just as easily be long-standing banks such as RBS, not just newer players).

These potential obstacles to switching are addressed in the CMA's existing remedies package, and highlight that remedies, bearing in mind proportionality, should be directed towards (i) assisting customers in identifying scenarios where a switch *would* make that customer better off (e.g. through user-friendly online comparison tools) and (ii) marketing that breeds confidence that the switching process itself *will* be hassle-free and secure (as it indeed is for almost every customer who uses it).

Accordingly, while each of the proposed remedies has been considered and individual comments are provided in Annex 2, in light of the importance of designing, testing and implementing the selected initiatives in a relatively short period, RBS considers that the time and resources of the parties and of the CMA would be most effectively spent focusing on those aspects of the existing remedies package, which address two core themes:

8 See summary of PFs (dated 22 October 2015) at paragraph 84 and PFs at paragraph 8.143.

9 Of the 27% that compared accounts in the past three years, 69% compared accounts in the past 12 months. 27% x 69% = 19%. Source: GfK survey data, Table 657 and Table 670.

10 This calculation assumes that all those who switched also searched to some degree, which is not the case, and therefore overestimates the searcher to switcher conversion rate.

11 This calculation also assumes that all those who switched also searched to some degree, which may not be the case.

12 CMA (2015), SME follow-up survey results, 20 August 2015 at slide 31.

- making effective comparison easier (access and assess);[13] and
- further supporting the switching process and the switching mechanics.[14]

In other words, there would be little point driving searching levels to 95% if the comparison website is clunky and slow, and/or confidence in CASS is still too low. Otherwise searchers – no matter how much they are nudged (or even nagged) by prompts to search – will not switch in higher numbers.

Free-if-in-credit

In some contrast to the CMA's PFs, RBS maintains that the Free-if-in-credit (**FIIC**) model distorts consumer perceptions of the legitimate cost of banking and thus contributes to dampening overall searching and switching rates (and will continue to do so while it is the predominant model in the industry). RBS does not endorse the CMA's reasoning in arriving at a differing view, but does recognise that the remedies the CMA has proposed seek to address the same issues that the FIIC model exacerbates.

However, RBS does consider that it is still open to the CMA to acknowledge that FIIC does have a distortive effect even if it seeks to remedy that distortion through the existing remedies package rather than a remedy that aims to solve for an FIIC problem in and of itself.

Particular focus on price over non-price value to SME and PCA customers

In general, while RBS is supportive of the CMA's analysis on a number of issues, it considers that the CMA has placed too heavy an emphasis on price despite the fact that both markets are differentiated and provide multi-dimensional products and service levels and relationships can be very important for many customers.

SMEs

As RBS has submitted previously, SME customers, and increasingly so the larger they become, value relationship banking and having a bank that seeks to provide financial and ultimately also business advice. Such factors are inherently more difficult to compare and, all else being equal, good customer service/experience may prompt lower switching rates. This does not obviate - and indeed reinforces - the need for non-price elements in Remedy 5 but should be kept in mind in setting expectations. If SME banking were conceived in the remedies package as wholly transactional, this would be at odds with customer preferences and the thrust of much recent political criticism that what the industry needs is to go back to "bank manager" relationship banking.[15]

PCAs

As the CMA is aware, RBS has already expressed its disappointment at the CMA's decision to conclude, even provisionally, that the RBS and NatWest brands (among others) can properly be characterised as "*above average prices and below average quality*" or (to quote) "*high-price low-quality*" banks from which customers would be *"unambiguously better off*" switching.[16]

[13] See Proposed Remedies 2,3,4,5,6,15.

[14] See Proposed Remedies 8,9,11,12,13,14.

[15] See for example the comments of Chancellor George Osborne to the Federation of Small Business, 28 March 2014, http://www.bbc.co.uk/news/uk-politics-26783709

[16] See PFs (dated 22 October 2015) at Figure 5.17 and paragraph 5.102.

This finding is based on an underlying analysis whose lack of robustness partially reflects that it was not put to affected parties in any working paper or by other means prior to publication for comment. The price comparison does not take into account differences in the take-up of different PCA products at each brand and/or variations in customer PCA usage at each brand which will affect the costs of serving these customers. The quality comparison is based on a metric that the CMA accepts it has not been able to verify, and which the CMA has presented in a misleading way, which exaggerates the very limited variation in customer satisfaction at different banks. According to the largest of the CMA's PCA survey sources (GfK FRS), customer satisfaction in fact ranges by only 6 percentage points at different banks, from 91% to 97%.[17]

Furthermore, while RBS recognises that customers can stand to benefit financially from switching PCA, the estimates presented by the CMA overstate the benefit available to most. Indeed, while the "average" the CMA has chosen to present is distorted by the potentially substantial gains available to a small proportion (i.e. heavy overdraft users and customers with unusually high balances), the median value of potential savings is much lower than that presented by the CMA, at around [**confidential**] a month. This emphasises that it is often non-price factors – service levels and innovative ways of interacting with the bank (e.g. RBS's leading smartphone app) – that are just as or more important, and should not be lost in the "gains" analysis or indeed in the remedies design.

Accordingly, while RBS is broadly supportive of the CMA's overall customer-centric approach, there are areas where RBS takes issue with the CMA's positioning of the evidence in the PFs, and sounds a note of caution as to whether certain elements of this very expansive remedies package will pass the proportionality test or are even necessary. These themes are set out in more detail in the attached Annexes 1 and 2.

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[17] See PFs (dated 22 October) at paragraph 5.83.

Retail Banking Market Investigation

Annex 1: Comments of The Royal Bank of Scotland Group plc on the Provisional Findings Report

1 Introduction

This Annex sets out the views of The Royal Bank of Scotland Group plc ("**RBS**") in response to the *Provisional Findings Report* published by the Competition and Markets Authority ("**CMA**") dated 22 October 2015 (the "**PFs**") as part of its market investigation into the supply of personal current accounts ("**PCAs**") and of banking services to small and medium-sized enterprises ("**SME banking**") (the "**Market Investigation**").

Sections 2-8 set out a select number of areas where either the views of RBS differ from those set out in the PFs or where the topic merits additional comment.

2 Free-if-in-credit banking

RBS notes the strong reaction from some commentators in relation to the CMA's PF conclusions that Free-if-in-credit banking ("**FIIC**") for PCAs does not represent an adverse effect on competition ("**AEC**") in whole or in part, while some advance the hypothesis that FIIC favours the larger players, which would include RBS.

There is no doubt that many consumers benefit from FIIC. However, that does not mean that FIIC has no distortive or dampening effects. RBS has previously stated[1] that the FIIC model is distortive of customer perceptions of the legitimate cost of banking, noting that the motivation to search and switch for a product perceived as "free" will never be as high – all else being equal – as for a product which is perceived as having a cost attached to it.[2] This places PCAs in contrast with other products and services that generate household bills at regular intervals (e.g. utilities, motor insurance). Moreover, while many customers acknowledge at some level that banking is not, in fact, free, they may not fully understand which PCA they may be better off with, as prices (costs) remain less visible or hard to calculate.[3]

In contrast, the CMA does not find as part of its PFs that the FIIC model contributes to low levels of switching, although it does acknowledge the possibility that FIIC contributes to the lack of customer engagement in that FIIC gives rise to fewer prompts to customers in respect of the costs they are incurring.[4] In reaching this result, the CMA references (i) other jurisdictions (notably the Netherlands) where customers pay a fee for their PCAs but where switching rates remain low; and (ii) the ability of banks (including new entrants and

1 See PFs (dated 22 October 2015) at paragraph 7.41(b).

2 See RBS Response to the Updated Issues Statement (12 June 2015) at page 14.

3 Accordingly, under FIIC there are no pricing signals that incentivise use of more rather than less efficient banking, e.g. online transfers versus cheques, or that guide bank branch or ATM usage, all of which are "unlimited free usage". In addition, the effect of framing on consumer decision-making is well recognised in the behavioural economics (and marketing) literature. See for example: Kahneman, D. and Tversky. A. (1981), The Framing of Decisions and the Psychology of Choice, *Science*, 211, 453-458; Chater, N., Huck, S. and Inderst, R. (2010), Consumer decision-making in retail investment services, Report to the European Commission (SANCO); Office of Fair Trading (2010b), The Impact of Price Frames on Consumer Decision Making.

4 See PFs (dated 22 October 2015) at paragraphs 7.49 and 7.176; see also Notice of Possible Remedies at paragraph 178.

smaller banks) to differentiate themselves despite the FIIC model.[5] RBS does not believe that it follows from the fact that there is consumer inertia and low switching rates in countries with paid-for PCAs that FIIC has no impact on UK consumers' propensity to search and switch.[6]

That said, despite FIIC there continues to be innovation in UK banking on price, as well as non-price elements and RBS believes that FIIC has forced price differentiation on certain visible parameters – e.g. one-off switching incentives – which can confuse consumers as to the overall gains from switching in the medium to longer term.[7] RBS believes that for as long as FIIC is the predominant model in the industry, it will continue to have a potential distorting and dampening effect on competition. In addition, it is perfectly possible to find that the distortive elements of FIIC contribute to low searching and switching levels, and form part of an AEC without finding FIIC to be an AEC in and of itself.

RBS recognises, however, that in the remedies it has proposed, the CMA is trying to resolve the same distortive effects that the FIIC model exacerbates through aiding consumers' ability to compare the true cost of banking between different providers through transparency measures.

3 Measures and comparisons of quality

PCA and SME banking services are multi-dimensional and banks may strive to compete by focussing on different quality dimensions. In addition to online and mobile, branch access is one of the clearest examples of where banks have chosen to differentiate their offerings with several recent entrants choosing to adopt branch-light business models.

In this context, we agree that customer satisfaction, when properly defined, is an available and potentially reasonable proxy for quality, provided that appropriate caveats are borne in mind and the conclusions drawn are not disproportionate to the qualified nature of the evidence.

With that in mind, and looking at measures of customer satisfaction, the strongest finding from the CMA's analysis is the high level of satisfaction, particularly for PCAs. The CMA finds that 90% of UK PCA customers were satisfied or very satisfied with their PCA provider in 2015,[8] and 50% of SME customers rate their bank as either 'excellent' or 'very good' with the proportion of positive ratings from start-ups increasing by 10% from 2010 to 2014.[9] Furthermore, drawing comparisons based on both satisfaction and endorsement, PCAs perform better than most other financial products (e.g. Figure 5.9 and Figure 2 from Appendix 5.4).

Concerns as to the CMA's approach

The CMA notes that comparisons of overall service quality for PCAs using satisfaction measures are limited, with a range of only 9 percentage points, all at the high end: from 87% to 96% according to the GfK PCA survey; for the GfK FRS survey the issue is even

5 See CMA Summary of PFs (22 October 2015) at paragraph 60; see also PFs (dated 22 October 2015) at paragraph 7.46.

6 It *does* follow, however, that a remedy that simply imposes PCA charges would not solve the inertia-related AEC that the CMA has identified.

7 See references provided in footnote 3.

8 See PFs (dated 22 October 2015) at paragraphs 5.79 and 5.81.

9 See PFs (dated 22 October 2015) at paragraph 6.91 and Figure 6.9.

more pronounced: a range of 6 percentage points from 91% to 97%.[10] Yet, the CMA attempts to draw powerful differentiation within this narrow range and concludes that it would expect customers of certain PCA providers to be "*unambiguously better off*" by switching to alternative providers.[11]

As the CMA is aware, RBS has already expressed its disappointment at the CMA's decision to conclude, even provisionally, that the RBS and NatWest brands (among others) can properly be characterised as "*above average prices and below average quality*" or (to quote) "*high-price low-quality*" banks from which customers would be *"unambiguously better off*" switching.[12] In particular, RBS has pointed out that this finding was based on an underlying analysis that lacks robustness and was not put to affected parties in any working paper or by other means prior to publication.

If it were necessary or advisable to reach such conclusions at all (which is doubtful), at a minimum they call for unusually solid evidentiary grounds and robust methodology, which has been stress-tested via consultation in the interests of fairness, before taking the unusual step of, in effect, giving financial advice to customers *en masse* that they would be unambiguously better off if they were to move their PCA away from a particular alleged "*high-price low-quality*" supplier to another, i.e. "*low-price high-quality*" supplier(s). Such robustness is clearly lacking in this instance.

Firstly, the CMA's provisional conclusion is based on an imperfect measure of quality, the limitations of which have not been properly explained. Secondly, it is not informative to draw comparisons between banking brands based on their weighted average price which will reflect differences in services used as well as any differences in prices charged.

The CMA's reliance on the *Which?* Customer Score in the publication of the PFs and surrounding press releases is at odds with the CMA's own caveats within the PFs. As set out in footnote 458, "*Which? satisfaction scores are derived using a much smaller sample group compared with the GFK FRS. It has also not been possible for* [the CMA] *to verify the representativeness of the sample and robustness of the survey methodology*". Given these caveats and the access the CMA has to alternative sources that they accept to be more robust, there is no rationale for the CMA to rely on the *Which?* Customer Score when drawing their conclusions (indeed, given the points above, doing so risks giving an incorrect impression).

Furthermore, the CMA's presentation of the *Which?* Customer Score is potentially misleading in a number of respects, namely:

- The *Which?* Customer Score is based on an exponential scale, giving greater weight to the top scores. Therefore presenting this on a linear axis as the CMA does at Figure 5.17 unnecessarily exaggerates small differences in underlying responses.
- The vertical axis included in Figure 5.17 gives the impression that this represents some threshold or high or low quality banks, whereas it is in fact only representing the average level *Which?* Customer Score. The average *Which?* Customer Score of 62.5 is unlikely to indicate poor levels of satisfaction. For example, a score of

[10] See PFs (dated 22 October 2015) at paragraph 5.83.

[11] See PFs (dated 22 October 2015) at paragraph 5.102.

[12] See PFs (dated 22 October 2015) at Figure 5.17 and paragraph 5.102.

62.5 would be generated if on average customers are very satisfied with their PCA provider, but unsure if they would recommend the brand.[13]

- Finally, the *Which?* Customer Score captures both customer satisfaction and endorsement (likelihood to recommend the brand to a friend). This endorsement feature means that the Customer Score suffers from the same limitations as other "promoter" scores such as NPS when it comes to acting as a measure of satisfaction or quality. As RBS has explained in a number of submissions to the CMA, a promoter score is not a measure of satisfaction and the CMA should not present it as such.[14]

It follows that in any revised analysis of quality comparisons between banks, the CMA should use the GfK data instead (or at a minimum in addition) and in any event should decline to repeat the approach of Figure 5.17 which serves to exaggerate and sensationalise small and questionable differences between banks.

4 Levels of customer engagement

4.1 PCAs

The CMA finds that in 2014 19% of PCA customers had searched for or switched to an alternative PCA but only 3% of PCA customers had switched PCA to a different provider.[15]

An additional 2.5% of PCA customers had switched PCAs within their existing bank.[16] On this basis, the CMA concludes that customer engagement is "low".[17] This reasoning contributes to the CMA's finding that "*a combination of low customer engagement, barriers to searching and switching and incumbency advantages in the provision of PCAs in both Great Britain and Northern Ireland is leading to AECs.*"[18]

The CMA's finding that customer engagement is "low", despite a finding that 19% of PCA customers searched for or switched to an alternative PCA in 2014, requires further explanation, as it is unclear what the CMA would consider to be an adequate level of searching (or, indeed, switching). RBS considers that the fact that nearly one quarter of PCA customers searched for or switched to an alternative PCA suggests that customer engagement is at a reasonable level, particularly given the limited financial gains available

[13] For each of the questions used to calculate the Customer Score, five answers are available, and are given a weight that increases exponentially. Specifically, the possible responses and weights are: 'very dissatisfied'/'definitely' will not recommend' (weight = 1), 'fairly dissatisfied'/'probably will not recommend' (weight = 2), 'neither satisfied nor dissatisfied'/'Not sure' (weight = 4), 'fairly satisfied'/'probably will recommend' (weight = 8) and 'very satisfied'/'definitely will recommend' (weight = 16). To calculate the Customer Score, the weights for the responses for each question are added together, and then divided by the maximum possible value (16+16 = 32); the resulting percentage is the *Which?* Customer Score. There are multiple combinations of answers which can give a score of 62.5, the average reported by the CMA. A score of 62.5 is consistent with respondents on average saying that they are 'very satisfied' with their PCA provider (weight = 16) but are not sure if they would recommend (weight = 4) the provider ((16+4)/32 = 62.5%). An alternative outcome that is consistent with the customer score of 62.5 involves average responses of 'neither satisfied nor dissatisfied' (weight = 4) and 'definitely will recommend' (weight = 16) their PCA provider ((4+16)/32 = 62.5%). The first combination ('very satisfied' and 'not sure if would recommend') is more likely given RBS's experience with customer satisfaction and customer recommendation. Source: *Which?* (2014), 'Current and Savings account Satisfaction Survey 2014 – Technical report'.

[14] See PFs (dated 22 October 2015) at footnote 252; see also RBS response to updated issues statement (12 June 2015) at paragraph 3.2.4(ii)(b).

[15] See PFs (dated 22 October 2015) at paragraph 7.17.

[16] See PFs (dated 22 October 2015) at paragraph 7.17.

[17] See PFs (dated 22 October 2015) at paragraph 7.168.

[18] See CMA Summary of PFs (22 October 2015) at paragraph 64.

from switching, discussed above, and generally high levels of satisfaction with existing providers.

The CMA's estimate that, on average, PCA customers could gain £70 a year[19] from switching is heavily influenced by the substantial gains to a select few customers - typically heavy overdraft users and customers with particularly high balances. Excluding these customers, the average gains from switching are considerably lower at £33 per year[20] and could easily be accounted for by differences in quality (e.g. customer service, brand value, convenience of banking facilities) which the CMA has not accounted for.

A comparison of PCA searching and switching levels to those observed for credit cards suggests that more shopping around may not be necessary for more switching. A similar proportion of credit cards and PCA customers shopped around in the past 12 months but a higher proportion of credit card customers ultimately switched. In the past 12 months, 22% of (active) credit card consumers compared credit cards and 18% took out a new card;[21] whilst for PCAs, 18% compared current accounts and 3% switched.

There are likely to be legitimate reasons for the rate of searching and switching to vary between credit cards and PCAs (e.g. credit cards are potentially costlier products, so that the financial advantages of switching are potentially higher – particularly when items such as free balance transfers are taken into account). However, this example highlights that if the CMA considers that a higher PCA switching rate is appropriate (and it is not clear that the CMA has evidence that this is the case both given the existing rate and the limited gains available from switching, or what an appropriate rate would be), remedies should focus on addressing switching directly, rather than indirectly through nudging more consumers to spend time searching.

While it is obviously unrealistic to expect that switching levels would rise to meet searching levels (there being many good reasons why a searcher might decide against switching), RBS considers that there may be some barriers that could be inhibiting switching. It may be that for some customers, the uncertain longer-run benefits of switching ("it's hard to tell if I'll be better off") are outweighed by more certain short-run concerns ("switching sounds like a hassle and things could go wrong"). This complexity and uncertainty would make it rational for them to stay put with their existing bank.

This suggests that switching levels could be improved through the application of tailored measures to make comparisons between providers more effective (which increase certainty over where there are gains from switching) and reducing the perception of switching barriers. For example, remedies that focus on promoting the excellent track record of the Current Account Switch Service ("**CASS**") and the lack of "hassle" that using CASS entails could provide a more effective solution than the extensive use of prompts that address only the *awareness* of switching.

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[19] See PFs (dated 22 October 2015) at paragraph 51.

[20] See PFs (dated 22 October 2015) Appendix 5.4, Table 3.

[21] Calculation and sources for 22% credit card shopping around are as follows: 51% of individuals who took out a credit card in the past 12 months 'always' shopped around ('Interim report', para 4.12); an additional 10% sometimes shopped around and sometimes did not ('Interim report', para 4.12); there are 24% of card users who have taken out new cards in the past 12 months (Annex 3, para 4.4), which results in 51%+10% = 61%*24% = 14.6% of active credit card users who shopped around and opened a new card; an additional 8% of active credit card users shopped around and did not open a new card ('Interim report', para 4.13); this leads to a total shopping around rate of 14.6%+8% = 22.6% of active card users.

4.2 SME banking

The CMA provisionally concludes that there are low levels of switching and relatively low levels of searching by SMEs.[22] In particular, the CMA finds that 51% of start-up SMEs go to their PCA provider to set up a BCA and 36% do so without searching beforehand.[23] Additionally, only 4% of SMEs in Great Britain had switched BCA providers in the last year and only 2.6% of SMEs in Northern Ireland had switched.[24] These findings contribute to the CMA's conclusion that there is weak customer response in BCAs and SME lending, which gives rise to an AEC in the provision of BCAs and SME lending.[25]

However, the research analysed by the CMA also indicates that approximately 22% of SMEs between two and five years have compared the costs of their BCA with other providers and 33% of SMEs considered switching at the end of their free banking period.[26] RBS submits that these figures are not indicative of low levels of SME engagement. Nevertheless, it appears that there are barriers to comparing information, which is evidenced through the disparity between those who are searching for alternative BCA products and those customers who are actually switching.

As with PCAs, measures that are focused on facilitating comparisons between providers, rather than, for example, certain prompting mechanisms which encourage customers to search, could prove to be a more effective means of increasing switching levels and should be the focus of any remedies package.

RBS also notes that there is a focus by the CMA on a predominantly transactional lending model rather than a relationship banking model. In preference to this, RBS would have expected the CMA to consider more fully the possible negative consequences of undermining the incentives for a bank to invest in the acquisition of information that might support its lending decisions, through the provision of BCA services and associated relationship management services, particularly in light of widespread political calls over the last six years for a return to local relationship management.[27]

5 Measures of BCA pricing

The CMA's analysis of the BCA pricing structures for the set of SME customer profiles showed some variations in BCA monthly charges between banks. In particular, for Great Britain BCA providers, the difference between the highest and lowest monthly costs was over 100% for 14 of the 17 customer profiles. Furthermore, for three of the profiles, the highest monthly cost was over three times as large as the lowest monthly cost.[28]

While RBS welcomes the CMA's provisional finding that there is no clear association between price and market share in Great Britain or Northern Ireland,[29] RBS wishes to make a number of specific comments on the CMA's methodology:

[22] See PFs (dated 22 October 2015) at paragraph 8.183.

[23] See PFs (dated 22 October 2015) at paragraphs 6.12 and 8.33.

[24] See PFs (dated 22 October 2015) at paragraph 8.40.

[25] See PFs (dated 22 October 2015) at paragraph 9.63.

[26] See PFs (dated 22 October 2015) at paragraphs 8.43 and 8.45.

[27] See for example the comments of Chancellor George Osborne to the Federation of Small Business, 28 March 2014, http://www.bbc.co.uk/news/uk-politics-26783709

[28] See PFs (dated 22 October 2015) at paragraph 8.28(a).

[29] See PFs (dated 22 October 2015) at paragraph 6.85.

Analysis only covers transactional charges and monthly account fees

As acknowledged by the CMA, the analysis is based only on transactional charges and monthly account fees, which make up just under 50% of BCA charges for customers with a turnover of less than £2 million.[30] By excluding charges or interest on credit balances and other incentives, the analysis cannot be considered robust and the results are not representative of the real charges an SME customer would incur.

Weighted average prices not appropriate comparators

In addition, and as raised in the *RBS response to the CMA's consultative working paper on business current account and personal current account pricing analysis* (dated 21 August 2015, the "**RBS Response to the Pricing Paper**"), it is not appropriate to draw comparisons between weighted average prices. Indeed, although RBS understands that the CMA has applied different weights to each of the profiles for each bank, this approach assumes that each bank has a relatively similar portfolio of SME customers, which may not be the case. For example, a significant proportion of RBS's SME customers, such as start-ups and charities, do not fit within any of the stylised user profiles adopted and therefore the CMA's calculation cannot be expected to be reflective of the real weighted average price paid to RBS. It may be that other banks target specific SME user types that are not captured by the specified user profiles.

Comments on wide variations in pricing

As also noted in the RBS Response to the Pricing Paper, the CMA identifies that: "*there is significant variation between banks' charges*"[31] based on a comparison between the lowest and highest monthly cost a given SME user profile would incur at different banks. Pricing variations require a careful assessment before drawing any conclusions. RBS is concerned that the PFs do not provide appropriate caveats in describing the outcome of the CMA's analysis. In particular, RBS makes the following observations:

- The difference between the lowest and highest priced BCAs is a volatile measure that is sensitive to the highest and lowest priced tariff and ignores all of the other prices in between. An alternative and more robust measure of price dispersion in a market would account for volumes sold at each price or use a less sensitive range, such as the range between the median price and the minimum price.
- The CMA presents the differences in relative terms. By comparing Table 2 with the results in Figures 1 to 4, the likely differential for many of the GB profiles listed would be about £10 per month, and indeed in Table 3, the CMA states that the average difference between the monthly cost of a BCA at each bank and the cheapest BCA is £6. For many SMEs, this may be a small opportunity cost and may be more than compensated for by service and other differentials. As the CMA acknowledges service differentials have not been taken into account in this pricing analysis even though this is often a key factor for SMEs.
- The pricing differentials shown do not account for the fact that different banks may target SMEs with different banking needs and therefore may not offer tariffs designed to be cost effective for all SME user profiles in the market. This means a degree of price dispersion is to be expected, when drawing comparisons between

[30] See PFs (dated 22 October 2015) at Appendix 6.4.

[31] See PFs (dated 22 October 2015) at Appendix 6.4, paragraph 22 and Table 2.

tariffs that may be targeted at SMEs with different transactional profiles (as is also, of course, the case for PCA customers).

- In any market, some price dispersion is expected. To draw informed conclusions, it would be instructive to benchmark the price dispersion in the BCA market against price dispersion in other, comparable product markets that are considered to function well.

6 Potential savings in PCAs

The CMA concludes in its PFs that, by switching to the cheapest PCA product, on average customers would save £70 a year, overdraft users would save on average £140 a year and heavy overdraft users would save on average £260 a year,[32] despite stating that "*the results [of its analysis] need to be interpreted carefully*"[33] for a number of reasons.

RBS welcomes the CMA's acknowledgement that some price variation in the market is expected[34] and thus that the results should be based on the five cheapest products. However, RBS is concerned about certain aspects of the CMA's methodology which call into considerable question the robustness of these figures, and in particular the £70 figure.

In particular, RBS wishes to emphasise the following points:

Average customers' overdrafts – impact on figures

The analysis is based on randomly selected records from the various banks, including customers with overdrafts and unusually high balances.[35] The presence of such customers in the sample heavily skews the results of the analysis. Indeed, excluding overdraft customers, the potential gains for switching reduces to £33 a year. Moreover, the analysis assumes that customers would be able to obtain the same level of approved/unapproved overdraft from other banks, which is clearly incorrect and over-simplistic.

The analysis does not reflect recent price changes

The analysis is based on August 2015 pricing and does not take account of "future" price changes.[36] Indeed, RBS recently launched a new Reward account offering 3% cashback on select household bills[37] while Santander significantly increased its own pricing. This may have a material impact on the analysis, narrowing the gap (depending on the ranking of these banks in the original analysis).

Differences in services

The CMA has assigned values to a number of customer benefits.[38] However, it has assumed that customers value these benefits equally, which of course is not the case. The results may thus be distortive insofar as banks may target specific user types with special benefits, in the knowledge that these are valued more by a particular segment than the wider population. Moreover, the analysis does not take into account certain material

[32] See PFs (dated 22 October 2015) at paragraph 12.17; see also CMA Summary of PFs (22 October 2015) at paragraph 51(c).

[33] See PFs (dated 22 October 2015) at paragraph 7.35.

[34] See PFs (dated 22 October 2015) at Appendix 5.4, paragraphs 26(d) and 30.

[35] See PFs (dated 22 October 2015) at Appendix 5.4, paragraphs 7-11.

[36] See PFs (dated 22 October 2015) at Appendix 5.4, paragraph 15.

[37] http://personal.rbs.co.uk/personal/current-accounts/compare-current-accounts/reward-account.html

[38] See PFs (dated 22 October 2015) at Appendix 5.4, Annex A, Table 4.

differences between PCAs including, by way of example, the availability and roll-out of Contactless cards (not advertised as being provided by Virgin Money, Clydesdale or First Direct), quality, availability and reliability of mobile banking apps and telephone banking service. While the results are presented as absolute in the PFs, RBS submits that not only do they not reflect customer preferences, they do not reflect all of the benefits of relevance to customers.

Cashback

The CMA's analysis is predicated on average cashback paid per account in 2014. However, the value of cashback calculated for RBS is not accurate, as noted by RBS in its responses to the put-backs.[39] In particular, RBS could not include the value of cashback received in the form of vouchers of charitable donations, and therefore RBS considers that the CMA's estimates considerably underestimate the values paid out to its customers. As noted above, RBS has launched a new Reward account offering 3% cashback on selected household bills, which it estimates will be worth approximately £90 per year (net of fee) for an average customer.

7 Capital regulatory requirements

The CMA has requested comments in relation to the risk weighting methods adopted by banks.[40]

In relation to capital requirements, the PRA has been active in ensuring a level playing field for new and more established banks, in particular, relating to different methods of calculating relevant credit risk (i.e. whether the standardised approach or the IRB). While the standardised and IRB approaches may give rise to significantly different risk weightings for similar credits (and not always lower for IRB), that does not necessarily result in equally large differentials in capital requirements relating to those credits. This is the case for a number of reasons:

- First, effective capital requirements are determined not only by reference to the risk-weighted capital framework but also by, *inter alia*, leverage ratio and the Bank of England stress testing framework (the 2014 stress test was applied only to the eight largest banks and building societies, and not to newer or smaller banks).
- Second, risk weights under the IRB are subject to a number of floors. The PRA has, for example, applied a "slotting" regime to commercial real estate credits, while the Basel Committee is consulting on a capital floor framework based on standardised, non-internal modelled approaches.

In any event, RBS agrees with the CMA that the IRB approach does entail added costs, such as the development and maintenance of the model, and reflects capital buffers which larger banks are required to maintain, but which do not apply to new entrants.[41]

[39] See RBS Putback in relation to Appendix 5.4 dated 2 October 2015.

[40] See CMA Summary of PFs (22 October 2015) at paragraph 106.

[41] See RBS response to updated issues statement (12 June 2015) at paragraph 3.2.4(ii)(b). RBS also notes the PRA's views that some gaps between banks on the standardised approach and the IRB are desirable as they incentivise banks to invest in better risk management (see paragraph 10.71 of PFs).

8 Access to payments systems

The CMA identifies a number of issues with respect to payment systems which suggest that indirect participants (most new and smaller banks) may be at a competitive disadvantage compared with direct members.[42] However, the CMA defers on this topic to the PSR which is currently looking in detail at these issues and is considered best placed to addressed them.[43]

RBS welcomes the approach adopted by the CMA.[44] While it is recognised that access to payment systems may amount to at least a perceived barrier, the planned work of the PSR, including the two market reviews (into the supply of indirect access to payment systems[45] and the ownership and competitiveness of infrastructure provision[46]), the provision of access directions and directions on the governance of payment systems, should surely be seen as adequately considering these issues. RBS would also note however that this perceived barrier has not prevented others, such as PayPal, from providing significant competition in the area of payments.

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42 See PFs (dated 22 October 2015) at paragraphs 10.179 and 10.180.

43 See PFs (dated 22 October 2015) at paragraphs 110 and 10.194-195.

44 See RBS response to updated issues statement (12 June 2015) at paragraph 3.2.4(ii)(b).

45 Initiated on 29 May 2015.

46 Initiated on 30 June 2015.

Retail Banking Market Investigation

Annex 2: Comments of The Royal Bank of Scotland Group plc (“RBS”) on the Notice of Possible Remedies

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1 Introduction

RBS is grateful for the opportunity to comment on the NPR. However, please note that the comments reflect RBS's preliminary views which have been formed in the short timeframe given to respond to a significant remedies package. Going forward, RBS considers that it is important to continue engaging in an open dialogue with the CMA through roundtables, one-to-one meetings and further dialogue regarding the design and implementation of the remedies.

2 Overarching comments and summary

As mentioned in the Executive Summary, RBS considers that the CMA's focus should be on (i) making effective comparison easier (access and assess) and (ii) further supporting the switching process and switching mechanics.

RBS welcomes the careful consideration given by the CMA on how best to enhance the customer experience, an aim which RBS supports. In RBS's view, a number of the remedies, if implemented effectively, are capable of having a substantial and positive impact on the market, by empowering consumers through increased transparency and ease of switching to "vote with their feet".

While further consideration is given to each remedy in turn at Section 3 below, RBS wishes to bring a number of overarching points to the CMA's attention:

- RBS considers that the remedies, as a package, on occasion focus too heavily on transactional aspects of retail banking. RBS's own business model is based on building trust, improving the customer relationship with a service focus and supplying customers with banking products tailored to their needs. Thus, while RBS acknowledges that it competes on transactional factors such as pricing, it considers that its focus on quality, service and fostering client relationships remains an important differentiator from its competitors. RBS is concerned that, in some instances, the remedies not only do not recognise the significance of these non-transactional aspects to customers but may also actually undermine them (e.g. prompts at certain relationship event trigger points including the first opening of a BCA, or the sharing of our customers' data with third party intermediaries who may contact them separately with offers).
- RBS notes that there are a number of regulatory and industry initiatives currently underway in the financial sector which have the potential to overlap with the remedies. It will be important to ensure that the remedies work well within, or alongside, this evolving network of rules and regulations.
- In line with the CMA's Guidelines for market investigations,[1] RBS believes that the CMA's proposed remedies will only succeed in enhancing customer outcomes insofar as they are reasonable and proportionate as well as capable of effective implementation, monitoring and enforcement, individually *and* as a whole. Given the focus on transparency and awareness, RBS's view is that aspects of Remedy 1 (*prompts for customers*), Remedy 2 (*awareness of CASS*), Remedy 3 (*facilitating price comparisons*), Remedy 4 (*PCW for SMEs*), Remedy 5 (*enabling comparison of service quality of BCAs*), Remedy 6 (*standardise and simplify BCA opening*

[1] Guidelines CC3, https://www.gov.uk/government/publications/market-investigations-guidelines

procedures) (insofar as it applies to low risk customers only), Remedy 9 (*banks to retain and provide customer details*) and Remedy 15 (*loan eligibility indicator*) (to the extent quotes are indicative only) have the potential to generate real and substantial benefits for customers, individually and as a whole. However, careful consideration will have to be given to their scope and application in practice (especially in relation to Remedy 1, as discussed further below).

- RBS would however question the proportionality of and/or need for certain remedies. In particular, in relation to Remedy 1, RBS considers that the use of a large number of behavioural prompts, both in terms of frequency and types of prompts, and/or providing third party intermediaries with customer data may have the unintended consequences of alienating or even being harmful to customers and are not proportionate to the issue which the CMA seems to address. In addition, as regards Remedy 13 (*data sharing with CRAs*) and Remedy 14 (*commercial open data and data sharing proposals)* RBS believes that these remedies overlap with work HMT is already undertaking in this space and may give rise to security risks associated with transferring customer data. RBS would also query the need for Remedies 7 (*facilitating checking of overdraft facility before switching*), 8 (*extending redirection period*) and 12 (*changes to CASS governance*), as discussed further below. RBS cautions that there may be significant practical difficulties in implementing Remedy 10 (*BACS to transfer continuous payment authorities*).

RBS also wishes to bring the following procedural issues to the CMA's attention:

- RBS considers that the CMA's in-depth knowledge of the retail banking markets and involvement in devising the remedies generally means that it is ideally positioned to ensure their proper implementation and monitoring, although there are some limited exceptions where overlap with existing regulators' regimes (i.e. the FCA and potentially others as the CMA considers appropriate) may mean that the CMA would seek to rely on that existing regulator instead.
- Given the uncertainty surrounding the impact of certain remedies and their interaction with evolving rules and regulations, RBS would advocate in favour of the introduction of sunset clauses, which would enable the CMA to review the remedies' effectiveness once they have had a chance to bed down.
- The CMA has the choice of implementing the remedies by accepting undertakings from market participants and/or by making an order. RBS suggests that the financial institutions active in retail banking (both incumbents and challengers) could sit down with the CMA and negotiate and agree to undertakings in the interest of customers as a whole. Assuming a large enough number of institutions participated, RBS would advocate in favour of engaging in this discussion, which would give the CMA more freedom in terms of the form the remedies could take and provide the financial institutions with a greater opportunity to be involved and engaged in their proper formulation.

Changes of Circumstances for the 2002 SME Undertakings and NI PCA Order

At paragraph 19 of the NPR, the CMA asks for comments on whether the proposed remedies may constitute a change of circumstances for the purposes of the reviews of the NI PCA Order and the 2002 SME Undertakings.

As outlined in RBS's response to the CMA review of SME Banking Undertakings dated 31 July 2015 and its responses of 11 June and 18 September 2015 to the CMA's review of the NI PCA Order, RBS considers that various market and regulatory developments over the past decade have resulted in a change of circumstances such that a number of the SME Undertakings and provisions of the NI PCA Order should be released (or at the very least amended).

The proposed remedies add to these developments as a further change in circumstances:

- At the very least, RBS believes that a number of the CMA's proposed remedies, if implemented, would supersede certain provisions of the SME Undertakings and the NI PCA Order. By way of example, in relation to the SME Undertakings, Remedy 1 (*customer prompts at trigger points*) would likely supersede clause 24 of the Behavioural Undertakings, Remedy 3 (*facilitating price comparisons*) clauses 21-24 and Remedy 9 (*provision of credit histories*) clauses 15-16. Likewise, in relation to the NI PCA Order, Remedy 1 (*customer prompts at trigger points*) would supersede Article 6 of the Order, Remedy 2 (i*ncreasing public awareness of CASS*) Article 4 and Remedy 3 (*facilitating price comparisons*) Articles 4 and 5.
- More generally, the proposed remedies address the concerns underlying the Undertakings and Order. For example, Remedies 13 – 15 which are designed to remove the perceived incumbency advantage, also dealt with in the 2002 SME Undertakings. RBS would also repeat arguments made in its submission to the CMA of 31 July on the SME Undertakings regarding clauses 17 – 20 (Bundling Undertakings). In the event that the CMA continues to have concerns about the extent to which SMEs purchase loans and deposit accounts from their BCA providers, we would argue that this is not because of systematic breaches of the Bundling Undertakings but rather because customers may not be shopping around in the optimal way. The issue at hand is therefore a Theory of Harm 1 issue which could not be "solved" by the Bundling Undertakings. However, the remedies package envisaged in this NPR specifically focuses on addressing these demand-side issues by improving transparency and awareness/ease of switching.

As such, RBS would recommend that a more detailed comparative analysis is carried out in relation to the Undertakings, Order and the proposed remedies, alongside consideration of the market and industry developments over the past years, with a view to releasing or amending the Undertakings and Order.

3 Comments on proposed remedies

3.1 Remedy 1: Prompt customers to review their PCA or BCA provider at times when they may have higher propensity to consider a change

RBS general comments

RBS considers that customer prompts can offer a meaningful route by which customer engagement may be enhanced in both PCAs and SME banking. Indeed, RBS has seen the difference specific prompts (e.g. our overdraft "Act Now" alerts) can make.

Introducing prompts via this remedy would be an entirely new innovation for the industry and will require substantial commitment from the banks. It is important that this is recognised as the starting point as well as it being very important that there is careful design and testing of any prompts in order to ensure that the prompts are effective to meet the CMA's objectives and to minimise implementation difficulties and the risk of inconsistent application. As set out below, RBS is particularly concerned that implementation of this remedy could go seriously awry, for the purposes of the CMA's objectives, in two main respects: (i) choosing the wrong set of trigger events (e.g. crisis events, point of sale of a new product); and (ii) over-saturation of message resulting from the aggregate number of prompts (which besides being costly to banks, may lead to consumers "switching off" from "nagging" rather than prompting searching).

At section (c) below, RBS comments on each of the trigger events suggested in the NPR. But, in summary, RBS would distinguish between a total of five events that it considers are worth considering closely as candidate triggers for a prompt, and some other events which RBS believes would be ineffective or disproportionate:

Five trigger events worth considering closely on effectiveness/proportionality grounds	*Problematic triggers*
1. An annual prompt 2. Material changes in terms & conditions on an existing product 3. Complaints referred to the Financial Ombudsman Service ("**FOS**") 4. Branch closure 5. Expiry of SME free banking period	*Raise mixed messages/customer confusion issues* • Prompts during (IT or other) crisis – *likely to raise mixed messages/customer confusion and raises definitional issues* • Prompts at point of sale or other lfie events (e.g. opening of BCA for first time, potentially student to graduate/ adult transition) – *likely to raise mixed messages/customer confusion* • Imminent overdraft – *likely to raise mixed messages/customer confusion* • "Major" dispute (better to use FOS-reportable complaints as per left hand column) – *likely to raise definitional issues*

In addition, RBS believes that the efficacy of the remedies that have been implemented should be regularly monitored. If the remedies are not having any impact after a certain period of time or are disproportionate or not working as intended, there should be an option to review these remedies.

RBS draws the CMA's attention to the following points in particular:

Avoiding knee-jerk reactions

As discussed further below, RBS highlights the potential risk in using prompts at "crisis events", including IT breakdowns. RBS considers that such prompts may have the unintended effect of being detrimental to customers as they may: (i) lead to knee-jerk reactions rather than careful considerations of competitors' offerings; and/or (ii) be a source of annoyance/further disengagement at a time of relationship breakdown. Importantly, RBS believes that in a crisis the immediate focus should be on resolving the issue for the customer instead of directing customers to switch providers.

Risk of sending mixed messages to customers

RBS is concerned in principle about the use of prompts at key stages of a customer's journey, for example when a customer opens a new BCA. Such prompts may result in the bank delivering a mixed and confusing message to its customers (i.e. on the one hand "*please join us/welcome*" and on the other "*have you thought about leaving us?*"). This does not seem helpful to customers and is at odds with basic commercial logic and so is harder to support. There is also a risk of this having a chilling effect on product innovation and/or the design of products targeting specific customer segments (e.g. youths versus students versus graduates). RBS would point to other remedies in this package (e.g. Remedy 2) which will address the need for awareness of alternative products which it considers to be more appropriate and proportionate.

Purpose of communications in "crisis" events

Such trigger events should first and foremost be aimed at remediating the position of the customer and ensuring that they are not unduly impacted by a particular incident. Providing any other message will be less important/urgent and may also run the risk, discussed above, that the customer receives mixed messages from its providers.

Cumulative impact of the prompts

RBS notes that, if customers are exposed to prompts too frequently, their impact individually and as a whole is likely to diminish and thus these prompts would become counterproductive and could potentially lead to customer disengagement. Instead, RBS believes that the CMA would maximise the impact of this remedy by carefully selecting a few trigger events which would enable prompts to be provided in a timely manner and in such a way as to lead to meaningful engagement with the customer.

Role of third parties

RBS considers that providing data to third parties is particularly intrusive to the customer experience and may result in annoyance and thereby customer disengagement (data protection being a key issue for customers). Furthermore, RBS, like other banks, would have to assess their permissions for sharing information with third parties for these purposes, to ensure compliance with data protection and client confidentiality obligations. RBS would advocate in favour of the more proportionate approach of the banks directly reminding their own customers on a recurring basis of the availability of price comparison portals and CASS, which together allow them to assess the benefits of switching without undue interference. Furthermore, granting access to third parties may give rise to data protection issues.

As regards granting access to the FCA, RBS questions what objective this would achieve. If the purpose is to disclose this information to third parties or for the FCA to contact customers directly, RBS would raise the same concerns as above. Further, requiring the FCA to contact customers directly would seem to impose a very significant burden on the FCA. Accordingly, RBS considers that this access would not be necessary.

Content

As regards content of the prompts, RBS considers that the most effective and practical form these prompts could take is a standardised message that is sent to customers directing them to price comparison portals and/or reminding them of the availability and ease of use of CASS (potentially with the CASS logo affixed). RBS considers that this standardised message will ensure consistency of messaging across the industry (and avoid any prompt being "gamed" by individual banks).

RBS responses to CMA questions

(a) **Is the general approach of this remedy (making use of "trigger points") likely to be effective in prompting customers to consider changes in current account provider?**

RBS notes that prompts are most appropriately viewed as a potential response to low customer engagement and are less likely – in isolation – to offer a solution to low switching (e.g. even if a customer is prompted by a trigger event to search they will not switch if comparison between providers is not easy, they believe switching is hard or there is insufficient financial or other incentive for them to switch). Clearly, for customers already pre-disposed to shopping around, a prompt is unlikely to have a material impact.

As RBS discusses in Annex 1, the CMA found that in 2014 22% of PCA holders had engaged in shopping around by either searching but not switching, switching provider or switching within a bank but only 3% of PCA customers had switched PCA to a different provider. In relation to SMEs, the research analysed by the CMA indicated that approximately 22% of SMEs between two and five years had compared the costs of their BCA with other providers and 33% of SMEs considered switching at the end of their free banking period.

Accordingly, and contrary to the CMA's provisional conclusions, RBS considers that searching data points to relatively healthy engagement on the part of both PCA and SME banking customers. Follow-through switching levels will only be improved, however, by ensuring that the customers can effectively compare provider offerings, the switching process is as straightforward as possible and by reducing perceived barriers to switching (so that customers who are prompted to search are not put off by actual or perceived barriers to switching).

Finally, as discussed above, RBS refers the CMA to its general remarks above regarding the risks associated with using prompts at "crisis events", life stages and generally too frequently.

Having said this, RBS does recognise the merit of prompt mailings at tightly defined trigger points, although the messaging of any mailings would need to be centrally mandated.

(b) **Is there, nonetheless, merit in requiring periodic reminders or messages in respect of particular patterns of account usage, for example to bring to customers' attention the cumulative costs to them of unarranged overdrafts?**

RBS notes that periodic messaging in relation to account usage, including in relation to cumulative costs, already occurs. For example, RBS already sends PCA holders regular statements as well as an annual current account summary statement which covers all current account fees and interest incurred over the year (this was an OFT mandated initiative). In addition, as a regulatory requirement, customers also receive an annual reminder of the charging structure for any unarranged overdrafts[2] (see FCA Consumer Credit Sourcebook (CONC 6.3.3R)).

In light of this ongoing practice, and the inherent difficulties with some of the trigger points, RBS suggests that a mandated, standard-language prompt (to ensure consistency of message across the industry) is mailed annually (in addition to the other potential triggers where the "deal" with the customer is materially changed). Ideally, this annual reminder would be linked to the existing annual statements summarising charging information for customers. RBS considers that this is the most effective potential trigger available to the CMA, with the link to charging information likely to reinforce its potential stimulus to customers.

(c) **Do the occasions or situations identified in paragraph 34 represent points at which BCA and PCA customers are likely to be receptive to messages prompting them to consider changing their banking arrangements?**

To reiterate the introductory remarks above, each trigger point must, to be effective, be clear as to its requirements and practical application.

Generally, RBS believes that many of the proposed "negative" trigger points would be inappropriate as they could: (i) lead to knee-jerk reactions from customers rather than a considered decision making around who their best provider would be; (ii) be unnecessary (or wasted) as the incident would act as a "push" factor for many customers in its own right (although, of course, the existing bank's behaviour can help mitigate this);[3] and (iii) imply that their bank is uninterested in remedying a current incident or the relationship as a whole and would rather the customer just opened an account elsewhere, which is contrary to RBS's relationship-driven approach.

To consider each proposed trigger point in turn:

- *A serious or widespread loss of service to a provider's PCA or BCA customers arising from an IT breakdown*

RBS believes that upon a significant service failing based on a serious IT breakdown the priority should be urgently working to fix the issue and helping affected customers instead of issuing a prompt to customers. Furthermore, RBS considers that the use of prompts in a crisis such as an IT failure has the potential to affect customer perceptions, as the prompts could be taken to imply that RBS lacks confidence in its own service and its ability to restore it by suggesting that customers look elsewhere. Therefore, RBS strongly believes that during an IT breakdown attention and communications with the customer should be totally focused on resolving the service failure and its consequences. Issuing a switching prompt at this stage is very likely to be overlooked in many cases and, rather than

[2] For PCAs, this is a regulatory requirement but this service is also provided to SMEs at RBS.

[3] i.e. any trigger mailing should act as an additional pull factor rather than reinforcing existing push factors.

reassuring the customer, suggests that switching "mid-crisis" is a good idea, before the situation is resolved. At the extreme, a prompt may reinforce (and certainly not assist with mitigating) the risk of systemic consequences and could further destabilise the given bank when it is already suffering a crisis. Accordingly, RBS would consider this to be a highly inappropriate trigger point.

Of course, at present RBS already communicates with customers who have suffered loss from an IT incident. However, RBS believes that the main point of the communication should remain on reassuring the customer and detailing the remedial actions underway.

In addition, RBS considers that the trigger point, as proposed, is insufficiently precise which would lead to considerable uncertainty and inconsistent application across the banks. It would also make the proper oversight of this remedy particularly onerous and difficult to achieve in a fair and reasonable manner.

In practice, RBS believes that sufficiently detailed yet flexible definitions (a loss of service could take multiple forms) will be hard to achieve. Therefore, overall RBS considers that it may be sensible for the CMA to instead consider mandated periodic prompts (e.g., linked to the sending of annual statements) rather than prompts triggered by (subjectively interpreted) isolated events.

- *A major dispute between a provider and an individual customer*

Again, RBS believes that communications during a major dispute should remain focused on resolving the issue as quickly as possible for the customer. However, it may be that the moment a complaint is referred to the FOS is an appropriate point at which to prompt customers about the benefits and ease of switching and should be relatively simple to implement.

Such an approach would have the advantage of removing any lack of clarity around the definition of a "major dispute" (which could potentially cover a wide spectrum from the lodging of a single complaint to the initiation of legal proceedings). Otherwise, the absence of a precise definition could lead to difficulties in ensuring appropriate and fair oversight across the industry.

- *A material change in the bank's terms and conditions pertaining to a BCA or PCA product used by the customer*

RBS notes that it currently issues mandatory communications which are triggered by terms and conditions changing (a notice of variation or NoV).[4] Generally, RBS will try to group NoVs with other marketing communications, which take place on average three times a year. However, they may be sent out more often, depending on the complexity of the products and what changes RBS is implementing in the product space.

RBS considers that this trigger event could successfully be rolled into the mandatory communications regime (one would have to define "material changes" – but this could be done by reference to a price, product feature or service change). RBS believes that this prompt has the potential to make a meaningful impact on customer engagements by reminding customers of the ease of switching at the relevant juncture, i.e. before the terms change.

- *A PCA customer's transition from a young person's or student account to an adult account*

[4] NoVs also have to be sent out when there are changes to tax rules or to other relevant legislations.

Although RBS can see the potential appropriateness of this prompt as a trigger event to some extent, it notes some potentially significant implementation difficulties in practice that are likely to undermine its effectiveness and so render it unworkable. For example, as account offerings by life stage differ between providers, it will be difficult to apply consistently in practice and therefore could result in further promotional “noise” in the market that could act to confuse consumers. More generally, RBS considers it counter-intuitive to prompt a customer to leave at this stage when they are seeking a different/deeper relationship with a provider. Additionally, this could in principle result in the counterproductive effect of chilling innovation/product differentiation across providers (i.e. providers would be discouraged from created additional products targeted at specific customer lifestages due to the risk of having to prompt customers too frequently – leading to potentially poor customer outcomes due to “one size fits all” products being created rather than those designed for specific lifestage/target market needs).

- *Closure of a customer’s branch*

RBS considers that the closure of a customer’s branch constitutes an appropriate trigger point. RBS already has a standardised communication system in place for such events and therefore could roll in a standardised prompt to be provided in a timely manner to the customer.

- *The actual or imminent imposition of overdraft charges (arranged or unarranged)*

At present RBS has a standardised set of communications around the imposition of overdraft charges (in particular, the “Act Now” messaging). However, to the extent that individual overdraft charges would be proposed to act as triggers, given that these charges may accrue daily (for unarranged customers), RBS would caution against repeat messages as each charge becomes imminent as this is likely to provoke customer frustration and even further disengagement as they may ‘switch-off’ from the message. At best this could result in an ineffective remedy, and at worst it could undermine the impact of the Act Now message in helping customers manage their overdrafts. More generally, the key consumer welfare focus of these reminders should be on managing their overdraft use to ensure the optimal customer outcome. Overall, and to repeat, RBS believes that it is more sensible to remind customers of potential switching benefits at reasoned and/or regular intervals rather than in the “heat of the moment” (which would risk distracting customers from the key message, i.e. resolution of their overdraft position).

- *The opening of a BCA for the first time*

RBS does not consider that the point at which a customer opens an account for the first time and so commences that BCA relationship is an appropriate moment at which to require the relevant bank to encourage the same customer to consider alternative providers. In particular, as discussed in the general remarks above, the message sent to the customer would be particularly confusing at this juncture. Moreover, as 64% of SMEs have searched around beforehand, it seems unnecessary to have prompts upon the opening of a BCA for the first time. Accordingly, RBS considers that this is not an appropriate trigger point.

- *The expiry of an SME customer’s free banking period*

RBS communicates the expiry of free banking by RBS to SMEs three months in advance and considers that the message sent could readily be adapted to include reference to the potential to switch.

(d) **Are there any other trigger points at which customers would be especially disposed to consider changing their current account provider?**

As set out above, RBS considers that the most appropriate additional prompt would be linked to an annual statement summarising customer charges over the previous year. RBS believes that this would be a sensible approach to reminding customers to switch, as it avoids the risk of prompts triggered by subjectively interpreted events. In addition, an annual prompt would minimise the chance of customers switching for, e.g. knee-jerk reactions only rather than following thought-through consideration of their long-term financial interests. Rather, using the annual statement as a trigger event brings the banking industry in line with industries where services are provided for a set term, usually a year (as in insurance and energy markets), and thus may spur customers to consider "renewing" the relationship or switching at that regular interval. Overall, RBS believes that an annual prompt would provide an innovative development to the market and produce effective results by stimulating customers at a time when they are reviewing their usage and fees already.

RBS does not suggest, as noted above, that annual statements should be the one and only prompt event, but that it is an obvious and proportionate starting point to include in communications that, by definition, every customer will receive and examine to some degree. It does not therefore raise the issue of the bespoke costs involved in a prompt via a stand-alone communication not routinely made by the banks to their customers.

(e) **To what extent should messages advise customers to actively consider an alternative provider? Should they, for example, draw attention to specific better-value accounts available from other providers? Should they link to sources of comparative information such as price comparison websites (PCWs)?**

RBS considers that for clear regulatory and practical reasons, messaging at the time of prompts should not draw attention to specific alternative accounts or providers.

In particular, the promotion of particular offers from alternative providers could well amount to providing financial advice, and so would require the appropriate authorisation (and steps to ensure regulatory compliance) under the FCA regime, making it potentially too onerous.

Moreover, practically speaking, any such promotion of competing offers would require constant assessment of those offers in the market, and of the customer's spending/transaction behaviour and circumstances, in an effort to match a given customer's needs to the best proposition. Again, this is likely to be too onerous (if not simply impossible) in practice.

RBS considers that, instead, signposting sources of comparative information would be an effective and practical way to further stimulate consumer engagement.

In relation to references to PCWs, any such link should be assessed for compliance with the Financial Services and Markets Act 2000 Regulated Activities Order and in particular with a view to whether such conduct amounts to credit broking. In addition, any such reference would likely require a standardised industry PCW or require banks to select from/list a range of pre-approved commercial sites for banks, and so there is clear interaction between this remedy and Remedy 4.

(f) **What types or combinations of customer communication, for example letters, texts, emails, are most likely to be effective in prompting customers to consider changing**

their banking arrangements? Is this likely to vary with the nature of the event or the type of customer?

RBS considers that no single method of communication would be effective for all the suggested triggers. The communication channels would need to be defined and tested with customers to find the most appropriate for each trigger point. The banks would also need to respect customers' wishes regarding channels by which they are happy to receive unsolicited communications.

The type of communication will depend on the objective and each has their limitations. For example, the risk of additional frustration in the use of texts or emails having out-of-date information may not be as acute in the use of physical mail which may be easily dismissed as "junk". RBS uses a mix of emails, direct mail, online alerts and text messages. Statement inserts for existing customers are another marketing tool that is used. RBS does not hold email addresses and mobile phone numbers for all customers.

The practicalities, resources and implications of a given method of communication should also be considered carefully. [**confidential**]. The budget to meet these requirements should be an important consideration for the CMA in determining which type of communication is most proportionate.

In terms of research, this would require further quantitative customer research assessing event-triggered or generic mailing to measure recall, awareness and potential change of action. This would also capture comparative levels of awareness (including CASS), understanding, consideration and likelihood of switching.

This research should cover the points below and will depend on the ability to identify a customer sample for event-triggered communications.

- The idea/proposition (event triggers or more generic mailing)
    - Do customers think it is a good idea?
    - Do customers think it is appropriate for banks to notify them of this opportunity and what level of information should they be given (i.e. down to specific competitor offerings). Should such messages come from the bank or from central bodies?
    - Do customers think it will raise their awareness (including of CASS), understanding, consideration and likelihood of switching?
- The opportunity to be made aware
    - Factual: Has the bank included the required messages in key trigger event communications (utilising existing communications or introduced new)?
    - Attitudinal: What are customers' reactions to receiving messages in this way? Which channels/types of communications do they think are most effective?
    - Behavioural: What specific action did customers take – switch, enquire, read, etc?
- Quality of execution

- Implement new research to test customer awareness and recall of messages. In addition, measure the impact of messages on awareness (including of CASS), understanding, consideration and likelihood of switching.

(g) **Who should determine when a 'serious or widespread loss of service' had taken place?**

RBS reiterates that it considers this concept inappropriate, as it would risk distracting dangerously from the more relevant communications a customer would rightly expect in relation to such a loss of service.

Against this background, and so only if it were to be taken further, considerable further clarity would be required on the precise meaning and scope of this phrase.

Relevant parameters would either need to be pre-defined and agreed (e.g. by a regulator or at an industry level). If not pre-defined, a regulator (e.g. the FCA) would need to determine this post any loss of service to avoid inconsistent interpretations by providers. Even then the risk of inconsistency remains, setting aside the burden this would place on the relevant regulatory body.

(h) **In situations where the provider is responsible for sending the message/prompt, should the content and presentation of the messages concerned be standardised, specified or approved by a regulator?**

RBS considers that there should be a standardised message, potentially with regulatory oversight, applied in order to ensure consistency across the industry and to avoid gaming as well as differing interpretations and customer confusion. Standardised wording will offer consistency and certainty, and, if necessary, could be developed for different triggers.

(i) **Alternatively, would it be practicable and proportionate to require providers to facilitate access to relevant customers by the regulator(s), intermediaries or others?**

RBS considers that providing customer data to the regulator/intermediaries would not be in line with customer interest, would not have a positive impact on competition in retail banking and would result in significant, unnecessary costs (which would ultimately be borne by customers), as set out in our general comments on Section 3.1.

Furthermore, there is a risk that banking customers, who have suffered for years from the repeated attentions of scammers, phishers and claims management companies, would regard it as a serious breach of trust for banks such as RBS to provide their data to another third party. There would also need to be significant data security considerations as well as consideration of the Data Protection Act and bank confidentiality implications to ensure such sharing is permitted. Finally, providing customer data would not be without substantial cost to the bank concerned which could be avoided if the banks were to communicate directly with customers.

RBS suggests that the CMA would need to conduct a far more detailed inquiry into consumer expectations about data privacy and client confidentiality before considering this proposal further. Note also that the proposed EU General Data Protection Regulation may mandate the need for customer reviews of this nature before new data sharing initiatives are entered into.

Running these risks seem unnecessary in any event as such access is not required to execute the prompts (which firms could undertake themselves) or supervise firms adherence to them (the FCA regime already mandates various customer communications, which the FCA is able to supervise without such access).

(j) **What obligations should be placed on firms to support, including financially, compliance monitoring, for example through mystery shopping or the procurement of third party compliance auditing? Would the FCA or the CMA be the most appropriate body to do so? If not, who? Who should monitor compliance?**

There are many ways to monitor compliance for such a requirement, with precedents being available from the monitoring of similar requirements under other regulatory regimes. For example, banks could audit their compliance and provide a report to the CMA. However, RBS notes that this would be costly and its preferred approach would be to self-report.

Alternatively, such a process could be incorporated into the FCA's rule book as a rule (e.g. firms must send out the following message at X/Y/Z moments to all PCA/SME customers). The FCA could then monitor compliance with the rule in the same manner as it does other regulatory requirements (e.g. the pre-existing requirements to send annual statements to customers), and would no doubt consult on the best way to do this as it does with other new rules it proposes. Additionally, RBS notes that mystery shopping is difficult to carry out in relation to SMEs and, as such, may not be the most efficient means of ensuring compliance.

(k) **What, if any, are the practical, technical or regulatory barriers given the potential overlap with, for example, the PAD and PSD to the implementation of this remedy?**

From a practical perspective, close consideration should be given to the clarity regarding the definition of a trigger event, the resource and cost involved in implementing any such remedy, including the extent to which the process could be automated or not.

This remedy could give rise to systems change but much would depend on the shape of the final remedy.

From a regulatory perspective, RBS has commented above on the risk of the prompts being seen as advice.

There are also implications with regard to monitoring and compliance. Any regulator imposing this requirement would need to leave sufficient time to consult on the best format/wording of the requirement and leave sufficient time for implementation. Incorporating an existing communication to include a switching message/the CASS logo would be easier (and, see above, arguably more effective) than creating a bespoke mailing.

The PAD will come into force at a national level next September. Part II of PAD sets out requirements about standardised annual fee statements. These requirements will drive a standardisation of fee names and the statements are designed to promote engagement with account switching. They will cover a top 20 or 10 (yet to be decided at a national level) account fees and set out customer usage per service/fee category. This statement will link to an industry level PCW run by the Money Advice Service. Clearly the outcomes of these requirements will overlap somewhat with the remedies that the CMA is considering and therefore RBS would request that the CMA is mindful of the need not to unnecessarily duplicate regulatory initiatives and align its final remedies to the wider upstream regulatory framework. Particularly, RBS believes that a mandate standardised message linked to this statement would be the most effective and proportionate form of trigger available to the CMA as a remedy.

RBS is not aware of any constraints overall as between Remedy 1 and PSD 2.

(l) **For each of the trigger points proposed under remedy 1 that relate to PCAs (see paragraph 1(a), (b), (c), (d), (e) and (f)), please confirm whether you routinely contact your customers at these points, and if so, please provide:**

- **the number of customers who are typically contacted (to provide an indication of the scale of each trigger point's occurrence);**

  RBS endeavours to communicate to all customers impacted by an incident to keep them up-to-date during a service incident or system outage. In the event of a widespread IT breakdown, this could entail keeping millions of customers updated and aware of efforts to resolve the issue.

- **the timing of each communication: at what point in relation to the trigger it is sent and whether the communication is sent once or on multiple occasions;**

  In respect of the timing of each communication, RBS aims to communicate with all affected customers at each stage of the incident. RBS defines these stages as the following:

  - at the outset of the incident (i.e. once it has been validated that an incident has occurred. For example, an IT breakdown will be validated by Technology);
  - during the lifecycle of an incident. RBS keeps customers updated on a regular basis and will issue necessary instructions to assist with recovery and/or access funds;
  - once the incident has been resolved. At this stage, RBS will provide confirmation that the service has been restored, outlining any follow up action. In particular, customers will be compensated for any loss and RBS will provide final communications to customers such as root cause statements.

  RBS notes that the decision of when to publish these communications is taken by the appropriate level of incident control group and is specific to the incident.

- **the medium of communication and whether this differs for different customers. Please provide examples of the different mediums used; and**

  With regard to the medium of communication, RBS uses multiple channels to communicate with customers dependent on the systems impacted. These channels involve online/digital channels, Twitter and web chat, in branch and over the telephone, front-end telephone messages, email and webpages. In addition, RBS submits that media statements will typically be raised to be used reactively in response to press queries.

- **the content included. Please provide examples of the communications used across different mediums and for different customers.**

  RBS attaches examples of its communications to customers at the proposed trigger points.

  By way of example, the following communication is sent to customers when there is an outage to online banking:

Channel – Online/digital

Outage

We're sorry if you're having trouble using or getting your XXX service. We're working hard to resolve the issue and will keep you updated.

All of our other services are working as normal. You can still access your accounts through XXX and XXX as these services are unaffected.

Thanks for your patience and apologies for any problems this may cause you.

Recovered

Some customers may have had trouble getting into XXX today between XXX and XXX. All services are back up and running as normal. Apologies for any inconvenience caused.

Channel – Twitter/web

Outage

We're aware of some issues on our XXX service and are working hard to fix them. Sorry and thanks for your patience.

Recovered

Sorry if you had trouble getting into XXX between XXX and XXX. Our service is now running as normal, thanks for your patience.

In addition to the IT incident example given above, RBS also contacts customers where there is a change to their terms and conditions (be this a price increase, a change to service or proposition or some other change) via NoVs. RBS also migrates customers (again through a NoV) between different products (notably youth to student and student to graduate or adult accounts).

Customers who make a complaint which is not resolved in 48 hours will receive a bespoke "final decision letter" which will include standardised (FCA mandated) wording regarding their right to refer a complaint to the FOS. We have already referenced the annual statements customers receive under the FCA regime.

(m) **In relation to PCAs, are there other occasions (points in a customer's relationship with their bank, particular life-stages or milestones, for example) that could be characterised as 'trigger points'? Do you contact your customers at any of these times? If so, please provide:**

- **the number of customers who are typically contacted (to provide an indication of the scale of each trigger point's occurrence);**
- **the timing of each communication, including whether the communication is sent once or on multiple occasions, and at what point in relation to the trigger it is sent;**
- **the medium of communication and whether this differs for different customers. Please provide examples of the different mediums used; and**
- **the content included. Please provide examples of the communications used across different mediums and for different customers.**

RBS submits that, in relation to PCAs, there are no obvious additional occasions that could be characterised as trigger points.

(n) **In relation to PCAs, do you monitor customer responses to the communications that you send to them? If so, what impact do the communications have on customers?**

RBS confirms that there is no monitoring undertaken by Incident Management Services in Services in the event of an IT incident in terms of customers' responses to communications. For the other instances described at (m) above, whilst RBS monitors the specific products (at a product, not a customer, level) involved it does not specifically measure the impact of the related customer communications.

(o) **For each of the trigger points proposed under remedy 1 that relate to BCAs (see paragraph 1(a), (b), (c), (e), (f), (g) and (h)), please confirm whether you contact your customers at these points, and if so, please provide the same information that we have requested for PCA customer communications.**

Communications sent at the CMA's proposed trigger points

A serious or widespread loss of service to a provider's PCA or BCA customers arising, for example, from an IT breakdown.

An apology communication is sent to affected business banking customers following the IT issue. This communication is sent via email or letter depending on customer preference.

A dispute between a provider and an individual PCA or BCA customer.

This is handled by the complaints team, on a case-by-case basis.

A change in the bank's terms and conditions pertaining to a BCA or PCA product used by the customer.

A NoV is sent to all business banking and corporate and commercial customers advising them of changes to their terms. RBS also includes a document outlining its full terms and conditions.

Closure of a PCA or BCA customer's branch.

A letter is sent to customers impacted by a branch closure. This is managed by the in-branch team who contact all impacted personal and non-personal customers.

The actual or imminent imposition of overdraft charges (arranged or unarranged).

This is an automated operational letter.

The opening of a BCA for the first time.

A welcome letter is sent to customers during the onboarding process. The attached letter is handed/sent to customers at POS. It outlines their account details, reminds them of what will happen over the next few days and useful contact numbers.

The expiry of an SME customer's free banking period.

A letter is sent to all business banking customers 21 months into their banking relationship to remind them that they will be charged at the end of month 24.

Further information

The number of customers who are typically contacted (to provide an indication of the scale of each trigger point's occurrence).

As with PCAs, RBS endeavours to communicate to customers impacted by an incident to keep them up-to-date during a service incident or system outage. In the event of a widespread IT breakdown, this entails keeping millions of customers updated and aware of efforts to resolve the issue.

The timing of each communication: at what point in relation to the trigger it is sent and whether the communication is sent once or on multiple occasions.

In respect of the timing of each communication, RBS aims to communicate with all affected customers at each stage of the incident. RBS defines these stages as the following:

- at the outset of the incident (i.e. once it has been validated that an incident has occurred. For example, an IT breakdown will be validated by Technology);
- during the lifecycle of an incident. RBS keeps customers updated on a regular basis and will issue necessary instructions to assist with recovery;
- once the incident has been resolved. At this stage, RBS will provide confirmation that the service has been restored, outlining any follow up action. In particular, customers will be compensated for any loss and RBS will provide final communications to customers such as root cause statements.

RBS notes that the decision of when to publish these communications is taken by the appropriate level of incident control group and is specific to the incident.

The medium of communication and whether this differs for different customers. Please provide examples of the different mediums used.

With regard to the medium of communication, RBS uses multiple channels to communicate with customers dependent on the systems impacted. These channels involve online/digital channels, Twitter and web chat, in branch and over the telephone, front-end telephone messages, email and webpages. In addition, RBS submits that media statements will typically be raised to be used reactively in response to press queries.

The content included. Please provide examples of the communications used across different mediums and for different customers.

RBS attaches communications to customers at the proposed trigger points.

However, an example of the content included in communications where there is an outage to Bankline (used by some BCAs) is as follows:

Channel – Bankline front-end telephony message for Bankline Helpdesk

Outage (when there is a known resolution time)

We are sorry that our Bankline service is currently unavailable. We are working hard to resolve this issue and will have an update by XXX.

The system will be available in good time to allow for any transactions to be completed so please return to Bankline after XXX.

We apologise for any inconvenience this may cause. If you're calling for any other reason, please hold for the next available helpdesk advisor.

Recovered

If the issue is fully resolved then there is no need to have an upfront message.

(p) **What evidence, including from monitoring responses to your communications at these times, do you have about the importance of these various trigger points for PCA and BCA customers? Are customers more likely to consider switching or actually switch at some rather than others?**

Without experience of the other trigger points which comprise Remedy 1, it is not possible to confirm whether customers are more likely to consider switching or actually switch at points rather than others.

The only trigger RBS has any tracking on is the 21 month letter issued when the BCA free banking period is about to end.

[**confidential**]

Some customers are also more likely to switch if they are in a protracted grievance or complaints process, however this is not specifically tracked.

3.2 Remedy 2: Increase public awareness of the potential savings or rewards that could be obtained by changing one's current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience

RBS general comments

RBS welcomes Remedy 2 and recognises the value of raising public awareness of the benefits of CASS. RBS has already taken steps towards achieving this objective via different initiatives:

- A similar remedy formed part of the Undertakings in Lieu ("**UILs**") offered jointly by RBS, LBG, Barclays and HSBC in the summer of 2014. In particular, the UILs included a proposal to stimulate customer engagement by regularly promoting the Current Account Switch Service ("**CASS**").
- RBS has already put in place measures and marketing plans to increase public awareness of CASS to its customers. For example, information about CASS can be found in branches and has been included in advertising. CASS has also been given greater prominence on RBS's external website and in SME account opening literature. We also note that CASS has recently produced revised guidance on the use by banks of its logo to further enhance awareness of the service.
- CASS has already commenced an advertising campaign to raise awareness and confidence in the service, with further activity planned next year.

However, as regards promoting the rewards of switching, RBS cautions that the exact message would need to be carefully calibrated. RBS questions the robustness of the CMA's findings with regard to the rewards of switching both PCA and BCA providers which focuses on the 'mean' potential gain from switching. In addition, RBS notes that the GfK qualitative research found many participants were sceptical about financial incentives and were concerned about some form of catch.[5] PCA customers may feel a similar level of scepticism about potential gains from switching, suggesting that, at best, such promotions would have limited impact, but could, in fact, potentially reduce consumer trust and therefore engagement with financial service providers more generally.

As proposed in the UILs, RBS considers that it would be more appropriate to remind customers of the existence of PCWs and CASS jointly.

More generally, while RBS supports this remedy in principle, it would wish to ensure that it is supported by all market participants in a fair and reasonable manner, in terms of funding and its application (see later responses).

RBS responses to CMA questions

(a) **On what scale and over what period would it be necessary to conduct promotional activity to sufficiently increase awareness of the potential benefits of switching and confidence in the switching process?**

The dip in awareness and confidence rates for CASS following its initial, one-off, advertising campaign around the launch of the service suggests that an ongoing campaign over a number of years will be required.

[5] GfK (2015), Personal Current Account Investigation, a report for the Competition and Markets Authority, page 53, paragraph 177.

More specifically, to have a material impact, RBS believes that there would need to be considerable promotion in the early stages of the remedy followed by regular promotion thereafter across a number of media over a number of years. RBS reminds the CMA, however, that CASS is already undertaking work with HMT and the FCA separately to promote awareness of and confidence in CASS.

Notwithstanding this, RBS notes that it has never conducted a campaign solely focused on switching/use of CASS and therefore is not able to provide more targeted information in relation to the CMA's query.

(b) **What indicators should be used to evaluate the effectiveness of CASS promotional activity?**

As discussed above, RBS has never conducted a study focused on CASS. However, RBS assumes that the effectiveness of the campaign could be measured by reference to target audience recall and/or switching awareness and click-throughs to more information (on bank/PCW/CASS sites) but not by reference to switching rates (as the target audience may become aware of the availability of CASS but choose not to switch).

RBS notes that CASS already has pre-agreed certain indicators and targets around consumer awareness/confidence with HMT, the effectiveness of which it is already evaluating, which could be more convenient to use in this context than creating new and separate indicators for this remedy.

(c) **What specific obligations should be placed on current account providers in terms of including references to CASS in their marketing communications to customers?**

CASS already has a set of guidelines in place which impose obligations on firms in relation to the inclusion of the CASS trust-mark in their own marketing communications and branches.

These guidelines could form the basis of the obligations under this remedy (and could be easily extended if necessary to reflect any final position reached by the CMA on trigger prompts). Broadly, these requirements already require use of the CASS trust-mark in all participants' (PCA/BCA) promotional advertising, websites and branches.

(d) **Are there lessons we can learn from other sectors where switching rates have been low and where generic advertising has been undertaken to try to increase customer engagement?**

RBS is not aware of any other comparative industries having switching challenges. In particular, RBS would advise against comparing financial products with mobile phones, energy or insurance as these are fundamentally different markets with different competition parameters.

However, RBS notes that CASS looked at other sectors when preparing its marketing campaign this year and may therefore be in a better position to respond to this query.

(e) **Are there particular customer segments or trigger points that should be targeted by such campaigns, in addition to those mentioned here?**

As regards trigger points, please see generally RBS's response to Remedy 1. As regards particular customer segments, RBS has no detailed information on whether particular segments should be specifically targeted. In relation to age in particular, RBS would suggest that the focus on the age profile of switchers should be general and should not concentrate on age groups that are deemed somehow less likely to switch, as this could be complex and vary from bank to bank. However, while it would seem inappropriate to distinguish between different customer sets (which may suggest that some are more important or needy than others), based on anecdotal evidence and public statements/findings, RBS notes that smaller SMEs may have a lower level of awareness and confidence and may therefore benefit more from the campaign.[6]

(f) **How should an increase in promotion be funded? If from current account providers, on what basis should they be expected to contribute? Should, for example, contributions be based upon current market shares of PCAs and BCAs or the net gains by each bank through CASS or a mixture of the two?**

CASS has pre-existing funding arrangements in place, namely (from January 2016) [**confidential**] and extraordinary calls on members for one-off costs. By way of example, the CASS advertising campaign commenced this year was funded by such an extraordinary call. These calls are based on market share (not switching volumes), which means that banks and building societies with larger market shares provide substantial financing to CASS [**confidential**]. This is despite the fact that voting on CASS Management Committee is not weighted by market share, and therefore, there is a noteworthy detachment between control and funding of any marketing campaigns.

To ensure an alignment of incentives, RBS would recommend that any further funding be allocated through charges based on net gains, i.e. in proportion to stated acquisition rates of new current accounts (flow, not stock), potentially with a minimum contribution from all banks. This would ensure an alignment between control and funding of the marketing campaign and ensure conflicts of interest do not arise. It would avoid the current issue where larger providers effectively cross-subsidise marketing campaigns that benefit smaller providers.

(g) **Who should undertake such campaigns and who should be responsible for ensuring that they were effective, targeting appropriate customer groups, at relevant times with effective communications?**

RBS believes that CASS should be primarily responsible for this both as owner of the service and as a "neutral" industry body not affiliated to a particular bank (both for central campaigns and oversight of the use of the CASS logo by participant firms), potentially with the assistance of other industry bodies, such as the BBA and/or the FCA. There should not be any restriction however on banks undertaking any promotions separately should they wish to. RBS believes that banks spending more money on promoting their accounts could prove to be very effective, as it increases awareness of accounts to switch to rather than just the switching service and the reasons to switch.

RBS does not believe that it would be effective for each provider to promote CASS through a different media campaign. The challenge for CASS will be the need to drive a direct response. In general terms, indirect advertising does not drive a direct response without the support of a full through the line campaign. CASS should evaluate the past success of their switcher campaigns to consider how they better drive a direct response. This needs to focus on relevant and timely messages targeted to customers when they are more likely to respond, not just a media campaign.

[6] See for example http://www.independent.co.uk/news/business/sme/small-talk-small-firms-are-missing-out-on-the-advantages-of-switching-banks-9805078.html

3.3 Remedy 3: Facilitate price comparisons between providers by making customer-specific transaction data more easily available and usable, including by PCWs

RBS general comments

RBS considers that this remedy could have a material impact on the market. RBS appreciates the merits of increasing transparency in the PCA and SME banking sectors and has been a market leader for many years in terms of providing customers with greater access to data. For example, RBS provides Business Banking customers with access to five years' worth of data (self-served through online banking) and Commercial Banking customers access to 13 months of data (self-served through online banking). RBS also notes that it is a participant of the Gocompare.com PCA Midata initiative, which appears to be having a positive impact on overcoming consumer inertia.[7]

However, RBS is particularly concerned that the implementation of this remedy via an API will result in customers being bombarded with unwelcome requests to share their data with third parties and that this transfer of data will give rise to clear data protection and security issues. Rather, RBS considers that the customer should retain more control over the process, which could be achieved via the Midata initiative, which allows customers to download their data and use it where necessary.

While RBS recognises that there is scope to improve Midata and make it more user-friendly (as well as making it available to SMEs, subject to the discussion in part (g) of the response below), RBS believes that it is more sensible for the remedy to focus on improving this existing initiative rather than incorporating the API element which, in addition to the objections raised above, would be costly and likely to take a long time to implement.

We would note that, to facilitate comparison, PCWs would need to agree to use a set of standardised criteria (if not, customers will not be able to compare offerings consistently, causing confusion) – which would be agreed at an industry level (e.g. via BBA) with CMA oversight – with PCWs using such criteria (for example) being able to display some sort of kitemark to confirm their status. We understand the Council of Mortgage Lenders recently created such criteria for the mortgage market, which could provide a useful precedent. It may also be that the PAD's requirements to simplify/standardise banking terminology could facilitate this. As stated previously, we believe such criteria should include service and satisfaction criteria rather than being limited to price.

RBS responses to CMA questions

(a) **How quickly could the proposed enhancements for Midata, including agreement on a common API standard, be implemented? To what extent, if at all, would this be constrained by other legislation, in particular the payment services directives?**

In relation to PCAs, RBS notes that the Payment Services Directive II ("**PSD2**") (which will be implemented at a national level by the end of 2017) will largely address this potential issue. The PSD2 will cover "account information services" as a regulated activity – which would capture the service that Midata is providing. Account Information Services ("**AISs**") are defined as *"a payment service where consolidated and user-friendly information is provided to a payment service user on one or several payment accounts held by the payment service user with one or several account servicing PSPs*."

[7] See for example, news article from Finextra, 'Midata lays bare the true value of bank accounts – Gocompare.com', 3 November 2015.

The inclusion of AISs as a regulated activity will cover software that provides payment users with aggregated information on one or more payment accounts and will require banks to:

- provide facilities to securely communicate with account information service providers ("**AISPs**") in accordance with the relevant regulatory technical standards; and
- treat data requests transmitted by AISPs on a non-discriminatory basis unless objectively justifiable.

RBS notes that the introduction of this regulatory regime may impact the timing for the implementation of this remedy given the requirement for more onerous controls, and that teething troubles should be anticipated as the regulations bed in and the relationship with the new regulator develops in relation to the provision of account information services. RBS estimates that implementation is likely to take at least 18 months.[8]

(b) **Are the proposed improvements to the features and functionality of Midata set out here those most likely to be helpful to potential users? Are there other improvements which would be as or more helpful and if so, what are they? Could, for example, Midata be used to highlight aspects of an account holder's usage which are likely to vary significantly between providers but which are particularly difficult to compare, such as overdraft charges?**

RBS would suggest that the CMA consults with consumers to understand how comfortable they feel with various Midata initiatives i.e. what sort of data they are comfortable with being released and the extent to which third parties can access this data.

Moreover, a Midata comparison for BCAs and PCAs is inherently limited to transactional elements and thus underplays elements of competitive positioning that may be more important to some customers, such as service, security or ease of use of online/mobile offerings.

RBS agrees with the CMA that the key issue for the functioning of this remedy will be to ensure that an accurate comparison can be calculated. This has implications both for the type of data to be released and also the accuracy of the comparison tools. It may be useful to consider setting up a process through which the accuracy of any price estimates produced by a PWC are assessed and signposting those providing adequate results (see above on the need for pre-agreed comparison criteria as well).

RBS also agrees with the CMA's suggestion that it would be useful if aspects of an account holder's usage, which may vary significantly between providers and are difficult to compare, are highlighted.

(c) **What technical or regulatory obstacles, if any, are likely to be faced by PCWs wishing to host the Midata service? Are, for example, banks' terms for SMEs sufficiently transparent for PCWs to be able to populate their systems? Are there improvements to the current format and content of Midata files that would facilitate more effective use by intermediaries such as PCWs?**

An underlying issue with Midata is that third parties need access to transactional data. These third parties are currently unregulated and, as such, are under no obligations to use,

[8] However RBS notes that, with the Williams & Glyn divestment and ring fencing of its investment banking activities in 2016, its ability to engage in and/or deliver other technical improvements may be limited.

store or process the data in a particular way. When third parties use data incorrectly, there is very little that can be done to penalise them for this misuse which could result in extremely serious breaches of security and/or data protection for customers. Loss of financial data by third parties has knock-on cost implications for banks. Therefore detailed consideration will need to be given to the risk of potential breaches of data protection and other security breaches (e.g. cyber security attacks on PCWs or during transfer of data).

As regards technical obstacles, RBS is concerned that certain charging structures may be too complex/lack sufficient transparency to feed into any comparison tool and thus this tool may give a distorted view of competitors' offerings. [**confidential**], which should contribute towards reducing difficulties in interpreting data. RBS recommends that PCWs are required to signal where assumptions have been made in generating price estimates and where certain aspects such as cashback have not been taken into account.

(d) **For the remedy to be effective, would it be necessary to adopt supporting measures to ensure that the benefits of using Midata on PCWs were promoted? Who should be responsible for raising awareness of the benefits of using Midata for account comparisons?**

RBS notes that this initiative will need to be promoted, ideally in conjunction with CASS (as discussed in response to Remedy 2). RBS submits that CASS is best placed to raise awareness of the benefits of using Midata but notes that participation from banks will also be required to promote the service (in line with Remedy 2). RBS also suggests PCWs could be responsible for promotion as well.

(e) **Is it necessary to require providers to make customers' Midata files easier to locate on their online and mobile banking websites or would this be unnecessary if banks adopted common API standards?**

RBS is of the view that it would be easier and more efficient to implement a remedy whereby providers make customers' Midata files easier to locate on online/banking sites, to the extent this is necessary, rather than forcing banks to adopt common API standards, which might be very onerous and achieve no additional benefits for customers (and which could take longer to devise and therefore implement).

(f) **What technical difficulties, if any, would arise from adopting the Midata data standards for BCA transaction histories? In what respect do they differ from those associated with PCA information? Does this differ between SMEs?**

Under the limit proposed under part (g) below, RBS considers that while data sets are potentially much larger than for PCAs, this should be achievable without too many technical difficulties although portability may cause challenges.

(g) **Should Midata be available for all SMEs? Should there be an upper turnover limit for SMEs with access to Midata? If so, where should this be set?**

RBS considers that the usefulness of Midata decreases as customers become larger and more sophisticated. Such customers have more bespoke requirements and will tend to receive more bespoke quotations for products, based on factors which extend beyond their transactional history. In addition, and as noted above, larger customers are likely to have much larger transactional data sets which may make comparison more difficult.

Accordingly, RBS suggests that a standard industry limit is put in place such that Midata would be available for customers with a turnover of £2 million or less as this limit would not only cover the wide majority of customers [**confidential**] but also those that have most use for Midata.

(h) **Are there other approaches to facilitating price comparisons between BCA and PCA providers that would address our concerns but be implementable sooner? Could existing measures to address some of these concerns, for example the use by the larger banks of standard scenarios to present unarranged PCA overdraft charges, be improved or extended and if so how? Are there other elements of bank charges that should be made easier to understand through the introduction of new, or the enhancement of existing, measures?**

RBS believes that providing additional scenarios where fees may or may not be charged will add an additional layer of complexity in the information that customers would be expected to digest. Therefore, in the interim, RBS would recommend developing the existing PCWs to address the CMA's concerns. One area of development would be to allow customers to input additional data into a PCW that may not be captured in their banking transaction data, e.g. mortgage repayments or household bills, which could allow for cashback to be incorporated into the price analysis. See above on the need for any PCW to use pre-agreed (and so consistent) comparators to facilitate customer comparison.

Additionally, the PAD is aimed at driving standardised fee naming conventions and requiring annual summaries, both of which will facilitate comparisons in the near future.

RBS has also implemented an initiative that gives customers a single page document setting out its fees and charges on a single page,[9] which consequently creates a need for a simple and transparent set of fees and charges for its products. Furthermore, RBS believes that its service charges on transactional products are currently relatively easy to understand due to simplification over the past few years. RBS also highlights that it has introduced automated text messages that alert a customer when they are approaching a situation where a charge may result, as a additional means of making charges easier for customers to understand.

RBS also acknowledges the importance of simplifying charging structures and tariffs to make them easier to understand. RBS stresses that one size does not fit all, but this is the natural outcome of a process of simplification and standardisation.

(i) **How could it be made easier for customers who lack internet access or IT skills to make price comparisons between providers?**

RBS submits that it would be highly unusual for an SME not to have internet access. RBS also notes that most public libraries offer free internet access and that support can be offered over the phone. Alternatively, banks/building societies could be encouraged to provide internet access as well as other support 'in branch', as some are moving to do already. RBS also notes its branch network has good online ability and many are equipped with iPads. It may also be the case that any commercial PCWs will have an equivalent or sister written publication which could be used to include comparison tables as well.

[9] RBS's fees and charges are already public but this initiative makes these all available from one single page.

3.4 Remedy 4: A PCW for SMEs

RBS general comments

RBS welcomes Remedy 4 and believes that an effective PCW could have a substantially beneficial impact on the market. RBS would welcome more detail from the CMA in due course on its preferred model and approach to implementation. RBS considers that there are a number of options available here, including commercial provision or building on current industry portals.

As the CMA notes in its PFs, there are a range of internet portals which offer an SME comparison service already, and clearly a rather wider range offering PCWs for other products. RBS believes that it may be possible to build on an existing portal rather than to start from scratch and sees some initial appeal in a more commercial model. The benefits of building on an existing portal include (i) the fact that the brand name is likely to be known and recognised by customers and so may attract more customers, (ii) cost-savings in developing and marketing the site, (iii) experience in running a PCW and (iv) time-saving as it will be quicker to develop an existing site than develop a new one.

Alternatively, the PCW could be run by a not-for-profit organisation. This could be viewed as impartial by customers and therefore perhaps more trustworthy. This could be developed from existing PCWs portals but it would require additional spend on IT and marketing and may not benefit from being as recognisable to customers.

RBS submits that ideally the PCW would become financially independent after a certain period of time. A sunset clause could be included to review the success of the site (e.g. by reference to customer traffic) and put in place any necessary changes to ensure that the money provided to support the site is leading to material benefits for customers within say, five years.

Irrespective of the model adopted, as stated, a key issue will be ensuring that any PCW uses a set of agreed (either by the industry with CMA oversight or directly by the CMA) criteria to measure cost/price, service, market coverage, etc. It may be that some sort of "kite mark" system is the best way of achieving this (so that PCWs adopting these criteria (only) are allowed to use the kite mark). As noted in Remedy 3, RBS understands that the Council of Mortgage Lenders recently created such criteria for the mortgage market, which could provide a useful precedent.

RBS responses to CMA questions

(a) **What products should a PCW for SMEs include? What content, features and functionality should it provide?**

RBS suggests that the PCW should focus on BCAs. Beyond BCAs, and perhaps with a longer timeframe, it may make sense to extend the PCW to cover other products such as deposits and non-complex small loans and later it may be possible to introduce invoice and asset finance products over time.

In terms of comparators, the PCW should offer a means of comparing service as well as price, i.e. servicing locations, quality of service, transactional options and security as the BBI does.

However, RBS considers that it may be challenging to find a way to compare between accounts where customers are on negotiated rates. This is discussed in more detail in the response to part (b) below.

(b) **As well as including standard BCA tariffs should it also offer indicative pricing of loans and overdrafts where these are bespoke? If so, how could these best be presented?**

As noted above, RBS considers that any PCW should focus on BCAs. In any event, indicative pricing is not used widely in SME banking as the circumstances and security of the deal can influence viability greatly. The unsecured segment is the most viable here but rate and likelihood of acceptance would be needed for a customer to make an informed choice.

It is conceivable that lenders could agree comparison points and formats; ranges may need to be used to accommodate differences according to customer risk profiles.

For “traditional” lending, challenges arise when bespoke pricing is applied because this requires the use of credit data and qualitative information. It is difficult to see how this could easily be standardised across providers without making the process very long-winded.

RBS also considers that while it would be desirable to include indicative pricing for smaller SME customers, the lending requirements make the process more complex for larger customers. The challenge would be for any PCW to replicate the process in a systemic manner that would be accurate to customers.

(c) **Would the creation of an effective SME PCW be contingent on the extension of the Midata project to SME data? If not, given the transactional pricing models used by most banks for their BCAs, how best could comparisons be made? Would standardised business profiles offer a practicable alternative and how could these be derived for start-ups with no transaction history?**

RBS submits that any standardised business profiles would need to be derived from historic transactional profiles. The option for the customer to input projected volumes into a calculator would provide additional flexibility.

RBS would highlight that standardised profiles would allow comparisons to be made but they bear little relation to real world activity. Clearly, there would need to be agreement between the banks regarding the profiles to be used (or have them mandated).

It may be possible to have a PCW loaded with banks’ pricing models and then have sliders so the customer could get a comparison of the costs across banks.

RBS notes that for invoice finance, data are available and not dependent on or linked to current account activity.

RBS believes that the main challenge with increasing the accuracy of PCWs is that it requires customer data and data in relation to the banks’ fees. RBS considers that having access to this data through an API would solve this problem and ensure that the most up-to-date data is available.

In relation to start-ups with limited transaction history, a PCW could create a “profile generator” calculator based upon input estimates of the type of activity that a start-up might undertake. Alternatively, a traditional comparison table could be created that shows the broader fees that feature on the accounts with no inputs from the customer.

(d) **If providers were to create a PCW what financial arrangements would be appropriate for its funding? Could support be restricted to the provision of, for example, some**

form of seed funding or temporary extra support until the PCW became commercially viable? Alternatively, would it be necessary for the industry to support it longer term?

This would depend on the nature of the PCW. In the event that the PCW was to be commercially run by an existing PCW provider, it may be appropriate to provide some seed funding (as outlined in the UILs previously proposed by RBS and other larger banks). As noted above, RBS anticipates that the PCW should become financially independent after around five years, or an alternative agreed period of time. Accordingly, a sunset clause should be included to review the success of the site (e.g. by reference to customer traffic) after that period. This would also have the benefit of giving RBS and other banks the opportunity to make any necessary improvements to the site to ensure that it results in material and substantial benefits for customers.

Also as discussed above, existing portals could be expanded and built upon such as MoneyFacts and GoCompare and thus funding would vary depending on the current funding structure and what further resource would be required.

(e) **Are there arrangements that could be put in place to provide commercially operated PCWs with the incentive and the ability to extend their coverage to SME banking services? What might these entail?**

RBS thinks that it would be sensible to consider whether commercial PCWs could extend coverage to SME banking services as they have the requisite experience and expertise in setting up PCWs as compared with the banking industry.

In the event that this remedy was implemented in this way then the CMA would need to require banks to provide their pricing information to the PCWs. RBS would suggest that a dialogue is opened with the PCW industry to determine whether there is any appetite for commercial provision.

(f) **Were such a PCW to be established, what form of oversight would be necessary to ensure that its information was accurate and up to date?**

Ensuring the accuracy of the information on the PCW would require a real-time feed of data through APIs with periodic checks by those banks submitting data to check that their data is being used correctly, in particular as regards any indicative bespoke pricing. In order to ensure the effectiveness of this oversight, monitoring and enforcement powers on the part of a regulator may also be necessary.

(g) **What technical or regulatory obstacles, if any, would arise from this remedy? How could they be overcome?**

RBS considers that technical challenges include the development of APIs and data standards/formats.

Practically speaking, not all BCAs are equivalent and many banks offer unique packages such as loyalty benefits. In order for the PCW to offer an accurate and truly comparable data set, a set of common guidelines will need to be adopted by banks.

While there is no direct conflict with the content of the PSR or BCOB, if this remedy were to be considered to be a financial promotion the website must ensure that it is fair, clear and not misleading (BCOB 2.2.1).

RBS also notes that a key difficulty in the concept for a PCW for SME products is around the fact that banks have a "price for risk" strategy and therefore do not have published rates - each deal is individually priced. RBS could show a range of prices, i.e. from x% to y% although this has little value given the size of the range. A PCW providing the requisite quality/level of response would require RBS to either change its pricing models, which would require substantial resources, or allow a PCW to effectively host its credit models so that a customer could input details and the outsourced credit model would then review and deliver a rate. However, RBS notes that this would be a difficult task and [**confidential**].

(h) **What would be a reasonable timetable for the creation and launch of a PCW for SMEs?**

RBS would suggest that the CMA liaises with PCWs to ascertain a reasonable timeframe for the creation and launch of a PCW for SMEs. However, RBS would estimate very provisionally that the process to create and launch such a PCW could take approximately two years, depending on levels of engagement.

RBS also highlights that it is difficult to estimate timeframes more accurately because this is dependent upon the complexity of data required.

(i) **In advance of, or in addition to, the creation of a PCW for SMEs, what requirements should apply to the disclosure of charges and terms made available by providers of SME banking services? Should their charges and terms for loans, for example, be presented in standard format? More generally, would it be practicable to apply some or all of the requirements equivalent to those of PAD to BCAs and, if so, which?**

RBS notes that at present most business lending by volume is CCA regulated. Broadly speaking, the loan documentation in this area looks the same across all banks because the CCA governs the look, feel, content and some of the wording of loan documentation. There will naturally be some differences between banks due to differing interpretations but the documents look very similar when placed next to each other. Beyond this, it may be possible to standardise the sub-headings and their ordering in loan agreements (e.g. security requirements, early repayment, other covenants) but that would require substantial inter-bank co-operation and changes to IT systems that produce the agreements.

3.5 Remedy 5: Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality

RBS general comments

RBS welcomes Remedy 5 and notes that it already funds a service to make comparisons between current account providers on the basis of their service quality in the form of the BBI survey run on behalf of the banks by the BCC and FSB.

RBS notes that the survey is in its early stages and, as such, is not yet fully developed. However, RBS suggests that it can be extended to provide a solution to this remedy.

RBS responses to CMA questions

(a) **What are the key facets of service quality for consumers and SMEs? Are these likely to differ between subsets of these groups and if so in what way?**

RBS considers that there are a number of facets of service quality that vary between SME size and across industry sectors due to the needs of those particular businesses. The same will be true for consumers. RBS believes that these facets include a mixture of functional (e.g. [**confidential**]) and emotional (e.g. understanding, meeting needs) drivers. In addition, RBS would highlight that a key element for a bank is trust, specifically around trusting the bank to deliver against customers day-to-day banking needs and also around trusting the bank to be there when customers need RBS the most (e.g. key events such as borrowing, complaints, life-changing moments). Incidentally, these will be relevant for many PCA customers as well.

Typically, the drivers measured by RBS cover the above aspects in addition to the performance of the relationship manager and the consumer's impression of the bank as a whole.

It is RBS's view that there are certain qualities that are known to drive satisfaction for consumers across both personal and business segments. These are as follows:

- developing a personal connection. For example, remembering a piece of personal information about a customer and showing genuine care and empathy;
- exceeding expectations;
- the speedy resolution of complaints, problems or queries (including trusting the bank to "do the right thing"); and
- getting things right the first time and/or at first point of contact without making mistakes or transferring the customer to numerous different people.

However, RBS notes that there are facets of service quality that differ between customer groups. For example, perceived queuing time is more important to branch customers, reliability and functionality of mobile apps for customers who rely on digital channels, and the availability and quality of a relationship manager is more important to business account holders.

Further key facets of service quality include the uptime and security of online and mobile banking platforms and breadth of advice or non-advised service provided.

(b) **How should performance in respect of these facets be measured? Are these facets currently measured by or for most providers and, where they are, do they employ common or standard measures?**

RBS proposes that performance in respect of these facets should be measured through direct surveys with customers via internal surveys conducted on behalf of the bank and also via external benchmarking studies. Complaints data could also be used to measure performance in these areas.

RBS has historically measured the performance of key facets of service quality and will continue to measure performance of these facets in the future. RBS cannot confirm whether most providers measure these facets but it is assumed that they do. Likewise, the extent and exact means of measuring performance by most providers is uncertain but it can be assumed that, in the absence of complete transparency between banks, differences will inevitably exist.

As previously discussed with the CMA, RBS believes that the best common denominator for customer advocacy (rather than satisfaction) is the Net Promoter Score (the "**NPS**") and, on this basis, it carries out surveys to calculate NPS across PCA and SME customers. The NPS is based on asking customers how likely it is that the customer would recommend their bank to a friend or a colleague. To calculate the NPS, the percentage of customers who would promote their provider must be subtracted from the percentage of customers who would not.

RBS believes that the main benefit of NPS is its high level and consistent approach. As a result, NPS is widely used throughout the banking industry and the means of calculating it is expected to be broadly consistent across the banks that use it. However, one drawback of the measure is that the propensity to recommend becomes a proxy for the many different facets of the consumer's emotional response to a particular bank, some of which may be quite unrelated to service quality or cost.

With regard to measuring customer satisfaction, RBS would suggest that an industry-wide survey or customer satisfaction index is created or a third party such as GfK is instructed to undertake surveys to ascertain levels of customer satisfaction. As an alternative source, RBS notes that the Charterhouse survey is carried out on a quarterly basis. This independent survey covers SME customers with a £0-25million turnover. All major banks in the UK are covered and NPS is included as a measure of customer advocacy and, more generally, service.

(c) **Is the demographic and geographic scope of current commercially available satisfaction surveys adequate? Are sample sizes sufficient to adequately reflect satisfaction with newer or smaller banks, for example, or in particular parts of the UK?**

RBS notes that the YouGov SME reports survey less than 0.1% of the SME market and the sample sizes of the Charterhouse survey are sufficient for the largest banks at a national level but possibly not for smaller banks.

[**confidential**]. RBS believes that this will provide a statistically significant and representative sample.

RBS considers that smaller banks and/or those with a more localised geographical reach may face challenges in drawing significant samples.

(d) **How should quality information be disseminated? For example, by providers publishing service quality data on their websites, within communications to customers and/or at branches? To what extent would such requirements overlap or be in conflict with PSD2?**

RBS submits that there are a variety of methods through which quality information can be disseminated. For example:

- a third party (which is a non-profit organisation, for example the BBA or FCA) could oversee the consistent measurement of NPS and/or a customer satisfaction index and publish the results;
- a third party could publish NPS scores provided to it from the bank's own surveys; or
- banks could publish NPS scores from their own surveys on their own websites.

Of these three options, RBS believes that the first option would be the most effective.

With regard to PSD2, insofar as it covers access to payment accounts (i.e. barring restrictions on third party account information access) and transparency of payments and charges (i.e. payment service users having a right to know what charges will be applied to payments before payments are processed), it is not expected that there would be any overlap between the measurement and dissemination of service performance and the requirements of PSD2.

RBS also notes that the Payment Accounts Directive (2014/92/EU) ("**PAD**") does not necessitate comparisons between current account providers on the basis of their service quality. However, this comparison is aligned with the PAD's aim to increase competition within financial institutions and, as such, RBS is of the view that the PAD would not inhibit its ability to satisfy this remedy.

RBS believes that it is also possible that quality information can be disseminated in bank branches.

(e) **In addition, or alternatively, would there be merit in providers funding and procuring a third party to undertake and disseminate comparative service quality data? What are the relative merits of these different approaches?**

RBS submits that providers already fund and procure third parties to undertake and disseminate comparative service quality data. [**confidential**]. With regard to PCAs, RBS notes that GfK also undertakes and disseminates service quality data.

[**confidential**]. The merit of this approach is the cost efficient use of a specialist third party provider.

In addition, RBS considers that the benefits of a single third party undertaking and disseminating comparative service quality data for all banks, where the third party is impartial and not-for-profit, include creating a perception of impartiality, consistency of approach and all information being contained in one place. Clearly, there is merit in this approach although additional cost would inevitably be involved. RBS assumes that the cost would be met via a levy on banks to fund the procurement and dissemination of the data.

(f) **What monitoring and oversight arrangements would be necessary in order to ensure that service quality data provided by banks was accurate, up to date and not misleading? Who should provide this oversight and how should it be funded?**

RBS believes that if an independent, not-for-profit third party procured and disseminated NPS data on all banks, minimal monitoring and oversight arrangements could be used, although there are a number of possible routes for monitoring available (supervision by a regulatory body, self-certification, sign off by internal or external auditors, etc.). Although minimal monitoring would be required, there would need to be a way of ensuring that the customer sample was impartial and not at risk of being skewed by customers who could be expected to be satisfied with their provider, such as those who have just drawn down a loan.

Any monitoring and oversight arrangements put in place could be undertaken by an impartial, not-for-profit third party (such as the BBA) or an existing regulator (such as the FCA) and would have to be funded by a levy on all banks.

In addition, banks could subscribe to a voluntary code but this is not RBS's preferred option as it would risk not being as highly trusted by consumers.

3.6 Remedy 6: Standardise and simplify BCA opening procedures

RBS general comments

RBS considers that this is an appropriate remedy and indeed has been working hard to simplify its own opening procedures.

By facilitating the account opening process and making SME customers familiar with the form they would need to complete if they were to open another account, this initiative may help in removing a psychological barrier preventing customers from switching.

There are however certain considerations to be taken into account in the event of standardisation of opening procedures across the banks.

There is a risk that standard forms across all banks could weaken the anti-money laundering ("**AML**") protections required under the Money Laundering Regulations 2007 ("**MLR**") by treating AML as an administrative task rather than a financial crime mitigation control. Customer Due Diligence ("**CDD**") is completed to identify financial crime and each bank currently takes its own view of this based on its risk appetite and the risk a company poses. Therefore, although standardisation would help to weaken customer perceptions that BCA opening procedures are complex, in practice difficulties arise in relation to the implementation of this remedy.

Accordingly, insofar as there is a form of standardisation across the industry, this may need to be limited to "low risk" customers and should be viewed as ensuring a minimum standard which can be enhanced by banks to meet their AML requirements to avoid any abuse of this regime. Moreover, any CDD pack provided by one bank (or customer) to another would be done on a non-binding basis and would not entitle the receiving bank to "rely" on that information. However, RBS would also support more sweeping measures to simplify and/or streamline the AML process but such changes would require the support of the FCA and the Government and input from the Joint Money Laundering Steering Group ("**JMLSG**").

In particular, RBS notes that the following UK-wide initiatives to improve customer on-boarding / switching across banks may provide a solution to this remedy:

- Reversal of changes under the Small Business Enterprise and Employment Act for banks / building societies only to stop receiving key information from Companies House and credit reference agencies which now means that banks will be contacting customers in nearly every on-boarding situation. (Under the Small Business Enterprise and Employment Act, Companies House and data reference agencies (e.g. Experian, Equifax etc.) are no longer able to provide full dates of births for the individuals that RBS needs to identify and verify. This is a significant issue as, historically, RBS could go to public records and get customer information rather than burdening the customer with providing this information. Going forward RBS will now have to ask the customer and add an additional step in the process.)
- Increase the ability to obtain personal information from credit reference agencies without leaving a credit search footprint i.e. develop a financial crime search on personal credit records which leaves a soft footprint and not a hard one affecting credit.
- Increase awareness of businesses as to what financial crime checks are and why, e.g. support in the form of media campaigns, literature etc.

- Increase activity to ensure changes to Companies House coming into force in 2016 regarding Beneficial Owners information is captured quickly and correctly. (As part of the 4th EU Money Laundering directive, all member states now need to capture UBOs and significant controller information for any individual that owns 25% of a company. To meet generally accepted practices this should go to 10% ownership (number of shares) or control (voting rights) as all high risk customers need to assess down to 10%.
- Increase the information at Companies House to include interim companies / entities and include all Ultimate Beneficial Owners, not just those above 25%.

RBS considers that the JMLSG, which is empowered to issue industry-wide guidance, may be best placed to assist with improving/streamlining the account opening process with input/support from the Government and the FCA.[10] Within this regulatory framework, RBS also highlights two consultations currently running in relation to Anti-Money Laundering initiatives, both of which touch upon CDD at account opening:

- The first of these is the Basel Committee on Banking Supervision ("**BCBS**") Consultation on General Guide to Account Opening. The BCBS issued the consultation on a revised version of its general guide to account opening, first published in 2003. The Guide covers account opening practice of all financial institutions across the globe. The consultation closed on 22 October 2015, and the BBA provided input on behalf of the banks.
- The second is the review recently launched by the department for Business, Innovation and Skills entitled "A Review to Improve the Effectiveness of Rules Designed to Prevent Money Laundering" as part of the Government's "Cutting Red Tape" review programme. The consultation closed on 23 October, and responses were fed back to the BBA.

As is clear from the above, RBS considers that this remedy would be boosted by the involvement of the FCA, the Government and JMLSG although it could still work on a "smaller scale" without their involvement provided an industry-wide consensus could be reached as considered further below.

RBS responses to CMA questions

(a) **If common standards were promoted what form should these take and what data requirements would be appropriate?**

Account opening requirements become more complex as the complexity of the entity increases and thus, as previously mentioned, common forms are only likely to be workable in relation to less complex, "low risk" customers.

Common account opening forms are foreseeable for "low risk" customers as all banks tend to ask for the same basic account opening information. Essentially this splits into Business, Individual (i.e. owners/managers) and Product with the latter being needs-dependent. The key differences arise in the AML area and particularly KYB.

[10] However getting support from these stakeholders has been difficult. For example, the industry is currently grappling with an explicit reference within the JMLSG that electronic banking statements cannot be relied upon for verification. This is now completely at odds with the industry norms not just in banking but in all utilities. Despite exerting pressure in this area, there is very little movement or indication that JMLSG will look to address this in the near term. This is causing a huge detrimental effect to our customers but as the JMLSG is held up as the industry standard, financial institutions do not feel they can go against such an explicit statement without incurring regulatory censure.

Therefore, there is scope to standardise forms for "low risk" customers (subject to each bank ensuring it is meeting AML requirements). However, to facilitate the account-opening process, RBS would also suggest that the FCA, PRA and MLR regimes are amended to support a simplified and standardised process or at least industry-wide guidance provided. As such, RBS would, for the proper functioning of this remedy, welcome the opportunity to involve the FCA or any other regulatory or supervisory body in the standardisation process as the objective is not necessarily to lower the CDD standards but rather to smooth out the process for customers.

(b) **Would it be practicable or desirable to require providers to accept a 'CDD data pack' which enabled the customer to 'recycle' AML checks carried out by the customer's current bank?**

A CDD pack with basic information would be a useful starting point and could include, for example, certificates of incorporation, memorandum of articles, directors proof of ID and residence etc.

However, RBS acknowledges that AML data checks need to be regularly updated and reviewed. As such, RBS suggests that banks should not be required to accept recycled customer data when they are at risk of it being no longer correct and, likewise, the bank providing the data pack should not be liable to the new bank should it wish to rely on the information. RBS directs the CMA towards the JMLSG which has published guidance on the sharing of CDD. There should be no obligation on the new bank to limit itself to the CDD data pack to carry out the AML checks it deems necessary. By way of confirmation, there would be no obligation (nor indeed any right) on the new bank to "rely" on or be bound by a CDD pack presented by a bank or individual.

(c) **Should a distinction be made between different types of SME with, for example, smaller SMEs or those comprising a particular business entity, such as sole trader, being liable to less onerous checks?**

As noted above, this remedy would only work for "low risk" customers. The meaning of "low risk" customers would need to be defined and agreed by the industry as a whole, likely via BBA and FCA consultation.

Generally speaking though, RBS notes that the risk is not the size of the company but its nature, activity, owners and operations. RBS notes that just because a company may have been established for a long time, if there are new owners and/or management, it is essentially a different company because those owners/management could change the strategy of the business.

(d) **To what extent, if any, could measures to streamline the account application process cut across AML or KYC requirements?**

RBS notes that streamlining AML or KYC requirements will necessitate FCA involvement/oversight, including potential amendments to its existing regime. Rather, RBS views this remedy as having the potential to smooth out the on-boarding (and switching) process for the less risky customers while recognising that banks will view risk differently and thus may need some flexibility in the process. In doing so, the purpose is also to familiarise customers with the form and ensure that there are some minimum common KYC/AML standards.

In any event, RBS is committed to facilitating this process for customers and its new Onboarding and Account Opening system has already simplified and improved the process for completing KYC and KYB, which is now much more automated. For example, we now undertake electronic KYC via Experian which avoids the need for customers to provide physical ID, which can be very time consuming.

RBS also notes that there are two consultations currently running in relation to AML initiatives, both of which have CDD at account opening as part of their remit. The first of these is the BCBS Consultation on General Guide to Account Opening. The BCBS issued the consultation on a revised version of its general guide to account opening, first published in 2003. The Guide covers account opening practice of all financial institutions across the globe. The consultation closed on 22 October 2015, and the BBA input on the part of the banks.

Secondly, a UK Government Department, the department for Business, Innovation and Skills (BIS) has launched a review entitled “A Review to Improve the Effectiveness of Rules Designed to Prevent Money Laundering”. This review has been launched as part of the Government’s “Cutting Red Tape” review programme. The consultation closed on 23 October, and responses were fed back via the BBA. Against this backdrop, the 4th EU Money Laundering Directive is due to be implemented by member states by 26 June 2017. HM Treasury will take forward the implementation in the UK, which may require separate UK legislation. It is therefore key that any changes to standardise and simplify BCA opening procedures complement and comply with the new requirements.

(e) **To what extent could this remedy give rise to unintended consequences, for example blunting banks’ incentives to compete on how quickly they can process a BCA application?**

The risks of making CDD data packs binding (and making banks liable for their contents), are:

- increased impersonation fraud as fraudsters would only have to crack one process to get to all banks;
- increased money laundering and financial crime activity as standard approaches are easier to navigate and “fool”;
- each Money Laundering Reporting Officer (“**MLRO**”) in a bank would have to accept personally the same level of risk as all other MLROs in other banks which makes their personal obligation reduced and harder to hold them accountable as an individual. This point is specifically pertinent with the impending Senior Persons Regime which will place even greater focus and accountability on the senior decision makers within each organisation; and
- possible legal/regulatory issues arising from a scenario whereby the standard approach subsequently falls short of regulatory/legal expectations.

For these reasons, RBS would recommend a more nuanced and less strict scope to the remedy.

(f) **Are there other measures that would reduce the time it takes to open a BCA? Would an outcome measure, such as the average or minimum time it took BCA providers to process an application, be appropriate as the basis for a remedy?**

The evidence indicates that the wait time is with customers providing information, mainly because with larger customers, the person interacting with the bank does not always have the necessary information.

For example, a limited company owned by a trust often has the issue that the person the bank is dealing with has never spoken to the trustees. It was simply the owner when they joined the company.

RBS also believes that setting average or minimum timescales might be reasonable for "“less complex” customers but for other customers the process is too detailed and/or bespoke to be subject to time restrictions.

The customer is an integral part of the process, i.e. if we send the mandate to the customer for signature, and the customer then takes four weeks to sign and return, then any outcome measure is prejudiced.

(g) **Describe your current BCA opening procedures including documentation and checks required? Please provide a copy of your BCA opening form?**

The basic requirements and process for opening a customer account is the same as in RBS's Commercial & Private Banking ("**CPB**") and Personal & Business Banking ("**PBB**") divisions. Upon opening a BCA, RBS requires basic level information such as what the business does, who the key contacts are and where it is based.

RBS has recently simplified what documents customers have to complete when opening a BCA. [**confidential**]. RBS also notes that the old paper forms had to cover all eventualities, maximum number of directors/trustees, multiple addresses etc. The new, [**confidential**] form is tailored to adapt to the individual customer's situation and needs [**confidential**].

[**confidential**]. Information is also gathered face-to-face and inputted into RBS's central system, making it easier for customers to provide RBS with the necessary information. This process also has the benefit of customers dealing with one RBS representative from start to finish, rather than being passed around different people.

Furthermore, RBS notes that it seeks to use data it already has or that is publicly available to avoid repeatedly asking customers for the same information. For example, there is an electronic "Know your customer" process which links directly to Companies House (although RBS acknowledges that the information obtained from Companies House must be viewed with a degree of caution as it could be out of date). Additionally, [**confidential**] of Business Banking customers can be verified electronically. However, RBS submits that Commercial Banking is more complicated as the information required is not publicly available. Features such as overseas ownership and trusts can require a more manual process which requires a greater level of documentation (which is consistent with industry best practice such as the JMLSG and FCA guidance).

In addition, RBS is working on driving "right first time" improvements throughout the business to improve customer experience.

RBS attaches a copy of its BCA acceptance form.

(h) **Does your BCA opening requirements/procedures vary by the type of customer (e.g. large versus small SMEs)?**

As previously mentioned, the basic information required is the same. This includes identifying who their customer is, what they do, who the shareholders/partners of the business are, business address etc.

RBS also notes that there are differences in the AML processes, which largely relate to entity type and ownership. For example, in relation to Personal & Business banking, KYC/KYB checks will be undertaken on all customers, whereas for Commercial & Private banking checks will only be undertaken on the key parties/directors.

In addition, RBS submits that the complexity of the business is also a factor. RBS notes that trusts or companies with overseas ownership are very different to, for example, small partnerships based in the UK. Additional documentation for these kinds of businesses may be required when opening a BCA.

(i) **Are there any practical, regulatory or technological barriers to have common BCA forms and processes across the industry?**

RBS would want to preserve the customer benefits of the simplification programme in terms of streamlined smart application forms, reduction or removal of paper forms and introduction of “right first time” processes, which contribute towards improving the customer journey.

In terms of regulatory barriers, as previously mentioned, customer due diligence, anti-money laundering requirements and the associated regulatory compliance are the key considerations. The interpretation of current regulations is a matter for each bank, as well as implementation of AML policies.

The remedy as RBS foresees it would not require banks to amend their implementation of risk-sensitive AML policies, systems and controls as required under the Money Laundering regulations. However, any material standardisation of the process or approach would require input from financial services regulators.

In relation to KYC/KYB processes, RBS notes that it meets all Commercial & Private banking customers but is unable to meet all Personal & Business banking customers due to the volumes. However, there is a phone call with every customer.

Some documentation would inevitably be different between banks, for example privacy notices, as these will need to reflect what information a particular bank collects, how it will be used, who it will share it with, whether it will be transferred overseas etc., which will vary across banks. Such notices require consent and will need to be signed as part of account opening procedures.

Finally, from a practical perspective, RBS considers that co-ordinating across the industry could be complicated, expensive and time-consuming.

3.7 Remedy 7: Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider

RBS general comments

RBS considers that a normal competitive process on overdraft facilities provides the best means of encouraging switching in this regard. Indeed, as overdraft users stand to gain the most from switching, RBS notes that they should naturally be the most targeted customer segment and challengers should facilitate this process without it being a mandated CMA requirement. However, RBS also recognises that customers with overdrafts may be considered more vulnerable and require further confidence building in order to become more engaged.

RBS would also note that many firms, including itself, already provide an assessment of available overdraft facility (if any) during the account opening process in any event (i.e. this capability already exists in the market, so that a new remedy is not required). RBS could also support a remedy requiring providers to make available on their website a tool which would provide an indicative quote (only) regarding the availability and cost of overdraft facilities (consistent with our approach to the Remedy 15 online calculator). However, RBS would oppose quotes being treated as anything other than purely indicative and thus any quote would not create a binding offer.

While RBS can see the value in such a tool, it draws the CMA's attention to the risks of customers relying on the quotes (despite these being accompanied by relevantly placed and phrased waivers and explanations) and being particularly disappointed if the final offer is not in line with the quote (undermining confidence in such an indicative tool and, potentially, searching/switching more generally).

RBS responses to CMA questions

(a) **Is it practicable to require banks to provide a definitive answer on overdraft applications early on in the account-opening process? Would doing so be likely to extend the length of the process?**

RBS considers that many banks, including itself, already provide an answer to overdraft applications early on in the account-opening process for the vast majority of customers. For example, when a customer has completed the necessary due diligence and credit screening tests, the overdraft will then be offered, assuming that the customer has opted into the product. RBS highlights that providing an answer on overdraft applications early on in the account-opening process naturally extends the length of the process (so there will always be some customers who choose to open an account and open an overdraft later). The length of the process will be further impacted where additional information or evidence is required to progress to overdraft application. In addition, for the banks to provide a definitive answer, the customer has to officially apply for the overdraft. However, to do so with a variety of providers may impact that customer's credit history/rating, making this solution unattractive.

(b) **Would a tool such as we describe, while not providing customers with a definitive answer, nonetheless be useful in identifying possible lenders?**

While RBS maintains the view that a tool to help customers understand the likelihood of acceptance seems unnecessary as many banks already determine overdraft facility size/availability as part of the account-opening process, RBS could implement a remedy requiring providers to make available on their website a tool which would provide an indicative quote (only) regarding the availability and cost of overdraft facilities. However, not only could this create overreliance among customers but, in RBS's experience, these types of tools generally consider credit risk profile and do not assess affordability, which is required to calculate the overdraft limit. As such, this reduces the level of confidence that banks can give to customers prior to going through the full overdraft application and so be of limited use to customers if a definitive answer cannot be provided. Customer confidence in any tool (and potentially searching and switching in general) could be undermined if indicative results differ from final decisions (which is a material risk given the criteria above). If pursued, RBS believes that further guidance would be required around standardising this type of tool, particularly if it was used in the context of a PCW. In particular, RBS submits that guidance should focus on ensuring that there is an aligned industry approach to calculating and assuring the probabilities displayed to consumers.

(c) **Are there other approaches to making the application process easier or more transparent for customers who require overdraft facilities?**

RBS is continually reviewing and enhancing its sales process to make the application process easier and more transparent for customers who require overdraft facilities. However, RBS notes that there will always be minimum regulatory requirements that will have to be adhered to and any material simplification may require modifications to the FCA's regime.

RBS submits that any solution to make the application process easier and more transparent will need to be assessed for core consumers in UK, Business Banking segments and Ulster Bank Northern Ireland as varying levels of data are available and the complexity of the sales process differs across the various categories of customer.

(d) **Would partial switching (see remedy 11) lessen the problem by at least permitting customers to retain their existing overdraft facilities in the event that the new provider did not grant them the required facilities? Alternatively, if a customer made a partial switch, would this affect the overdraft facilities available to them?**

RBS considers that partial switching would give customers more flexibility around transferring their overdrafts from one provider to another. However, RBS believes that there are concerns around how this will be managed and the cost and complexity involved in delivering this. One aim should be to ensure that banks do not worsen the indebtedness of financially vulnerable customers but this would need to be explored in further detail.

RBS submits that, for new customers, the overdraft would be assessed and set through the application process and this offer would not change based on a selection of a full or partial switch. If the customer were to re-apply after a few months of good account performance, a more significant amount may be offered.

However, RBS believes that there is a risk that the (old) transferring bank could change the overdraft limit for those who choose to partially switch to another provider. Indeed, customers generally use overdrafts to absorb peaks and troughs in regular income versus outgoings through their account. If the customer separates the overdraft from its main banking current account, this will make it harder to manage the facility. Additionally, a bank will grant overdraft facilities based at least partly on income into the account and thus the lender's appetite to continue providing the facility may change if the customer partially switches.

(e) **What technical or regulatory obstacles, if any, would arise from this remedy? How could they be overcome?**

From a regulatory perspective, RBS submits that no obstacles would arise as a result of the implementation of this remedy, provided that firms do not breach regulatory requirements in a bid to shortcut the process – as stated, many banks assess overdraft availability and size during account opening already. However, as previously noted, RBS is of the view that there will always be minimum regulatory requirements that will have to be adhered to and any material simplification may require modifications to the FCA's regime.

RBS believes that an additional consideration will be how to consider and compare overdrafts sold over a fixed period versus those that are essentially evergreen. This will need to be a consideration in any approach to standardising a tool across the industry.

(f) **Should there be a prescribed standard time limit for providing a decision on overdraft applications? If so, what could be the appropriate time limit?**

RBS considers that there should not be a prescribed standard time limit for providing a decision on overdraft applications. RBS notes that a decision is provided instantaneously more often than not and, where a decision is not provided instantaneously, the credit assessment process cannot be rushed to fit within prescribed time limits.

For example, some applications are referred to gather further information, undertake further control checks or where the case is more complex in nature. These referrals are manual and thus any time limit would lead to a higher rate of decline and poorer customer experience. This would be particularly prevalent as the complexity of the customer increases.

(g) **Could there be implications of using a website tool to help potential customers assess whether they would be likely to be granted an overdraft facility of a particular size/for a particular period, on their credit rating? How could this issue be addressed?**

The impact on the customer's credit rating is linked with how definitive the indication needs to be. As such, RBS offers two answers to help differentiate:

Providing an indicative limit or range

It is reasonable to expect that, in advance of a PCA or full overdraft application, firms will be able to develop functionality to offer an indicative limit or range. However, this enhanced insight has a downside impact on those customers who go on to either be declined or who are offered a lower amount as a result of affordability checks – this will likely generate queries and complaints (and undermine confidence in the indicative process itself). RBS believes that the customer impact of offering an exact limit against, say, a range would need to be understood. RBS would suggest particular consideration of FCA focus on Behavioural Economics (particularly anchoring).

An aligned industry approach, with supporting regulatory guidance, will need to be developed to ensure that there is consistency in the minimum information requested and the levels of confidence offered to customers. There would also need to be some published guidance around how this is monitored. This solution is appropriate for consumer customers and would be less appropriate for more complex cases.

The indicative limit approach could use a credit reference enquiry or soft search which would not leave an impression on the credit reference file.

Offering a definitive limit

A definitive answer on whether a firm is willing to offer to open an account and any overdraft limit they would make available may require a full application, credit search and completion checks such as affordability assessment, AML and anti-fraud checks etc. This process, in effect a full blown application, would leave a record at the credit reference agency.

3.8 Remedy 8: Require payments into the old account to be redirected to the new one for a longer period than at present

RBS general comments

RBS considers that the newly extended redirection period of three years is a reasonable period of time for redirection to take place and is sufficient for the vast majority of consumers. In the absence of any research showing that the redirection period is not sufficient, RBS suggests that the CMA allows this new period to bed down rather than consider extending it at this point in time. However, RBS believes that there could be increased reminders within this 36-month period about the need to redirect payments made into the old account to the new account. Alternatively, CASS could consider increasing the redirection period in the future if there is evidence that there is consumer detriment.

In the event that the CMA considers that a longer period is appropriate, RBS would highlight that if a customer has not redirected payments to the new account after 36 months, it is unlikely that they will do it at all. In addition, there are issues in relation to the capacity of CASS (in particular, if these remedies were to serve to increase switching significantly, a customer could potentially switch a number of times in a five-year period).

Furthermore, RBS notes that irrespective of the decision with regard to redirection, ANP as a solution would be wholly disproportionate, particularly in terms of the cost involved and the limited impact it would have on customers' likelihood to switch (as shown by the FCA's survey work findings published as part of its review of CASS).

RBS responses to CMA questions

(a) **If the current 36-month redirection period were to be extended, how long should it be? Would it be practicable to extend it in perpetuity, for example?**

RBS does not see any well-founded reason for extending the redirection period beyond 36 months and in particular believes that extending the 36-month redirection period would be unlikely to have any significant effects in practice.

RBS also notes that the redirection period was only recently extended to 36 months and so to assess this question properly the impact of this should be monitored over time. There is the possibility that extending the period deters customers from arranging their affairs until the redirection is about to expire.

The longer the period, the more data is required to be stored and the greater the costs to be borne (by the banks). In perpetuity might be impossible to guarantee given capacity constraints, technological change and the mortality of banks. These factors would be exacerbated the longer any redirection period is (up to and including permanent redirection).

(b) **Are there technical or regulatory obstacles to extending the redirection period further? If so, how could these be overcome?**

See above as to potential technical and practical issues (although for completeness, RBS considers it unlikely that there would be specific regulatory obstacles to overcome).

(c) **Would extending the redirection period give rise to unintended consequences? Would it, for example, lessen the incentive of payors to amend their payment details?**

RBS considers that there could be unintended consequences including:

- lessening the incentive of payers and payees to amend payment details (indeed, removing it entirely in the event of permanent redirection);
- potentially increasing the risk of failure owing to multiple switches during the redirection period (as a result of the CMA's other remedies); and
- threatening the viability/credibility of CASS as a whole, especially in the event that it runs into capacity/failure issues as described above.

(d) **Would ANP be more likely than a longer redirection period to increase customers' understanding of and confidence in the switching process? Would it particularly be of benefit to some customer groups?**

It is difficult to see how ANP would increase confidence, particularly when viewed through a lens of proportionality given the associated costs versus any improvement brought about. It would not only be RBS that would be required to change its systems but also the central networks and the challenger banks. In addition, research undertaken by the FCA indicates that the impact of ANP on encouraging customers to switch providers may be limited. Therefore it would seem entirely disproportionate overall.

(e) **If a longer redirection period was adopted, would further remedies be needed to improve confidence in and uptake of CASS, for example compensation for errors arising from redirection?**

RBS refers to its previous responses that the newly extended redirection period of three years is sufficient and that extending this further would have little benefit to customers but would result in capacity issues for CASS and potentially greater risk of error in redirection during the period (including as a result of increased switching from the CMA's other remedies).

RBS has seen no evidence or research to suggest that the current redirection period affects a customer's decision to switch and therefore cannot comment on whether extending this would improve confidence and uptake of CASS. There are already processes in place to manage customer concerns around the CASS process, including the Switcher Guarantee. Under this guarantee, among other things, RBS guarantees that its service is free to use and customers can choose their switch date. RBS also guarantees that it will take care of moving payments going out and those coming in and it will transfer money from the old account in the new account on the customer's switch date (and, critically, compensate the customer for any errors during the switching process).

3.9 Remedy 9: Require banks to retain and provide ex-customers, on demand, with details of their BCA and PCA transactions over the five years prior to their account closure

RBS general comments

RBS's general view is that the most important outcome is that banks should not be required to retain details of BCA and PCA transactions over an unnecessary (and especially an indefinite) period. While a five-year period seems broadly acceptable, RBS would question the use of such historic information.

A key issue here will be that banks have the means to identify these customers before providing them with this information.

RBS responses to CMA questions

(a) **For how long after closing their account should a customer be able to obtain details of their past transactions from their previous provider?**

RBS considers that a five-year term is broadly acceptable, although it would also note that such historic data may be of limited use.

(b) **Should providers be permitted to charge for this information?**

RBS's position is that [**confidential**] if RBS is required to keep this information for an excessive period and beyond existing record keeping requirements.

(c) **For what period should past transaction data be available? Is five years' worth of data sufficient?**

RBS is of the view that past transactions should be available for the same period that data is available to make a lending decision. [**confidential**], with older transaction data being irrelevant to most lending decisions (being rendered useless by passage of time).

(d) **Would the purpose of the remedy be achieved by banks automatically providing customers with their transaction history when they closed their account?**

Banks must retain records for legal, regulatory and operational requirements and to evidence what it did, how it did it and why. With regard to providing customers with this information at account closure, apart from the cost of provision, RBS considers that there is a risk that customers could lose, misplace or destroy this data. It may therefore be more effective to provide on demand, rather than at account closure.

Furthermore, RBS considers that not all customers will understand whether they want or need their transaction history at account closure. RBS believes that many customers may never need this information and confidential storage of paper or data could be an issue for them. Because of this, having a request based system seems to be a better customer solution.

(e) **What role, if any, would it be appropriate for Bacs/CASS to play in this process?**

RBS considers that there could be a role for Bacs/CASS to play in delivering the data to the new bank if banks were required to provide data for the five years prior to the account closure. This would open up an opportunity for the recipient bank to provide this data electronically to the new customer. This solution would have a large impact on RBS as it would require additional capability in terms of data storage and presenting the information.

CASS (and so CASS members) would also face considerable cost and challenge in building such a service (particularly if in the midst of other changes to CASS).

RBS submits that there is little evidence of demand for this service and further customer research would be required if this approach was to be pursued.

(f) **Are there any technical or regulatory obstacles in implementing this remedy, for example from PSD2 or Regulations under the Small Business Enterprise and Employment Act (the SBEE Act)? If so, how could these be overcome?**

RBS believes that there could be technical challenges in transmitting large volumes of data via BACS/CASS. In particular, the system was developed from the transactional BACS system to create CASS, which extended the size of the data to allow for address details and other customer static data to be transmitted. This approach required an agreement on standard data formats and it would be difficult for transactional data to fit within this format. In addition, the size of the data packet to provide five years of transaction data could require a complete redesign of CASS which would involve a great deal of cost and time.

RBS also believes that there may be security issues in relation to the authentication of the customer. Measures would need to be in place to verify the identity of the customer before historical transactional data is released. These measures may vary from bank to bank and it could prove difficult to ensure consistency of approach across banks.

Finally, RBS submits that there may be data protection issues if customer data is retained for too long with no specific purpose. RBS would highlight that there may also be security risks associated retaining large amounts of customers' data and measures would need to be put in place to minimise the risk of any security breaches and cyber attacks.

As such, RBS submits that implementation of this remedy may be difficult to achieve given these substantial obstacles.

(g) **What are your current policies regarding providing bank statements to customers at the time of or after closing their accounts?**

Customers should be able to obtain details of their statements going back five years, subject to suitable validation of the enquirer's ID.

In addition, under the Data Protection Act 1998, personal customers already have a right to access all the personal information that the bank holds about them.

3.10 Remedy 10: Require Bacs to transfer continuous payment authorities on debit cards when switching through CASS

RBS general comments

Although RBS has no in-principle objections to this remedy, there are a number of serious practical difficulties involved in its implementation and the CMA itself has already indicated that it may not be practical. Given these practical implications and a perceived lack of effect on customer engagement, RBS would query the proportionality of this remedy. Furthermore, RBS notes that this option was considered at the time that CASS was being set up and was dismissed on the basis that it was not viable.

To implement this remedy, RBS believes that it is likely that the stop service created by MasterCard and Visa to cancel continuing payment authorities ("**CPAs**") would be used to redirect payments to the new bank. Implementation would also require IT development by all banks within the CASS service and further development by MasterCard and Visa. This would involve the existing card details being sent to the stop service with the new bank card details being sent as a redirection message, instead of a stop message being sent. RBS highlights that such a process does not currently exist and would need to be developed were this remedy to be implemented.

Merchants would need to send the payments to the old bank until they are directed to send them elsewhere. RBS submits that there is very little legislation covering this and it would be reluctant to approve the redirection of a merchant, thereby creating a payment guarantee to that merchant, without first being able to check the status of the account and customer.

In addition, RBS notes that the transferring bank does not hold details of the CPAs which a customer has signed. As such, it cannot transfer details to the receiving bank and would have to guess which payments were recurring by looking at the customer's account. RBS also submits that it would not be able to implement this remedy without major changes to infrastructure and estimates that implementation would take between 12 and 24 months.

RBS responses to CMA questions

(a) **Is the remedy practicable? Can Bacs reliably identify and distinguish CPAs, for example?**

RBS does not consider this remedy to be practicable. In particular, with CPAs the issuer does not hold details of the existence of a mandate and is instead reliant on the merchant including details on the transaction to indicate it is part of a CPA. This varies by scheme and is by no means 100% accurate.

(b) **If, for technical reasons, Bacs could not guarantee that all CPAs would be transferred, would a target of less than 100% or a 100% guarantee limited to payments in excess of a particular monetary value be adequate to address this risk?**

RBS considers that a target of less than 100% would not constitute an ideal outcome - either the remedy guarantees 100% of payments or it is not worth implementing.

Notwithstanding this view, RBS notes that the value of the CPA is irrelevant in terms of ability to comply, with compliance driven on a merchant by merchant basis based on the accuracy of information sent to the issuer. The achievable percentage would thus vary from scheme to scheme or acquirer to acquirer and is known.

(c) **Is the remedy of more relevance to consumers than SMEs? Do SMEs use CPAs as a payment (as opposed to a billing) process?**

RBS believes that it has a similar relevance to both.

(d) **What technical difficulties, if any, would be involved in its implementation and how could these be overcome? Would, for example, providing the acquiring bank with the customer's transaction history make it easier for them to identify CPAs? How long would it take to implement the remedy?**

CPAs are normally associated with an authorisation message which the issuer would approve or decline. If the account is closed or the card cancelled, the authorisation would be declined and the clearing item would not be presented. An issuer approving such a transaction would create a payment guarantee to the merchant without knowing the status of the new account or the customer. The payment could not then be returned like a direct debit.

(e) **To what extent would the purpose of the remedy be achieved if customers with CPAs were advised or warned not to close their old accounts until the CPAs had been set up on their new debit cards?**

RBS believes this proposal could undermine CASS, because CASS switches lead to closure of the old account, and queries whether it would be practicable. CPAs can be monthly, quarterly, annual or ad hoc, meaning retaining the old account to capture them would significantly slow down the switching process (if not undermine it completely) and impact other services.

In RBS's view, the card schemes would need to be engaged to "build" an appropriate service for this to happen effectively. This would also involve some scheme rules changes and acquiring practice changes.

3.11 Remedy 11: Require all banks to support the partial switching service and to provide an equivalent guarantee to that offered as part of CASS

RBS general comments

RBS notes that there are already varying forms of partial switching in place. For example, RBS has a partial switching service which transfers all payments but does not close the old account. In order to enable customers to select which payments to move to the new account, extremely complex changes would need to be made to its internal processes.

RBS also considers that there could be an increase in refunds if the CMA's proposed guarantee covering partial switching is put in place. This is because timing issues could arise which could result in payments being taken from the wrong bank account. For example, if a payment is due within a few days of a customer asking for a switch to occur, the details of the customer's new bank account may not be updated in time and the payment could be taken from the old account where the customer could be overdrawn and therefore incur a charge.

RBS also submits that the partial switching service could be difficult to support, manage and maintain given that both accounts will remain fully functional. In addition, RBS notes that redirection would need to be specific to some payments and this is not a service that it currently offers.

Notwithstanding these difficulties, RBS understands that promotion of the partial switching service could still be required to support the increasing prevalence of multi-banking but would be concerned about banks being required to support a partial switching service which allowed banks to hand pick which payments to move to the new account.

RBS responses to CMA questions

(a) **How effective is this remedy likely to be in encouraging additional customers to switch given that the inducements that providers are likely to offer to those closing their existing current account will be greater than those offered to those not doing so?**

From an RBS perspective, the most relevant account is the new Reward account launched in October. Customers only gain full benefit (i.e. full cashback) if they switch all of their (in scope) bills and direct debits. RBS trains its staff to explain why full switching is beneficial but also to explain how the seven-day switching process makes the process easy and offers guarantees. However, in order to take full benefit from the Reward account, it is not necessary that the old account is closed provided that the relevant bills/direct debits are moved across.

(b) **Would the attractiveness of partial switching differ between customer segments? Would overdraft users find it particularly attractive, for example, or would the bank at which they had retained their account be likely to vary the overdraft facilities that it was willing to provide?**

RBS considers that the (old) transferring bank may reasonably change its overdraft limits due to a partial switch.

Another relevant group could be more financially sophisticated customers who want to hold different accounts for specific purposes (e.g. RBS's Rewards account to get cashback on utility bills, Santander 123 as a pseudo savings accounts, Barclays Blue Reward to get cashback on a pre-existing Barclays mortgage), but presumably this group is more likely to search and switch in any event.

(c) **Is the list of features that should be included in the proposed partial switch guarantee comprehensive? If not, what should be added?**

The current partial switching process is not sufficient in all cases to prevent issues. To be appropriate for partial switching, the CASS Guarantee wording would need to be amended, given that some banks offer customers the option to be selective of which payments they move. RBS draws the CMA's attention to the following considerations:

- The added complication of how the guarantee could be as simple as possible for customers to understand, given the multiple scenarios of what a customer requests in respect of forward and redirection between payments linked to the old account versus the new one.
- The final point in the switcher guarantee covers refunds, however these need not necessarily be due to an error in the service. As discussed above, if a payment is due within a few days of a customer asking for a switch to occur and the details of the customer's new bank account have not been updated in time, payment could be taken from the wrong account (which could be overdrawn) and refunds may need to be given.
- Customers would require the ability to pick and choose a number of things i.e. whether to transfer previous balance, take some payments but not all, amend some credits but not all, etc. Therefore, systems would need to be developed to allow each option to be chosen. RBS does not currently have this guarantee in its partial switching service.
- Redirection would need to be specific to some payments and this is not a service that RBS currently offers.
- A partial switch guarantee could lead to confusion between the full CASS service and any partial service (which is a common cause of complaints about CASS switching now – customers opt for a partial switch but erroneously think they are getting a full CASS switch).
- Customers should also be advised to ensure the right level of credit balance is transferred (and maintained) to ensure partial switching does not negatively impact them. While there is no technical solution to this potential issue, customers should at least be put on notice.

(d) **What would the consequences be, commercially and in regulatory terms, if customers were to switch all their payments to a new account, but leave the old one open?**

RBS notes that some customers already do this. For example, charities may switch account providers but leave old accounts open to receive standing order payments without disturbing the income flow of voluntary payments.

RBS considers that the only impact of such a remedy from a commercial perspective would be the administrative costs involved in keeping a switched-out account open.

(e) **Would the remedy lead to more multi-banking with customers switching usage according to the incentives offered by banks with which they held accounts? What would the consequences of this be?**

RBS considers that such a remedy could lead to more accounts in existence and multi-banking becoming more prevalent, in line with the current trend in the market for customers to become multi-banked.

(f) **Is the seven-day switching period under the proposed partial switch guarantee appropriate, including for the larger SMEs? If not, what would be an appropriate switching period?**

RBS notes that the FCA commentary in its review of CASS suggests that a shorter period is unlikely to deliver significant benefits to customers and RBS would agree with this conclusion.

RBS does not see any issue with the partial switching process being completed within the seven-day guarantee. The turnover limits on switching should prevent this from becoming too onerous, as it excludes large Corporates for whom excessively large volumes could conceivably be generated. These tend to be migrated through separate bespoke activities where they do decide to switch. This allows the customer to keep tight control over the switching process in terms of timing.

(g) **Are there any regulatory, technical or other obstacles to implementing this remedy, for example as regards any overlaps with PAD? How could these be overcome?**

Switching accounts is addressed in Articles 9 and 10 of PAD. The Articles state the minimum service levels that should be provided by a bank in relation to assisting with the switching of accounts and payment instructions. While Articles 9 and 10 do not provide explicitly for partial switching, the requirements necessary under each Article do not inhibit the banks' ability to provide a partial switch service.

In relation to the Payment Services Directive ("**PSD II**"), one of the main objectives is to increase competition for consumers. Creating further optionality and strengthening customer service by allowing partial switching is closely aligned to ensuring the objections of PSD II are met.

This legislation does not directly conflict with the proposed remedy and may be seen to be actively assisting in PSD II's objectives.

(h) **Would it be necessary to include any ancillary measures with this remedy? For example, if providers offered different, and lesser, rewards to customers who only execute a partial switch would it be necessary to require that this is made prominent in advertising and marketing material?**

RBS believes that any difference in the proposition or rewards due to partial switching should be made clear to customers in order for the customer to make an informed decision and avoid any confusion between the partial switcher service and the full CASS service.

That said, it is unlikely RBS would go down this route and would continue to promote CASS as the primary switcher service. This will help avoid complexity from both a staff explanation point of view and marketing perspective (it would be a complicated message to say you get this account feature only if you "fully" switch). In the circumstances, questions may arise as to whether a customer would understand what full vs partial switching means.

In addition, the small print would put off customers and work against RBS's simplicity agenda.

3.12 Remedy 12: Changes to CASS governance

RBS general comment

RBS considers that current CASS governance is reasonable and, if anything, could prejudice larger banks. RBS believes that, generally speaking, governance structures should be viewed in the context of funding mechanisms and responsibilities to ensure that there are no conflicts of interest.

RBS responses to CMA questions

(a) **Does the current membership and voting structure of the CASS Management Committee blunt its incentives to promote switching between current account providers?**

RBS submits that the current membership and voting structure of the CASS Management Committee does not blunt its incentives to promote switching between current account providers. RBS highlights that voting is on a one member one vote basis, which is a satisfactory approach to take. If anything, RBS is of the view that the current voting system is unfair on larger banks because extraordinary calls for funding are based on market share. For example, RBS refers to the recent funding call for the CASS marketing campaign, which was borne to a large extent by the larger banks regardless of whether they had voted in favour of it or not.

As such, RBS is of the view that the current voting structure is adequate but, if changes were to be made, they should be made with the aim of better reflecting funding of CASS.

(b) **In what ways, if any, should the membership of the Management Committee be changed? Is its size or composition appropriate?**

RBS is satisfied with the membership of the Management Committee (in particular that each participant, irrespective of size, market share or switching volumes, is represented with a single (non-weighted) vote).

(c) **Does the 75% voting majority required on the Management Committee permit the banks likely to be net losers from switching to exert material influence over CASS policies, for example the amount to be spent on promoting the service? Does it permit a small number of members to veto desirable proposals?**

RBS notes that the 75% voting majority required on the Management Committee permits 25% to veto proposals, but it is RBS's view that such majorities are necessary and customary from a governance perspective (in the absence of a threshold there are no safeguards to ensure individual/small numbers of banks are not unfairly discriminated against by other members). Due to the number of CASS Management Committee members (all 31 CASS participants sit on this body) it is impossible for the larger banks to block proposals by acting in collaboration.

(d) **Would it be desirable to introduce an element of independent oversight of CASS? If so, how could this be done?**

RBS notes that CASS is already overseen by Bacs and is subject to scrutiny by FCA/HMT, an arrangement that RBS considers to be satisfactory.

3.13 Remedy 13: Data sharing with credit reference agencies

RBS general comments

RBS considers that this remedy gives rise to significant data security considerations as well as Data Protection Act implications as any increases to data sharing might need specific customer consent, unless the specific data sharing was mandated by legislation. Specifically, RBS would highlight that there may be security risks associated with transferring customers' data and cost and time would be involved in ensuring that effective security controls are in place.

RBS believes the increased availability of data and data sharing proposals could have a substantial impact on the market. However, RBS would note that this remedy clearly overlaps with the work HMT is doing under the Credit Data element of the Small Business, Enterprise and Employment Act 2015 (the "**Act**"). In summary, RBS currently provides data to CRAs on BCAs, loans, cards and asset finance products.[11] The Act requires that RBS provides additional BCA behavioural data to the CRAs, that all funders can access the full range of data supplied to the CRAs and that RBS sends the data to all designated CRAs. HMT has currently designated three CRAs. [**confidential**]. This process requires the engagement of a full project team because it is a mandatory project. It is already in its current form very strenuous and labour-intensive.

RBS responses to CMA questions

(a) **SMEs will have to consent to the sharing of bank data with CRAs. Are there obstacles to doing so, for example on grounds of data confidentiality?**

RBS faces a number of obstacles in sharing data with CRAs. These include:

- Data protection issues: Customers cannot be made to consent to such data sharing; it must be a valid choice. In order for a customer to make that choice they will need to understand: (i) what they are being asked to share; (ii) how the information will be used; (iii) what the benefit to them in sharing the information will be; and (iv) is this going to result in additional work/cost for them. For example, many SMEs currently take advantage of abbreviated accounts which may not be sufficiently granular for these disclosure purposes. If a customer expressly withholds consent RBS would be unable to undertake CRA searches. From RBS's perspective, a key consideration is how it can retain oversight as to whether (and when) a customer has or has not consented. Therefore, RBS becomes exposed to the risk that it discloses information when a customer has not consented which could lead to fines, reputational damage etc.
- Consent to share historic data: The consent issue is compounded in relation to historic account data as consent was not part of RBS's terms and conditions until recently. A process would be required to capture consent for historic accounts to enable wider sharing. This would also require that RBS has the ability to individually flag those customers who do not wish their information to be shared.

[11] Currently, RBS provides CRA with information including Facility Number, Company Type Indicator, Business Name and Address, Company registered number, Special Instruction Indicator, Facility Type, Special Instruction Indicator, Start/close date of agreement, Current balance, Current balance credit indicator, Default balance/satisfaction indicator, Credit/overdraft limit, Repayment period/payment amount/frequency and Cash advance – value/number.

(b) **To be effective, would this measure need to be accompanied by other remedies, for example to prompt SMEs to seek alternative sources of lending or make it easier to access or assess lenders' terms?**

Potentially, this remedy could be used in combination with other remedies including prompts on the availability of, for example, a PCW covering loans. However, RBS considers that detailed consideration would need to be given to the type and content of any prompt. In particular, care must be taken to avoid RBS providing advice on other banks' terms which, in addition to being unduly onerous, may breach applicable FCA rules.

In addition, the following issues require further consideration:

- Lenders' terms do vary so this would, in theory, be beneficial to a potential borrower rather than an existing borrower.
- As regards existing borrowers who have a committed loan facility, advertising better rates may be misleading as these rates may not reflect any break fees their current facility is subject to.
- In the SME space, comparisons can be very difficult. Two customers of the same size in the same sector can have very different financial performances or management structures which would mean that they would be treated differently. There are a number of qualitative reasons why one customer would be supported but not the other. The number of qualitative assessments might vary between lenders and are a combination of subjective and objective criteria. There might be challenges, therefore, in sharing these with CRAs.

Due to these limitations, RBS suggests that, rather than using prompts, the data being stored involve key facts about the customer's requirements such that a lender can approach customers rather than the other way around.

(c) **This remedy is focused on the information asymmetry advantages enjoyed by incumbent banks. Are there other advantages they enjoy that could be shared, for example customer access? Would it be feasible or desirable, for example, to expose all loan applications made to an incumbent to a wider market, rather than just those that were refused, as envisaged in the SBEE Act?**

RBS considers that extending the Act to share customer access and/or expose all loan applications gives rise to significant concerns for the following reasons:

- Banks compete for new business (whether from existing or new customers) on the basis of driving competitive advantage via marketing, the offer or service. Opening the door to all applications could result in less effort in pursuing new business which would not necessarily benefit the customer.
- While it is technically feasible to share such data, it will be costly for the banks and will involve, *inter alia*, seeking customer consent to disclose that information – which the customer may not want to do for privacy reasons.
- It is difficult to see what the benefit will be to customers from publishing the application if the customer has already been prompted to visit PCWs or other portals.

3.14 Remedy 14: Commercial open data and data sharing proposals

RBS general comments

RBS believes the increased availability of data and data sharing proposals could have a substantial impact on the market. RBS notes that this remedy appears to be part of a wider initiative by the Government to ensure a more level playing field and help SMEs to enter into an age where they have control over their data, with the benefits of full portability. With further information on how the CMA intends to build on the Government's initiative, RBS can provide further, more detailed comments on this remedy.

However, careful consideration will need to be given to the security aspects flowing from this remedy, including risk of data protection or other security breaches.

RBS responses to CMA questions

(a) **Over what timescale are services arising from the Open Data Initiative likely to evolve into an effective means of sharing business data?**

The scope of the Open Data Initiative does not currently involve looking into an effective means of transferring business data and RBS considers that it is difficult to predict how long it will take for services arising from this initiative to evolve. RBS's position is that, rather than just creating generic capability, it will overcome adoption issues around sharing and transferring business data on a case-by-case basis.

(b) **What technical or regulatory obstacles do they face and how can these be overcome?**

RBS considers that issues could arise in relation to privacy. RBS also believes that conflicts of interests could arise. In particular, RBS would highlight that there may be security risks associated with transferring and sharing customers' data. Therefore, measures would need to be put in place to minimise the risk of any security breaches.

(c) **Even where the technical and regulatory obstacles overcome what incentives would providers have to use such services?**

RBS believes that the incentives would depend upon the services that third parties create. Typically, the services might increase switching although it is possible that it could also drive increased retention if customers realise they already have a good deal.

(d) **What incentives would SMEs have to use such services? Would it be necessary or desirable to promote them to SMEs and intermediaries and, if so, who should be responsible for doing so and how should this be funded?**

RBS believes that data sharing proposals may lead to simpler switching for SMEs, standard data sets and easier customer identification. In addition, the open data proposals may lead to easier access to credit history which could help to inform risk appetite. Nonetheless, particular attention will be needed to ensure that data protection and security requirements are adhered to, which may be difficult to do in practice.

3.15 Remedy 15: Require banks to provide a loans price and eligibility indicator

RBS general comments

RBS believes that a loans price and eligibility indicator could have a substantially beneficial impact on the market, subject to effective implementation. One aspect that will be important to address in the implementation design is to ensure that the tool provides only indicative quotes and does not provide a function that enables SMEs to enter into binding commitments with loan providers.

As with Remedy 7, RBS draws the CMA's attention to the risk of customer irritation and disengagement if they rely on a quote/range and the final offer differs from it.

RBS responses to CMA questions

(a) **Are there any technical or regulatory obstacles to the adoption of this remedy and, if so, how could they be addressed? How quickly could this measure be implemented?**

RBS is not aware of any technical or regulatory requirements which cannot be met or overcome. It will, however, be important to ensure that the provision of an indicative offer does not become so binding that the bank is placed on risk and therefore obliged to set aside regulatory capital (with obvious cost implications), particularly at a stage where the customer may simply be shopping around. RBS believes that the main challenge is to agree to a cross-industry design which will provide customers with useful outputs in assessing their eligibility for a loan. RBS is of the view that unless all possible lending products are included, the output may not necessarily be the optimum result for the customer. RBS considers that a calculator for simple products could be developed and implemented within 12 to 24 months.

RBS notes that a full credit application will usually be required for a loan unless the application is for a simple lending product and the customer is known to them already. RBS also notes that it already provides Statements of Appetite to many of its SME customers which give a clear indication of its appetite to lend to that individual SME. Furthermore, RBS provides a basic indicative loan calculator on its website, which can be found via the following link: http://www.business.natwest.com/business/turnover-up-to-2m/borrowing-and-finance/loans/small-business-loan.html.

In considering a loan application, the degree of difficulty is linked to factors such as customer type/size, industrial sector, purpose or asset type, debt quantum and the requirement for security. For example, it is obviously easier for a smaller, less complex customer requesting less than £25k of unsecured credit than a large SME requesting £5-10m of secured lending for a business acquisition. In practice, a decision for those small customers would be dependent on the proprietors' personal credit history and would be similar to granting them a personal loan.

RBS considers that for smaller customers with non-complex requirements, a web tool could be developed which would give an "in principle" decision and a list of the conditions which would then need to be satisfied. For larger customers with more complex needs, there is much less scope to give a comprehensive response, but it should be possible to put an indicative grid in place that estimates the extent to which RBS would be willing to lend to customers with certain types of profiles. RBS also suggests that it could have a screen-based flow which poses questions and then offers up product options, pricing and fee ranges, whether security would be required, indicative types of acceptable security, indicative tenors and likely loan covenants/conditions.

However, RBS notes that the larger and more complicated the borrowing request, the more likely it is that human intervention will be required to discuss the proposal with the customer and to tailor a credit application which best meets the customer's needs. These larger requests would also involve more formality, to ensure that the request is being made by individuals within the SME with appropriate authority. This follows the normal security protocol of [**confidential**]. A loan request is a two-way commitment, from the bank offering the facility, and the customer undertaking to repay promptly along with the fees and interest due.

RBS notes that under its internal transformation programme, it is increasing the automation of its lending processes to enhance the customer's ability to access products through a broader range of channels (adding increasing online and digital capability to existing face to face and telephone options). This will initially allow SMEs to investigate product selection and indicative pricing and credit appetite (largely facilitating compliance with the remedy). Our target is then to apply this increased automation to the remainder of the fulfilment process from sanction to funds drawdown.

RBS estimates that design, build, test of the initial stage will take c.12 months and full implementation c.24 months for core lending products. The addition of Asset Finance and Invoice Finance in the first instance would be focused on ensuring customers understand the full product suite available to them with pricing and appetite following.

Assuming that this remedy is targeted at new customers, delivery of this remedy will require the following:

- a borrowing purpose to ensure that appropriate products can be presented i.e. which meet the customer's individual needs;
- the amount and duration of the borrowing requirement;
- customer business sector details to ensure sector appetite is considered;
- sufficient credit/customer data (c.20-60 fields) to place the customer into a risk band; this is easier for smaller customers, but larger customers' borrowing requests are assessed using a different methodology which has qualitative inputs;
- details of any security available to enable us to calculate a loss given default; and
- if the borrowing is for assets such as cars or vans, part exchange valuation and used vehicle disposal channels will need to be considered.

RBS notes that a combination of the above will allow them to shortlist appropriate products and provide a price. Asset based products will require further information.

In addition, RBS submits that the following factors must also be considered:

- there is a need to ensure and make clear to customers that such indicative decisions are not classified as Undrawn Commitments and do not give rise to any binding commitments on behalf of the banks;
- the length of the period during which the indicative terms are valid and the date at which the indicative terms "expire";

- the need to undertake customer due diligence enquiries, including ensuring that the customer has received appropriate information and advice for more complex products;
- the differences in quality/range between providers i.e. a decision should not be made solely on the basis of price;
- how to upload transactional history for new customers;
- whether the provider will undertake a credit reference agency search;
- whether the provider should decline to provide a quote/indication if they know that any formal application will be declined;
- if the indicative terms are rejected upon formal application, whether an applicant could claim to have been misled;
- what is considered to be an acceptable variance between indicative terms and the final terms;
- the length of time during which a provider would be able to store these enquiries;
- sales processes may need to be rewritten to allow retrieval and consideration of previous indicative decisions and applications;
- ability to compare products side by side.

RBS believes that a standard template across all banks would only work for small SMEs whose requirements are less complex. RBS considers that, in reality, this indicator could give only a range of fees and is likely to be able to provide “in principle” conclusions for anything other than the smallest, vanilla loans which could be credit scored.

(b) **To which lending products should the remedy apply?**

RBS submits that this remedy should apply to core lending products, commencing with loans and overdrafts but which a view to extending to asset and invoice finance. A customer should be made aware of alternative options such as Asset and Invoice Finance, but as a practical matter only the simplest of these products are likely to be able to be efficiently added to the indicative price/eligibility scope.

RBS considers that the greater the complexity of the customer and/or the complexity of the product, the more difficult it will be to develop something within a reasonable timeframe and which is of value to the customer (i.e. in terms of closeness of indicative quote to the final decision). RBS suggests that the tool is restricted to the simplest of lending products and for the smallest of customers.

(c) **Should the format of such a tool be standardised or should banks be free to develop their own with, for example, certain minimum requirements?**

RBS considers that there is reason to believe that too much standardisation limits innovation and competitiveness. As such, RBS believes that banks should be free to a degree to design the format to suit their brand and strategic guidelines.

However, an industry guide on questions that need to be answered would be an effective way to ensure a consistent comparison for the customer. RBS believes that there should be a standardised, common approach to the questions which would make inter-provider comparisons easier. RBS submits that there is merit in seeking to standardise the approach and on-screen presentation across all banks to make it easier for customers to assess and compare requirements/offers. However, this could only be applied to the smallest borrowers with simple requirements, such as those customers seeking an unsecured loan of less than £25,000 or with turnover of less than £2m.

(d) **How valuable would an 'indicative' offer be to SMEs? Would it be necessary to impose any obligations on providers as to the circumstances in which an indicative offer could be varied or withdrawn if the SME went forward with a loan application?**

RBS believes that there are limitations with indicative offers and it is likely that results will be returned which differ from the final offer.

An indicative offer is fraught with risk that the SME changes its conduct based on it and such an offer is not subsequently confirmed. Indicative offers would need to have time expiries to protect against creditworthiness changing over time.

Therefore, whilst an indicative statement from a provider can be seen as a useful and helpful first step in the applicant's journey and may help them refine their selection of providers, it should be made clear that the final terms may well vary. It is necessary that the customer understands that this is an indicative offer and that the bank, for its part, is also clear that it is an indicative offer. Once the customer has made a specific request to RBS, including necessary paperwork to confirm that the terms and conditions are understood by the SME customer, a formal offer may be made by RBS to that customer. A bank would consider itself to be formally on risk and set aside capital at that point, or each of the providers whose calculators had simply been used to provide illustrations would be on risk concurrently.

RBS notes that as a means of supporting its SME customers, a significant number of customers have been identified for additional funding under the "Statements of Appetite" initiative and this has resulted in substantial funding being offered to customers.

(e) **Should banks also be required to set out, in standard form, the terms on which they are willing to make loans, including arrangements for early repayment?**

Standard terms are already freely available although, as noted above, standardising limits innovation. For example, Business Banking will shortly make all loans (Fixed and Variable) [**confidential**].

Further, regulated lending (which covers the majority of lending applications by volume) already has mandated standard formatting and content and may be a useful starting point for smaller, less complex lending. Beyond this, RBS is open to the possibility of standardising format/headings boilerplating certain covenants although it considers that standardising other clauses may have the effect of reducing competition between providers.

(f) **What incentives would SMEs have to use such services? Would it be necessary or desirable to promote them to SMEs and intermediaries and, if so, who should be responsible for doing so and how should this be funded?**

RBS considers that SMEs may have limited appetite to use such services and, rather, RBS's proposals regarding statements of appetite are far more proactive and beneficial.

However, if the CMA is determined to push forward these services, RBS considers that they will only be successful if the process and information required to obtain an indication of lending suitability and terms is simple and straightforward, it is common across all providers and leads to the prospective borrower being able to compare different providers easily. It will also be essential for intermediaries, brokers, comparison websites, trade/lobbying bodies to promote the availability of such a tool on their websites/communications and in the media, if it is to gain widespread awareness and use. Funding should be left to the individual providers/third parties.

(g) **What monitoring and enforcement arrangements would be needed for this remedy? Who should be responsible for overseeing it?**

Individual providers should confirm to regulators/the CMA that they have built the tool and can demonstrate that it meets the CMA's requirements, is accurate and fit for purpose. An ongoing policing of tools feels unnecessary as this is not a sales tool. Competitive pressure should ensure that self-policing is sufficient.

Such a tool would be on the banks' websites and easy to assess if the required presentational and content standards were being met. If there is a divergence between "indicative" and "final" terms, it would however be difficult to assess whether a provider's initial "in principle" offer had been deliberately misleading.