Santander UK plc

CMA Retail Banking Market Investigation

Response to the Provisional Findings and Notice of Possible Remedies

20 November 2015

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1 This is the response by Santander UK plc (**San UK**) to the CMA's Provisional Findings dated 28 October 2015 and the Notice of Possible Remedies dated 22 October 2015. We agree with the CMA's provisional conclusions that adverse effects on competition (**AECs**) exist in respect of PCAs, BCAs and SME lending in Great Britain and Northern Ireland.[1]

2 In particular, we recognise and have expressed our frustration with the fact that challenger banks such as San UK, which have been found by the CMA to offer relatively better quality and better value retail banking services than the incumbent big four banks, nonetheless do not see customers switching to them in the volumes that would be expected in a well-functioning market.

3 We believe there are difficulties in constructing a remedies package that will address this fundamental customer engagement issue. That said, we believe that our suggestions set out below regarding the CMA's proposed remedy package should bring about incremental change to the retail banking market – and in particular in the SME banking market, which, as the CMA has found, has shortcomings over and above those found in the PCA market.[2]

4 We would suggest that the CMA implements a holistic and targeted package of remedies that work effectively together and has regard to the following key features:

(a) **First, the CMA should be guided throughout by the perspective of the customer undertaking a "switching journey"** – in order to recognise both that a weak link in the "switching journey" is likely to undermine the effectiveness of the package as a whole and also that co-ordinating the remedies carefully should maximise their overall effectiveness. Any difficulties or hurdles that customers encounter during the process of searching for, choosing and switching to a new account are likely to discourage and demotivate the

1 We have previously submitted to the CMA that we believe the relevant markets are UK-wide – see, for example, paragraph 2.12 of our Response to the Updated Issues Statement. We maintain this view. The Notice of Possible Remedies does not suggest remedies would be targeted at particular geographical markets. For convenience will refer to the markets identified in the Provisional Findings and Notice of Possible Remedies in this submission.

2 This is implicit in the Notice of Possible Remedies, which contains SME-specific remedies; and in the findings that the SME market has seen less innovation (Provisional Findings 8.29) and fewer new entrants.

customer from completing the journey. The remedies should therefore be designed to agitate customers to become engaged in their banking arrangements, while simultaneously providing a simple method of making changes (including each step in the access, assess, act framework). We remain firmly of the view that "*the easier it is for customers to access and assess information and act on it, the more likely it is that engagement will increase over time*".[3] In particular:

(i) given the low engagement that the CMA has found pervades the market, we support triggering customers to review their banking arrangements at appropriate intervals (Remedy 1); and

(ii) any prompt sent via a secure email should be accompanied with a link to the customer's Midata file (Remedy 3). The CMA should ensure that Midata is simplified as far as it can be whilst maintaining data security;

(iii) customers should have access to a range of accredited, relevant and multi-faceted price comparison websites (**PCWs**) to allow customers to use their Midata file to assess which account is best for them (Remedies 3, and for SMEs, 4); and

(iv) the customer should have the tools to take immediate action through CASS, maximising the potential impact of the prompt. As such, CASS should be closely tied to PCWs, and must be well-promoted (Remedy 2).

We appreciate that this is the approach taken in the CMA's Notice of Possible Remedies, where the CMA envisages the package "facilitating the creation of websites/ portals where the customer journey may be undertaken in one session, with the customer moving seamlessly between price comparison tools (using, for example, Midata) and provider quality ratings, to account application and then to a […] switching service."[4] This should remain a guiding principle when devising the remedies package.[5]

(b) **Second, the CMA should recognise that specific measures are required to address the functioning of the SME market.** The CMA must go further to improve the functioning of the SME market and thereby address the AECs identified for BCAs and SME lending. For example, we consider that the CMA should look at going further for SMEs in respect of:

(i) The types of "trigger points" to stimulate engagement by customers (Remedy 1), where we consider that the role of intermediaries and other third parties (such as Companies House and HMRC) can and should play a material part. We set out at paragraph 1(f) of Annex 1 below how this results from the CMA's analysis.

[3] Response to the Updated Issues Statement, paragraph 5.10.
[4] Notice of Possible Remedies, paragraph 130.
[5] We note that he remedies proposed by the CMA in the Remedies Notice fall into a continuum, matching the switching journey. As noted at paragraph 3 of Annex 1 below, this means that the CMA does not address every problem it found in the markets.

(ii) The particular problems associated with assessing the creditworthiness of SMEs and access to finance. We consider that a "credit passport", developed in line with the Business Data Initiative and which gives SMEs control of their own financial information, would be the best way to achieve the aims of Remedies 6 and 13.

(c) **Third, the CMA should avoid being distracted by remedies that are of marginal benefit but could be costly and distracting to implement – and which are likely to place a disproportionate burden on challenger banks.** Such remedies are likely to be counterproductive and as such should not be pursued by the CMA.

(i) These include partial switching[6] (which is technically difficult, costly and in our experience counter-productive for stimulating competition); CASS governance[7] (which in our view is satisfactory); and ANP[8] (which the CMA appears to recognise is disproportionate, and which has been described in reviews elsewhere as "a gold sledge hammer" to crack a nut[9]).

(ii) A number of the other remedies proposed by the CMA are already required or standard industry practice – including, for example, giving an overdraft decision before initiating the switching process.[10] The CMA should take care that it does not add to the regulatory burden on banks (particularly challenger banks) by imposing potentially costly obligations that are unnecessary in practice.

5 The CMA has found that structural changes or interventions on pricing (whether by way of price controls or measures to prohibit free-if-in-credit banking) would not be appropriate because of cost, lack of effectiveness and risk of unintended consequences.[11] We agree with these findings, and believe that a tailored and targeted package of behavioural remedies – as we explain in this response – is a more proportionate and effective response to the concerns the CMA has identified. Our experience suggests that the CMA should take care that it does not create too many tools, websites and communications, as this would tend to create confusion among customers.

6 In Annex 1 we set out our high level position on the Provisional Findings. In general, we consider that the CMA has correctly identified the issues and the AECs across the markets. In Annex 2 we provide more detailed commentary on each proposed remedy on the key issues from our perspective as a scale challenger. We have not responded to all of the questions the

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6 Remedy 11.
7 Remedy 12.
8 Considered at Remedy 8.
9 *Banking services: cost-effective switching arrangements*, 2011 at paragraph 2.15. Report available here: http://banking.treasury.gov.au/content/reports/switching/switching.asp
10 Remedy 7.
11 Paragraphs 181-186 and 175-180 in the Notice.

CMA has invited comments on. The absence of a response on each and every provisional finding and question should not be taken to mean that we accept them in their entirety.

Annex 1
The AECs as found by the CMA

1 We broadly recognise and accept the CMA's main provisional findings and we highlight below those findings that are, in our view, particularly of concern (and which are broadly the same across PCAs and SMEs). The remedies package should address these features in particular to ensure that the retail banking markets function effectively in future:

(a) **The markets are relatively concentrated.** The CMA has rightly been concerned with the level of concentration in these markets from the outset of its investigation.[12] We agree with the CMA that it should not "*dismiss issues relating to the level of PCA and SME banking concentration simply because the level of concentration is not as high as in some other markets which have been found at some point in time by a competition authority to be competitive.*"[13] As we have previously submitted, these relatively high and stable market shares are symptomatic of a market that is not functioning well, due in particular to the low levels of switching and engagement, features which may (taken with the other factors considered below) incentivise the incumbent big four banks to set higher prices than challengers.[14]

(b) **Financial performance suggests that the incumbent banks obtain greater revenue per customer.** We understand why the CMA was unable to perform a comprehensive market-wide profitability analysis given the difficulties in comparing profitability in the relevant markets.[15] Nonetheless, the CMA has found the incumbent big four banks have a higher market share when shares are considered by revenue, rather than by volume.[16] Indeed, the CMA considers that it likely understates the incumbent big four banks' market share by revenue. The CMA has found that these four banks benefit from a greater net revenue per account and that challenger banks, including scale challengers such as San UK, have lower net revenue per account because they are seeking to grow their shares by offering better terms to attract new customers.[17]

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12 See, for example, Issues Statement, paragraph 19(g).
13 Provisional Findings, paragraph 11.7.
14 Response to the Updated Issues Statement, section 7.
15 See, for example, our comments at paragraph 3.2 of our Response to the Updated Issues Statement.
16 See Provisional Findings, 5.19 and Table 5.5.
17 Provisional Findings, paragraph 5.20. See also: "*Four of the five larger banks have higher average [PCA] revenues than two of the three smaller banks*" (Provisional Findings, paragraph 5.46). It appears from the table of results that TSB is the smaller bank with a higher average revenue, as its market share by revenue is greater than its share by volume (see Table 5.5). If this is the case, it demonstrates that a bank using the pricing and systems of an incumbent bank tends to show higher revenues. The CMA's analysis in relation to SME banking products is less conclusive, but also heavily redacted, which makes comment difficult (See Provisional Findings, Appendix 6.3). The CMA also looked at ROE across banks. The source, a KPMG study, referred to in paragraph 2.73 of the Provisional Findings, has not been, and should continue not to be used as evidence that offers by the incumbent big four banks are cost based. The reasons for this are explained in Paragraphs 2.64 and 2.75 of the Provisional Findings and Paragraph 50 of the Retail Banking Financial Performance Working Paper.

(c) **Outcomes for consumers at incumbent banks are generally worse.** As well as earning higher revenues, the CMA has also found, in relation to PCAs, that "*banking groups with a higher market share tended to have higher average prices and lower overall quality*".[18] In relation to BCAs, the picture is in some ways more mixed (the CMA did not see any evidence of a "*clear association between BCA market share and outcomes*").[19] However, we would suggest that there are some inherent limitations as a result of the CMA's inability to fully consider all aspects of pricing.[20] Moreover, while the overall relationship is not clear, the CMA did find that, across three satisfaction surveys "*there is little variation in the performance of the four largest banking groups in GB, which are rated average or below average under each of the indicators*".[21] The CMA also found that San UK was "*consistently among the lowest priced banks across the [representative BCA] profiles.*"[22]

(d) **Customers could be better off elsewhere.** The CMA found that there are material benefits to switching: *"We have considered the nature and potential scale of the detriment to PCA customers and to SMEs arising from the AECs. We have not been able to quantify the detriment from reduced incentives to compete... We expect that this detriment could be substantial… Our switching analysis found that on average PCA customer could make financial gains of about £70 per year if they were to switch – with large gains for overdraft users of £140 per year on average. This is a static analysis of consumer harm from lack of switching… Nonetheless, it gives an indication that PCA detriment could be substantial".*[23] Further evidence of this is that, when analysing the gains available to switching PCA customers, the gains for customers switching from the incumbent big four banks are substantially greater than those for customers switching from San UK and other challengers.[24] In particular, we note that our innovative 123 account has features that mean it is even more appealing than the pricing analysis run by the CMA would suggest.[25] While the CMA presents prices for customers with typical

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18 Provisional Findings, paragraph 11.40.

19 Provisional Findings, paragraph 11.41.

20 Provisional Findings, paragraph 6.86.

21 Provisional Findings, paragraph 6.93.

22 Provisional Findings, paragraph 6.85.

23 Provisional Findings, paragraph 12.16 and 12.17.

24 San UK analysis of the Runpath data.

25 We have analysed the data available in the disclosure room and have a number of comments on the methodology used in assessing the prices charged by banks for PCAs. The comparison of prices of all available offers to PCA customers with the price of their main PCA was an appropriate methodology to apply to this market in order to contribute to understanding customer engagement. While the CMA will wish to ensure that the Runpath analysis is robust, the outcomes presented in the Provisional Findings that a large proportion of customers would benefit from switching PCAs, and that the gains from switching are greater for customers of the incumbent big four banks, are consistent with our understanding of poor customer engagement generally and particularly for inert customers at the incumbent big four banks. We note a number of limitations in that methodology, but overall consider it a useful and indicative set of results. The limitations are:

i. Cashback could not be assessed accurately because the CMA could not analyse to whom particular payments were being made. The cashback that the Santander 123 account offers is a key part of our product offering. Even when applying cashback, the average cashback per account of £[✄] is understated, having been calculated using active accounts when it would have been more accurate to base this ratio on primary accounts. On this latter basis, the average cash back per account would be £[✄].

behaviour across the market (and the 123 account is competitive on that basis), we find that in practice our 123 account customers tend to have larger deposits and so earn 3% interest on large balances. Consumers in the market who have large balances (or could, if they moved savings balances into the 123 account) would gain more from the 123 account than the CMA's analysis suggests.

(e) **The rate of change in the market is slow.** Despite the fact that customers would be better off switching, the CMA has found that switching rates are low. Moreover, in some cases, change is not even in the right direction: the CMA has found that some banks offering higher than average prices and below average quality are gaining market share.[26] As we explained in our hearing, "*[c]onsidering the innovation and investment we have shown in [retail banking] we consider, in a more dynamic and competitive market, these investments would have resulted in a more significant market share movement than has been the case.*"[27]

(f) **There is low customer engagement.** We note that the CMA has recognised that engagement (or awareness) forms a distinct part of the customer switching journey[28] and that it has identified a lack of consumer engagement as a fundamental concern in both PCA and SME markets. The CMA's central finding, in relation to each market, is that this is due to a combination of weak customer engagement and barriers to searching and switching, which are compounded by incumbency advantages.[29] In relation to SMEs:

(i) We would reiterate the important role played by intermediaries.[30] Intermediaries could form a trusted and helpful source of prompts to SMEs to consider their banking arrangements – for example, periodic reminders from the SME's accountants at the point of filing the annual accounts; or a banner on the websites of professional bodies,[31] Companies House and HMRC.[32]

(ii) This suggestion reflects the proven importance of intermediaries in the banking activities of SMEs. As shown by the Small and Medium Enterprise Customer Research carried out by Research Works for the CMA, SMEs rely on third party

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ii. A customer's behaviour cannot be seen as independent of choice of account. However, the Runpath price estimates implicitly assume that customers do not change their behaviour when assessing what price they would have paid had they had a San UK 123 account compared to their present account. A simple example would be customers who only have one direct debit with their main provider (a bank other than San UK) but do have over £500 monthly inflows. If they had a San UK 123 account, they could simply add a direct debit to the account in order to benefit from cashback. As such, we consider it likely that the analysis understates the benefits available to switchers.

26 For example, Barclays, as shown in Figure 6.15.

27 Hearing Transcript, page 7, line 22.

28 A point we made at paragraph 5.3 of our Response to the Updated Issues Statement.

29 See the Notice of Provisional Findings, and Section 12 of the Provisional Findings.

30 See our response to the Updated Issues Statement , paragraph 5.3 and 5.9.

31 For example, ICAEW, ICAS, ACCA and CIMA, UK200Group, BCC, FSB and FPB.

32 While the CMA states that it defines intermediaries in the "broadest sense" (Provisional Findings, paragraph 10.246) it does not cover entities like Companies House and HMRC, bodies which frequently interact with SMEs, and which are trusted by SMEs. Further, we note references to switching could be made more prominent on Government websites, as is currently the case for energy: https://www.ofgem.gov.uk/information-consumers/domestic-consumers/switching-your-energy-supplier.

banking advice,[33] and third party advisers tend to advise SMEs not to switch.[34] The CMA also recognises that banks win business through third party referrals.

(iii) Taken together, for prompts to effectively reach SMEs and then be acted upon, these critical intermediaries should be involved in this remedy. Further, the more the entire SME "eco-system" can be utilised for generating engagement and awareness, the more cost-effective the effort will be.

(g) **Customers of challenger banks are generally more engaged.** The incumbent big four banks benefit from the make-up of their customer base – in particular, the extent to which their back book of customers is comprised of customers who are particularly unlikely to engage with their existing bank. This contrasts with the position of challenger banks, whose customers are more likely to have switched recently and therefore to be relatively more engaged.[35] The fact that challenger banks are in practice more likely to have an engaged customer base means that the remedy package must stimulate better engagement from the customers of the incumbent big four banks, while not placing disproportionate cost and time commitments on the challenger banks.[36]

2 From our perspective as a scale challenger, the CMA's findings support our submissions that, despite our high quality, well priced, innovative offers, our market shares in the markets for PCAs, BCAs and SME lending have not grown as quickly as they would have done in a well-functioning market. The remedies that the CMA introduces therefore need to address the failure of consumers to engage, and thus to switch to providers which offer services which the CMA has found are empirically better (lower price, higher quality) than those offered by the majority of the incumbent big four banks.[37] We consider that the AECs identified by the CMA have had a serious, detrimental effect on competition and on consumers in these relevant markets – and accordingly that the remedy package as a whole must be sufficient to address these effects.

3 We note that the CMA has also identified problems in the market that its remedies package is not designed to address, as they fall outside the switching journey. These include:

(a) capital requirements, which the CMA found to have "*the potential to distort competition and act as a barrier to entry and expansion for smaller banks in retail banking*";[38]

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33 SME Research, paragraph 4.6.2.
34 SME Research, paragraph 4.6.3.
35 Provisional Findings, paragraph 11.29.
36 Taking these points together, we agree with the CMA's assessment that "*internal switching is likely to impose weaker competitive constraints on banks than switching to other banks.*" (Provisional Findings, paragraph 7.22)
37 See for example: "*Figure 5.8 similarly shows that banking groups with the highest market shares tend to have the highest average prices.*" (Provisional Findings, paragraph 5.68)
38 Provisional Findings, paragraph 10.84

(b) innovation, particularly in the SME markets, which was found to be lagging behind the innovation in PCAs;[39] and

(c) payment systems, which have "*a number of issues*" that may put challengers at a "*competitive disadvantage*", but which the CMA is (rightly) leaving to the PSR.[40]

4 We consider that it is incumbent on the CMA to explain how these issues will be addressed by its remedies package, for example by specifying which regulator will be responsible for that discrete issue, as in the case of payment systems.

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39 Provisional Findings, paragraph 6.124. While the CMA considers that there is "considerable" innovation in the PCA market, we remain sceptical that innovation has been significant. As we explained in our Response to the Deloitte Report on the Impact of Innovation in the UK Retail Banking market, we consider a number of the innovations the CMA has considered (for example, digital wallets, aggregators, and digitisation of banking) to be innovations on the periphery of customer experience. In particular, we note that the Provisional Findings and its Appendices contain very little discussion on product innovation, and the little commentary there is centres on our 123 Account.

40 Provisional Findings, paragraph 110.

Annex 2
Comments on individual remedies

As explained above, we believe that the CMA should focus its attention on a package of remedies that is designed:

A. to **improve the switching journey** for both individual customers and SMEs - and to that end, we consider the key remedies for the CMA to work into one coherent package are Remedies 1 to 5 (for PCAs and SME banking);

B. take **specific steps to improve the level of engagement and switching for SMEs**, including steps in relation to Remedy 6 but in particular by developing a "credit passport" in Remedy 13. In addition, Remedies 14 and 15 should be considered as feeding into the switching remedies considered in Part A.

C. to **avoid being distracted** by measures that will not lead to material consumer benefit but would be costly and time-consuming to implement, particularly for challenger banks including San UK. We include Remedies 7 to 12 in this category.

We comment below on each of the proposed remedies set out in the Remedies Notice, by reference to where they sit within these three categories.

A. Remedies we support to improve the switching journey

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

1.1 We support these notifications in principle on the basis that, implemented correctly, they may encourage customer engagement and switching. Prompts to use comparison tools empower the customer at the start of the customer journey, and can help overcome "*the perception by customers that there is no differentiation between banks*", which the CMA found may also reduce the incentives to engage.[41] However, there are a number of important issues in terms of how this policy is implemented:

(a) Communication methods should be trialled and where possible should provide an option for the customer to act immediately on the prompt – for example, a secure email containing a link to the customer's Midata file and a link to a PCW (the further advantage of this method is that whether the customer reads the email and clicks on the links can be tracked). Personal and detailed communications must be made in a secure way. The CMA should ensure that security of information is prominent in its design of Remedy 1.

41 Provisional Findings, paragraph 7.51.

(b) For PCA customers, the notifications should be made by the relevant bank (given that they have the existing relationship and will be contacting the customer anyway).

(c) For SME customers, the notifications should extend to third party intermediaries, who would be well placed to prompt an SME to reconsider their banking arrangements. This could include professional advisers and public authorities. For example, accountants could raise the SME's banking arrangements when an annual return is completed. HMRC documents could include reminders to consider banking relationships.[42] The utility of third party prompts is threefold:

(i) first, SMEs are more likely to consider seriously external prompts, coming from trusted advisers and respected government agencies;

(ii) second, these prompts can be designed to come at the right times - that is, times at which the SME is considering its finances in the round; and

(iii) third, independent advisers can (and should) take an objective, clear and consistent approach in circumstances in discussing banking arrangements with an SME that chooses to evaluate its banking arrangements.

(d) The notification should raise the possibility of switching, but should not oblige the bank to share the amount that a customer could have saved/earned at a particular alternative bank. While this type of message may appear to be superficially attractive, in reality it is difficult to implement and likely to be counterproductive. This is because:

(i) Individual customers are best placed to judge the features they regard as important in respect of choosing a PCA;

(ii) For a bank to provide guidance on which specific PCA or BCA might best suit a customer and their specific needs and preferences is difficult to provide and in any event could risk constituting financial advice which may be subject to regulation;

(iii) It would also in practice be very difficult for a bank to accurately state how much interest a customer has foregone;

(iv) There is a data protection risk: any requirement for banks (or third parties) to use a customer's transaction data obtained from Midata to make a notification risks

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[42] Other useful third party prompts for the CMA to consider would be from HMRC:

- when it allocates Government Gateway ID and password;
- at the end of the tax year;
- at the self-assessment deadline;
- at the VAT return deadline; and
- when SMEs make payments online to HMRC.

The CME should also consider the role of professional organisations, listed at footnote 31.

putting them in breach of the Data Protection Act and/or other regulations where a customer has not given informed consent;

(v) In circumstances where Midata is effective and accessible, the customer is able to do the comparison themselves, giving weight to the factors they see as important; and

(vi) For these reasons, and to avoid providing too much information (with the result that the communication is confusing), we do not consider that banks should be obligated to notify customers using free-if-in-credit accounts of the interest that that customer has foregone.

(e) The CMA should be mindful of the risk of over-communication. As we said in our response to the Updated Issues Statement, "*[b]ombarding customers with excessive amounts of information is likely to create confusion and possibly result in even less engagement*".[43]

(f) Communications should not be required to be in identical format or delivered in the same way for each trigger point. Different trigger points would necessitate different types of communications (for example, the communications after a widespread loss of service would be different from a communication provided at the end of a free banking period). The CMA should be aware that using one mandated format could diminish the effectiveness and impact of the prompts over time. Nonetheless, we suggest that all prompts should be required to contain certain specific elements to ensure consistency.

1.2 In terms of the individual trigger points suggested by the CMA, these can be divided into two groups: significant service failures and account management triggers.

(a) Significant service failures would include:

(i) serious or widespread loss of service arising from an IT breakdown, where there is:

(A) potential for substantial customer complaints leading to account closures across products; or

(B) a detrimental effect on more than [✂] customers; or

(C) an effect on more than [✂] customers; or

(D) an effect on more than [✂]% of customers holding any given product; or

(E) an effect on more than [✂]% of branches or commercial business centres; or

43 Our response to the Updated Issues Statement, paragraph 5.5

(F) a loss of more than [✂] items of sensitive customer, staff or commercial data[44]; and

(ii) a major dispute between a provider and an individual customer involving a complaint being passed to the FOS.[45]

(b) As regards the other potential trigger points involving account management, it will be important to recognise the need to tailor the communication. However, we consider a number of account management events should trigger notifications, including the following:

(i) the closure of a customer's branch (for the registered customers of that branch), given the CMA's finding that branches remain important to consumers,[46] or commercial business centre;

(ii) a "material change" to terms and conditions, including changes to prices and applicable interest rates. We have recently written to our 123 account holders about the increase in the monthly fee;[47]

(iii) incurring unauthorised overdraft charges;

(iv) a change of relationship manager for an SME; and

(v) a PCA customer's transition from a young person's or student account to an adult account; the opening of a BCA for the first time; and the expiry of any introductory offers (e.g. an SME customer's free banking period or a PCA customer's introductory interest or cashback offer).

1.3 We would also support similar notifications being included in annual summary statements sent to customers. In our view, the FCA would be best placed to monitor compliance with the obligation to send notifications.[48]

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44 [✂]

45 [✂]

46 Provisional Findings, paragraph 10.118.

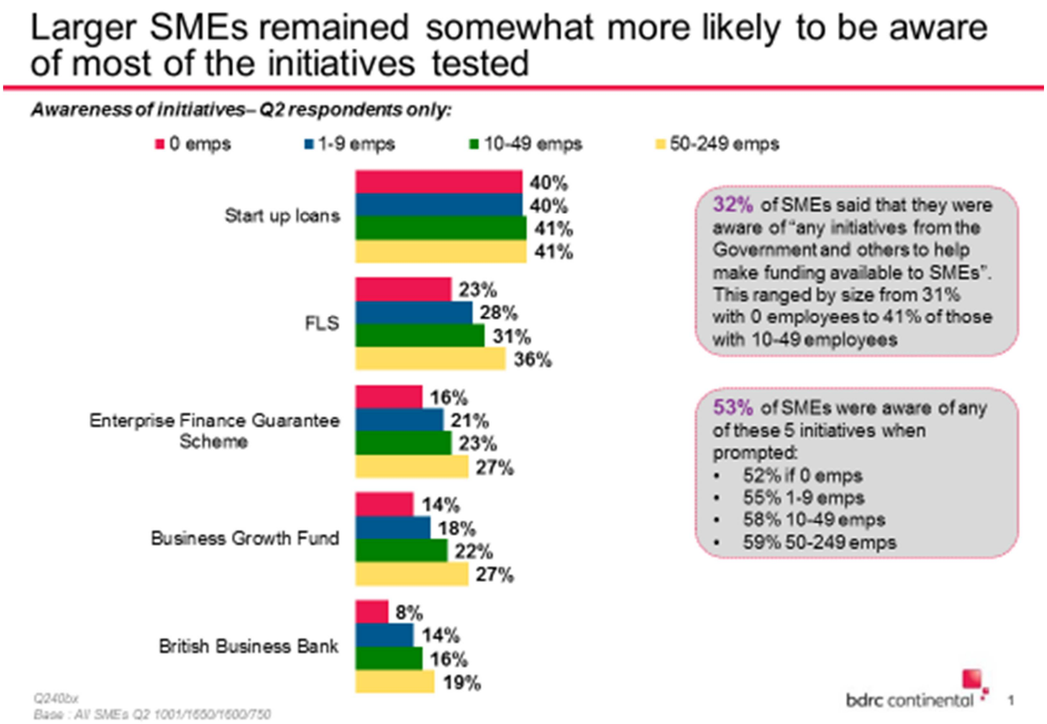
47 See Attachment 1(c)A provided in response to the CMA's information request dated 6 November 2015.

48 In response to the CMA's specific questions around whether we can monitor the effect of customer communications, we note [✂]

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

2.1 We have long supported increasing awareness of the benefits of switching and of CASS,[49] and would emphasise the benefits of CASS and the reassurance/guarantees it offers, rather than the mechanics of the system.

2.2 The marketing effort should be focused primarily on PCA customers, as SME customers are harder to reach.[50] For example, recent research from BDRC has found that, for government-backed lending schemes, SME awareness is very low – as shown in the chart below. To the extent tools are available to both PCA and SME customers, PCA-focused marketing will have positive spill-over effects in increasing SME awareness.



2.3 The existing approach to funding CASS is based on a fee paid per switcher (£5), which covers operational costs. In addition, there are ad hoc 'calls' to pay for promotional activity and any other one-off items. [✂], and there is also a spending plan in place going forwards. We

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49 See, for example, paragraph 7.4 of our response to the Issues Statement, dated 3 December 2014.

50 As we described in our hearing: "*the challenge around advertising in the SME space – and people have experimented with this; I think* [✂] *have tried radio ads and stuff in the Business Banking space, and I think we did as well – is it does not really make a huge amount of difference*".

suggest that the CMA liaise with Bacs to obtain a full and accurate picture of current and planned spending levels.

2.4 In light of the significant recent and ongoing investment into promoting CASS, we consider it important that the CMA considers how best to ensure that future spending on promotion of CASS is given every chance of offering value for money. We note, for example, that the energy switching campaign, "the power to switch" lasted for four weeks and reportedly cost around £5m.[51] It generated 350,000 visits to a dedicated website and 130,000 switches.[52] The current Department of Work and Pensions campaign around workplace pension schemes has reportedly cost £8.45m.[53] The CMA should ensure that any marketing spend is proportionate to the expected benefit. In particular:

(a) the focus of activity should include reaching some of the sub-groups that have traditionally been less receptive to CASS (e.g. financially disadvantaged and younger customers);

(b) digital marketing is likely the most cost-effective way to promote CASS, and would allow for the greatest measurement of impact;[54] and

(c) one aspect of that would be to make more of the industry 'Simpler World' website so that this can become a central information hub for customers.

2.5 In our view, any further promotion should be funded by banks in accordance with their market share by number of PCAs. This is more appropriate than funding according to net gains through CASS. If the latter approach were taken, challenger banks would effectively be punished for success by greater switching to their accounts leading to greater costs.

2.6 In our view, Bacs should continue to be responsible for running the campaigns, with input from the CMA and the FCA.

2.7 In addition, the CMA should consider requiring certain third parties, for example PCWs, to carry CASS branding and information prominently on their websites and communications. We are supportive of banks including material on CASS in their marketing communications.

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51 http://news.sky.com/story/1426530/ministers-fuel-energy-row-with-5m-campaign

52 https://www.gov.uk/government/news/millions-saved-in-one-month-as-switching-energy-supplier-rockets

53 http://www.independent.co.uk/news/uk/politics/department-of-work-and-pensions-under-fire-for-spending-845m-on-40-second-workie-monster-film-a6703431.html

54 Further, we would note that, in our experience, television advertising is not well suited to carrying specific and detailed messages that are designed to drive behavioural change, and does not provide value for money in those circumstances.

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

3.1 We support the improvement of Midata, subject to satisfactory resolution of data protection and technical issues and provided costs are not prohibitive. We note the CMA's finding that: "*Although the Midata initiative is a very positive development, it is not straightforward to use, its current application is not fully effective and its usage remains very low.*"[55] While we agree with this finding, we would stress that an amended Midata – easily accessible and easy to use – is the best possible tool for allowing customers to make informed choices.[56]

3.2 In particular, in the short term, secure Midata/csv file links could be made more accessible on provider websites. In the mid to longer term, the CMA should pursue integration of the customer switching journey, so that there are fewer stages, processes and "clicks" between becoming engaged, searching, and switching. Security of information and customer confidence in this security will be of paramount importance. We would hope to see the customer switching journey shortened, with Midata as simple to use as possible, and connected to the switching process (the "act" aspect).

3.3 We support open APIs, referenced by the CMA at Remedy 14, as a potential mechanism to link users' transactional data to PCWs and on to the switching process (whether through banks' own websites or a central switching site). Tools using open APIs can be set up so that the user has to provide their permission for their data to be used. One issue that the CMA must consider is how any data protection issues are to be guarded against and dealt with. Customers need confidence that their data will be secure if they are to permit their data to be shared via such open APIs. Currently, recent research has shown that, in the circumstances we describe, a customer who receives spam communications or suffers financial loss due to their data being mishandled or accessed by a third party will blame their bank. Moreover, the research also showed that only 4 in 10 consumers responded positively to the concept of data sharing via open API (with the remainder equally split between negative reactions and "unsure"), and suggested that a smart current account comparison tool could potentially save time and effort, but may be used infrequently and many could not envisage when or why they would want to use it.[57]

3.4 Midata should be opened up to other PCWs, although we are particularly concerned that PCWs are correctly incentivised and monitored to ensure that results are presented in a fair and representative manner. For example, at present, the default view on Gocompare.com shows

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[55] Provisional Findings, paragraph 51(d). See further Provisional Findings 7.96.
[56] See our response to the Updated Issues Statement, paragraph 6.4.
[57] Research by Ipsos Mori, presented at a research session on Open Application Programming Interfaces (APIs) on 6 November 2015.

savings/earnings across a one-year time frame. As customers generally stay with their banks for longer than one year, we consider that this is not the appropriate way to display results. Indeed, it gives undue weight to switching incentives, and in fact underplays the possible medium and longer term benefits that switching would give customers. A customer should be required to select a time horizon before their personalised results are displayed, rather than a default option that may be unsuitable for certain customers. We would also welcome consideration by the CMA as to a form of accreditation for PCWs to give customers confidence around their use.

3.5 We consider that the PAD will be a sufficient stop-gap set of measures (and so there should be no further regulation of the presentation of charges).

3.6 Given the role that Midata could play, we consider it is important that it is properly promoted. We believe Midata should be promoted alongside CASS as a contiguous part of the switching process, rather than as a completely distinct service. This would improve customer take-up of Midata.

3.7 As we consider Midata to be intrinsically linked to PCWs, we consider extending Midata to SMEs as part of Remedy 4 below.

4 Remedy 4: A PCW for SMEs

4.1 We support the aim of this remedy as SMEs face real difficulties in accessing and assessing charges and tariffs on BCAs in particular. We note that the CMA has found that:

(a) Information about usage is not really available for start-ups and, whilst bank statements and online transactions are available, there is no equivalent of Midata. This is likely to impact on how easy it is compare banks.

(b) Due to the extensive charging structure of BCAs, pricing is complex, making it more difficult to compare providers.

(c) Many SMEs lack the financial sophistication to compare providers in a comprehensive fashion.[58]

4.2 If the CMA is to alleviate these issues (the aim of Remedy 4), we consider that it should focus on proper comparison tools. A simple PCW would not in itself remedy any of these three barriers. Instead, the comparison tool should be modelled on Midata, following its improvement as discussed in Remedy 3.[59]

58 Provisional Findings, paragraph 8.115.

59 In this regard, the CMA has recognised that BCA calculator tools can be helpful, and noted that the one provided by San UK is "exceptional" in that it allows comparisons to be made across different providers, based on estimates of account usage (Provisional Findings, paragraph 8.106).

4.3 As we have submitted before, a comprehensive market wide comparison tool for BCAs would work well, and would remedy the underlying problems.[60] The tool should only apply to smaller SMEs, as larger SMEs are more likely to negotiate rates on an individual basis and thus there is less scope for them to use comparison services. For those with no credit history, a Midata style analysis would not be possible, but the PCW could follow a similar model to San UK's existing calculator (presenting results based on estimated usage).

4.4 The development of the technology should be funded by banks in accordance with their market share by number of BCAs. This is consistent with the approach we advocate in relation to CASS and more appropriate than funding according to net gains through the new PCW. If the latter approach were taken, challenger banks would effectively be punished for success by greater switching to their accounts leading to greater costs.

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

5.1 We support this remedy in principle, but acknowledge there are some difficult issues for the CMA to ensure it works well in practice. To the extent possible, service quality should be integrated with the enhancements made to Midata, as discussed in Remedy 2.

5.2 As the CMA has found, service is an important consideration for both PCA and SME customers, and the incumbent big four banks provide a lower quality, or no better, service than challengers (alongside typically higher prices).[61]

5.3 As the CMA is aware, "service quality" can be considered by reference to a plethora of different information, some of which is measurable and quantifiable, and some of which is not, and which are all given different weight by customers.

5.4 The preferred mechanism to measure and compare service quality should be neutral and sufficiently well informed (with an appropriate sample size and spread) to provide a helpful tool for consumers and SMEs.[62] This is, however, a difficult task when so many measures already exist and are used by the industry and by commentators and consumers. We would encourage the CMA to consider and test the effectiveness of showing service quality measures on websites or comparisons on PCWs where at least one measure of quality is consistently referenced, to allow the CMA to monitor what impact that has on consumer confidence in that measure. For PCAs, we consider that the FRS survey may be a useful starting point for service comparison.

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60 See our Response to the Updated Issues Statement, paragraph 6.10(g).

61 See, for example Provisional Findings 5.89: "*indicating a possible inverse association between [PCA] market share and satisfaction with the quality of staff and customer service*". The relationship between SME market share and pricing is "relatively flat" (Provisional Findings 6.94), but San UK is consistently cheaper than the incumbent big four banks.

62 We note that this may not be the case with service quality comparisons on PCWs currently.

5.5 For SMEs, the Business Banking Insight (**BBI**) survey could be used as a base for quality assessments. As we have previously submitted,[63] the BBI survey is a useful tool but not one that is currently well known or well used. We noted that improvements could and should be made, because the BBI survey does not include pricing information, for example. However, we consider the BBI survey is an ideal source of satisfaction scores for SMEs, as it is run relatively frequently, and consults a wide range of SME customers. For BBI to be effective as a source of information, however, it must be linked with a Midata tool which allows for pricing comparison, as well as integrated into any PCW in connection with Remedy 4.

5.6 PCWs hosting the comparison tool could include complementary satisfaction surveys that they have run, and/or further information on multiple metrics (e.g. branch opening hours, app scores etc.) could be included at the option of individual PCWs.

5.7 We consider that there is sufficient data/research that industry bodies should not need to be involved in the funding and operation of a new service that attempts to be definitive. The CMA should therefore consider how best to make use of existing measures in a way that most effectively helps consumers and SMEs. The FCA should be involved in monitoring the use of service scores in marketing (as it currently does).

B. Remedies we support to increase SME engagement

6 Remedy 6: Standardise and simplify BCA opening procedures

6.1 We note that the CMA has found that the "*account opening process can be lengthy and onerous, particularly because of banks' processes for undertaking anti-money laundering (AML) compliance and know-your customer (KYC) checks.*"[64] We believe that incorporating standardised opening procedures with our Business Data Initiative (**BDI**) credit passporting initiative at Remedy 13 would improve the switching process.

6.2 We do not consider that this proposal reduces incentives to compete. The remedy would be a "minimum standard" a standardised approach which would work anywhere. The remedy would not prevent individual banks from offering additional innovations to make their own processes even easier, if they felt that such differentiation would give them a competitive advantage.[65]

6.3 However, there will be difficulties to overcome. These include re-engineering how information is processed by banks' IT systems and assessing the level of complexity at which a standardised procedure could efficiently operate. Banks may require different types of information for larger,

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63 See our Response to the Updated Issues Statement, paragraph 6.10(f).

64 Provisional Findings, paragraph 89, 8.118-8.123, and 10.99.

65 See Provisional Findings 10.91, which notes "*On the contrary, some see CDD processes as an area in which they can differentiate themselves.*" This is in the context of finding that AML regulation is not a barrier to entry or expansion, but that the "hassle" created for SMEs (in particular) by AML checks is a barrier to switching.

more complex SMEs and the procedure may involve greater involvement from staff who are familiar with the company involved.

7 Remedy 13: Data sharing with credit reference agencies

7.1 The CMA found that access to transactional data is a barrier to entry and expansion to SME lending.[66] Remedy 13 would *"require banks to pass to [credit reference agencies] such SME transaction data as will enable them to provide reliable credit assessment information in respect of loan applications.'*[67] This would go some way in alleviating the CMA's concerns.

7.2 However, we believe that more should be done to allow SMEs to access and use their own data through the development of a credit passport, which the SME could use in applications for financial products across the industry. In developing such a credit passport, we would encourage the CMA to have regard to the Business Data Initiative. The BDI is a commercial solution intended to reduce the cost of accessing private, commercially sensitive business data for service providers and counterparties (such as banks) who use that data to support their own process requirements. It is a single, online conduit for the provision of credit and anti-money laundering/know-your-client data between UK businesses and prospective financial service providers. Our partners in developing BDI are Experian, KPMG, Oliver Wyman and AgFe.

7.3 BDI's founding principles include that it is to be:

(a) Low cost: free to use for businesses, small fee for users;

(b) Open: open to all market participants, with no privileged access;

(c) Focused: narrow, specific mandate, focused on data permissions, routing and tagging;

(d) Flexible: data structure allows for the varying data needs of individual users;

(e) Trusted: market ownership, with entrenched constitution and no controlling stakes; and

(f) Secure: market leading encryption and permission technology.

7.4 BDI is currently in development, with technology design at a prototype stage, and is working towards a UK launch [✂]. BDI could have a significant impact on the ability of SMEs to control their own data and hence to use it for a variety of purposes, including comparing and switching accounts.

66 Provisional findings, paragraph 10.274.
67 Notice of Possible Remedies, paragraph 154.

8 Remedy 14: Commercial open data and data sharing proposals

8.1 The Open Banking Project is currently looking at how APIs can be used to share information with third parties for price comparisons, and the Government has since asked industry participants (banks, and financial technology companies) to work together to introduce an Open API.

8.2 We are on the Open Banking Working Group looking at API usage and wider data sharing, and its report is to be presented to HM Treasury by the end of the year, including a roadmap for implementation over 12-24 months. As such, while this is of fundamental underlying importance to other remedies being considered by the CMA, it is not clear what of Remedy 14 the CMA considers to be additional to the work already in progress.

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

9.1 We support this remedy in principle, and in fact already provide an online calculator for SMEs to consider indicative pricing based on loan amount and the repayment term.[68] The CMA's proposal would also include the SME submitting some further data on credit scores, or answering questions designed to assess creditworthiness. We consider that requiring indicative tools to be designed to include such further data carries risks. The more data an SME submits, the more likely the SME will regard the "indicative" price to be an actual price. In reality, pricing and eligibility for SME lending depends on a number of factors, hence the involvement of relationship managers. This is particularly true for banks like San UK that place emphasis on the relationship element of SME banking.

9.2 We would therefore suggest that, while indicative pricing tools are helpful, their design and content should be left to individual banks' discretion. Rather, the key to facilitating lending applications and comparability of offered pricing is Remedy 13, i.e. the development of a credit passport.

C. Remedies the CMA should not pursue

10 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

10.1 The position as set out at paragraph 96(b) of the Notice of Possible Remedies (*"Requiring providers to arrange their application process in such a way that customers were given a firm*

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68 http://www.santander-products.co.uk/loans/business/calculator/index.html?amount=5000&duration=48.

decision on overdraft facilities before closing their original account') is already the position endorsed by the FCA. We already implement this policy. Customers are aware of the overdraft they are being offered before they complete the account opening process (regardless of what channel the customer has applied through). The customer can then choose whether to proceed. As such, we do not consider that this Remedy would constitute a major or effective change in the market.

10.2 Nonetheless, we consider that the approach taken in respect of overdrafts should form part of the marketing/Midata information that customers are given ready access to.

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

11.1 As already agreed by the industry, 36 months is the minimum period of redirection provided by CASS. If after 36 months there have been no Bacs or Faster Payments within the last 12 months (to take account of annual items) then the redirection will end for that customer. If there are still items being redirected (currently approximately 3% of the accounts on the redirection database) then they will remain on the database until such a time there is a clear 13 months.

11.2 In effect this creates indefinite redirection for the very small number of affected customers. Bacs has recently agreed to amend this approach to continue redirection only when the relevant redirected payments are regular payments, i.e. ones that have been made at consistent intervals in the past. This is to reduce risks associated with keeping more items on the redirected database. The CASS database, and the risks related to it, is one of the Bank of England's oversight priorities for Bacs in 2015.

11.3 As such, we neither consider this a novel remedy, nor a particularly helpful one, given the very small number of accounts that in fact require redirection services for more than 36 months.

11.4 For the avoidance of doubt, we cannot see an advantage of ANP above and beyond those already achieved by CASS, and agree with the CMA that ANP would involve a very significant and hugely disproportionate cost. As a report prepared for the Australian government in 2011 put it, ANP would amount to using "a gold sledge hammer" to crack a nut.[69]

[69] *Banking services: cost-effective switching arrangements*, 2011 at paragraph 2.15. Report available here: http://banking.treasury.gov.au/content/reports/switching/switching.asp

12 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

12.1 While in principle we support the aim of this remedy, and in fact is similar to our current practice,[70] enforcing the proposal is of very marginal benefit and risks causing distraction from the remedies of greater priority. Moreover, for SMEs, for whom this remedy would be more worthwhile,[71] we suggest that a holistic approach that gives SMEs better control of their own data (as set out in Remedy 13 above) would be more effective.

12.2 In particular, we consider the time period to be unduly long. The longer the period for which information is required to be offered, the more likely a bank would need to charge for the service. We understand the rationale for this remedy is that "*Transaction histories may be required as part of, for example, a mortgage application and while in the past customers may have retained hard copies of bank statements, as they are increasingly accessed online, fewer customers may retain them.*"[72] We consider a shorter period – in our view, a year – would be adequate to address the issue as it would cover all realistic situations where transaction histories are required. Giving customers this information on account closure would also be helpful.

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

13.1 We consider that this does not cause issues in the majority of instances, with difficulties arising on in very limited circumstances.

13.2 CPAs are governed and run by card operators. As far as we are aware, there have been no reported complaints to CASS or in respect of switching regarding CPAs. This is likely to be because CPAs tend to be on credit cards. Bacs is looking to make clear in its CASS communications the differences between CPAs and Direct Debits. As such, we do not consider the CMA should focus its efforts on this remedy.

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70 Customers and ex-customers can request their San UK statements to be provided up to 6 years after the account was closed (this time limit is in place for data protection reasons). There is a charge for this service: £5 for one statement or £10 for multiple. Charges are the same for current and former customers.

71 The CMA references the advantage of incumbent banks holding BCA transaction history at paragraphs 8.149, 9.35 and 10.220 of the Provisional Findings.

72 Notice of Possible Remedies, paragraph 108.

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

14.1 We do not support a partial switching service guarantee through CASS for PCAs for the following reasons:

(a) **It is unnecessary.** While the CMA found that the automatic closure of an old account when switching through CASS "*may act as a barrier to switching [because] many customers may choose to multi-bank and may not want to close a previous account*",[73] customers already effectively have the option of a partial switch. They can open a new account without switching their existing account, and after they have satisfied themselves that they are happy with their new provider, they can approach their bank at any time to carry out a full CASS switch. This is a much clearer and transparent approach for customers as they are in absolute control of what transactions, mandates etc. are with each provider – the customer decides if and when to commit to a full switch.

(b) [✂].

(c) **It would be counter-productive.** As the CMA has found, banks are targeting the primary banking relationships.[74] Indeed, we have taken the conscious decision not to guarantee partial switching and yet, despite this decision, we have succeeded in being the most switched to bank since the introduction of CASS.[75] If partial switching and extensive multi-banking was the norm, these strategies may change, which would have an effect of the types of offer banks made; and these changes would not necessarily be beneficial to customers.

14.2 For SMEs, we recognise that there may be particular benefits to choosing certain mandates to be moved or not. The potential adverse consequences of, for example, staff salaries or suppliers not being paid may be sufficiently critical for an SME that they may wish to retain control of which individual mandates are transferred at which point. However, our view is that, overall, these factors are not sufficient to justify the additional cost and complexity of guaranteeing partial switching under CASS in circumstances where SMEs can already effect a partial switch.

15 Remedy 12: Changes to CASS governance

15.1 This should not be a high priority for the CMA, and does not appear to stem from the Provisional Findings. CASS governance works well in practice and awareness and promotion are more significant issues than further innovation.

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73 Provisional Findings, paragraph 7.110.
74 See, for example, Provisional Findings, paragraph 7.174.
75 See the discussion at Provisional Findings, Appendix 7.1.