TSB Bank plc

Responses to provisional findings and notice of possible remedies

Introduction & Overview

1. This submission provides TSB's views on the CMA's provisional findings report (the "Provisional Findings") and notice of possible remedies (the "Remedies Notice") published on 22 October 2015, in respect of its investigation into the retail banking market.

2. The CMA's findings that adverse effects on competition ("AECs") exist with regard to the provision of PCAs, BCAs and SME lending and its consideration of whether to implement remedies mark a pivotal moment for improving competition and opening up the retail banking sector. Failure to implement change now will lead to stagnation in the market and disadvantage customers.

3. TSB strongly supports the CMA's provisional findings that competition is not working effectively in the UK retail banking markets, to the detriment of customers. Of particular concern is the provision of PCAs and obstacles to consumers switching, which affect the cost, service quality and other customer benefits associated with their PCA. These findings align with the competition problems identified in TSB's own recent paper, *Competition Matters*.[1]

4. TSB therefore welcomes initiatives proposed by the CMA to increase transparency for consumers, supply the tools for product comparisons, and promote and facilitate switching between PCA providers. TSB particularly endorses the CMA's proposed Remedies 2 and 11 relating to the promotion of CASS and the extension of this enhanced switching service to partial switchers.

5. While TSB broadly supports the CMA's proposed remedies to improve engagement, transparency and the switching service, TSB believes that they will not be sufficient to remedy the AEC's and therefore more can be done. In particular, TSB advocates solutions targeted at helping customers assess the true value of their PCA and the PCA offerings of other banks and solutions which enable customers to switch to another provider easily and with confidence.

6. In order to strengthen the package of remedies, TSB proposes two further solutions that support Remedies 1, 7 and 9 proposed by the CMA: a standardised Monthly Bill to customers for all PCAs; and a Credit Passport. These will enable the CMA to address the AECs identified in the Provisional Findings more effectively and improve the offering for customers. The

[1] http://www.tsb.co.uk/competitions-booklet.pdf

papers attached to this submission as Annexes I and II provide further details on TSB's proposals in these two areas.

7. The CMA's Provisional Findings on the AECs in respect of BCAs and SME lending are supported by TSB. Due to its limited presence in business banking, as in its previous submissions, TSB concentrates below on PCAs – but much of this thinking on PCA remedies has read-across value to these other sectors.

8. The subsequent sections of this submission are structured as follows:

    a. First, TSB provides a brief response to the CMA's Provisional Findings with respect to the PCA market.

    b. Then, TSB introduces its two proposals that will help the CMA to meet the objectives of improving transparency and increasing switching within the framework of Remedies 1, 7 and 9.

    c. Finally, TSB comments on the other proposals in the CMA's package of possible remedies.

9. This is a once in a generation opportunity to transform retail banking in the UK and we encourage the CMA to use the full force of their powers to make banking work better for all UK consumers.

<u>The Provisional Findings</u>

10. TSB strongly agrees with the CMA's assessment that "a combination of low customer engagement, barriers to searching and switching, and the incumbency and scale advantages" leads to an AEC in the provision of PCAs.[2] Furthermore, TSB supports the CMA's proposition that the complexities and absence of transparency in PCA pricing, combined with a lack of tools for customers to compare products and a switching service that does not have sufficient public recognition or consumer confidence, are leading to competition problems in UK retail banking and adversely affecting customers.

11. Additionally, TSB supports the CMA's finding that established banks with higher market shares do not provide a better offer to customers and that "recent entrants and expanding brands (including brands owned by the larger established banks) tend to offer lower average prices and banks with the highest market shares tend to have the highest average prices" in addition to there being no "general tendency of higher quality offsetting higher pricing".[3]

12. In particular, TSB welcomes the CMA's assessment that there is "a lack of trigger points because PCAs have no contract end date, which means that customers are not required periodically to consider if their PCA is the best for them". This significantly disadvantages

[2] CMA, "Retail banking market investigation: Summary of provisional findings", para 64.
[3] CMA, "Retail banking market investigation: Summary of provisional findings", paras 43 and 45.

overdraft customers, who the CMA states "would save on average £140 a year", while heavy overdraft users "would save on average £260 a year", if they had regular access to the relevant information.[4]

13. TSB notes that the CMA has concluded there is insufficient evidence that the current concentrated market structure is itself having detrimental effects on customer outcomes (previously theory of harm 2 in the CMA's issues statements) – although the CMA does recognise that the established banks enjoy significant incumbency advantages linked to their large, inert customer back-books. TSB further notes that the CMA has also concluded that the costs and risks associated with establishing IT systems are not a barrier to entry/expansion (part of the CMA's previous theory of harm 3).

14. As stated in its response to the CMA's updated statement of issues, TSB continues to believe that these are real issues inhibiting effective competition in UK retail banking and, importantly, that the behavioural and structural problems identified by the CMA are all interlinked. It follows that any package of remedies must be fully comprehensive in order to address all of the issues. There is a risk that simply increasing switching (a challenge in itself), without also addressing the other barriers which prevent new entrants and smaller competitors from competing effectively with incumbents for PCA customers, may not be enough to facilitate genuine disruptive competition from new providers.

15. Given the current stage of the inquiry and that it has already made these views clear, TSB does not propose to make further submissions on these other theories of harm (although it would be happy to provide any further information that the CMA may find helpful in these areas). However, the one related point that TSB would emphasise now is that, if the CMA is to limit its focus to remedies aimed at eliciting further engagement and switching from customers as the way to unlock real competition in UK retail banking, it is all the all the more important that this remedies package is sufficiently robust and far-reaching.

16. Clearly, the AEC in PCAs which the CMA has identified is a serious one, of major significance to UK consumers and the economy. TSB therefore looks forward to the CMA pursuing remedies to address this AEC with vigour and resisting any arguments that they are not needed or should be watered down.

17. As a final observation before turning to specific remedies, TSB would also make the point that when designing remedies it will be essential for the CMA to be cognisant of the need to avoid unintended consequences such as placing a disproportionate burden and cost on smaller challengers and/or creating a market with increased switching but one where the large banks have an undue advantage to exploit in winning those newly available customers.

[4] CMA, "Retail banking market investigation: Summary of provisional findings", para 51.

TSB's Proposals to Enable More Effective Remedies

Monthly customer bill – Remedy 1 – Prompting customer engagement

18. TSB agrees that the objectives of Remedy 1 are critical and fully endorses the CMA's intention to address the lack of trigger points for PCA switching by prompting customers to review their PCA provider at times when they may have a higher propensity to consider a change. TSB supports the situation- or event-based prompts (e.g. a major service disruption, a material change in the bank's terms and conditions, or closure of a customer's branch) suggested by the CMA.

19. However, TSB does not consider that such prompts will in isolation have a significant impact on levels of switching.

20. These prompts are not materially different from the communications which banks are already obliged to send customers upon, for example, a change to their Terms and Conditions. To foster greater engagement, customers must be given the tools to understand their account usage and its true cost. Without this understanding, customers are unlikely to question the value of the services they receive (even when these deteriorate), nor consider whether there might be alternative PCAs available to them which are better suited to their needs.

21. Furthermore, these event-based prompts will only reach a limited number of customers on an irregular basis – i.e. those receiving deterioration in service. The majority of customers who have not suffered a specific service deterioration, but who could still receive better service and value for money elsewhere, will never be prompted to consider alternative providers.

22. To address these issues, TSB suggests that the CMA reinforces the prompts proposed in Remedy 1 by also introducing a standardised Monthly Bill, delivered by all banks to all customers. This would set out all the costs associated with the services provided to the customer, the charges incurred and the rewards earned each month, in a clear, standardised format.

23. First, the Monthly Bill would create more and better trigger points by encouraging regular (rather than sporadic) engagement for all (rather than only some) customers with their PCA provider. As noted above, not all customers who suffer a material deterioration in service will necessarily receive an event-based prompt. A particular PCA may cease to be competitive as a result of changes in the wider market or in the customer's account usage. For example, the provider may have failed to adjust its offering in light of a change to the Bank of England base interest rate. The Monthly Bill would pick up this and all other relevant trigger points, to demonstrate how the benefits received from and the costs of the PCA will vary significantly, depending on customers' individual usage and circumstances. If customers' usage changes (e.g. a significant increase in the credit balance) or they incur significant unexpected costs, the Monthly Bill would provide a prompt for them to consider whether alternative providers may be better value.

24. Secondly, the Monthly Bill would empower and galvanise consumers to make informed decisions, by giving customers more and better information, and obliging banks to be transparent over charges and fees, thereby tackling one of the underlying causes of low customer engagement. Customers do not currently have the tools to compare and contrast the true costs and benefits of different banking services easily, meaning that many see little benefit in switching accounts – and this is exacerbated by the myth that banking is "free".

25. It will give customers a prompt which clearly and succinctly illustrates how their particular pattern of account usage impacts the value and cost of their PCA month-on-month. Without this information, the customer is unlikely to question whether they can get a better deal elsewhere. The event-driven prompts suggested by the CMA might act as a call to action but the Monthly Bill is more effective because, as well as being a call to action, it ensures that customers are actually able to understand their account usage and the amount they pay for using their bank account, making them more likely to respond to this call to action and to switch.

26. In addition, the Monthly Bill would give customers the relevant information to track how the deterioration or change in service, e.g. a change in their Terms and Conditions, has impacted the costs and benefits which they receive.

27. Finally, in the context of Remedy 1, the CMA asks if providers should advise customers "to actively consider an alternative provider" and "draw attention to specific better-value accounts available from other providers". TSB agrees with this suggestion: customers should not only be prompted to engage with their PCA and be provided with sufficient information in order to do so; they should also be given an opportunity to consider alternative providers. On top of the better prompts to consider alternative providers (based on better information to allow the customer to understand the true costs and benefits of the services provided with their existing account), a nudge towards making the comparison is also needed – in order to make clear to customers that there may be alternative products which are better suited to their particular needs. TSB therefore suggests that an encouragement to use appropriate comparison tools, such as an improved Midata (see below) or another comparison website, is included in the Monthly Bill.

28. TSB believes the introduction of the Monthly Bill, alongside event-based prompts, is necessary and proportionate to address the AEC the CMA seeks to address with Remedy 1 – namely, the need to increase transparency in the market and create more trigger points for customer to engage with their PCA. To counteract incumbency advantages, Remedy 1 needs to prompt meaningful engagement from all PCA users – including customers with stable balances, multi-bankers and overdraft users – regardless of how they are affected by services changes and charges. The Monthly Bill could help to achieve this.

29. TSB's own customer research indicates that the majority of customers would welcome the Monthly Bill and that it would trigger many of them to reconsider their current arrangements. Given that the information included in the Monthly Bill should be readily

available to PCA providers, this solution is not only practicable, but the costs would be proportionate to the customer benefits.

30. Further details on what specifically should be recorded in the Monthly Bill, how it might be delivered across the industry, and why TSB thinks that this would instigate greater customer engagement with PCAs than would be achieved by irregular prompts, can be found in Annex I to this submission.

Credit passport – Remedies 7 & 9 – Making it easier to overdraft users to switch and providing historic transaction data

31. The CMA's Provisional Findings highlight the difficulties faced by customers who require access to overdraft facilities when it comes to switching PCA provider. In particular "the complexity and diversity of banks' charging structures" and the difficulty in understanding their own usage, combined with risk associated with late decisions on granting overdraft facilities, appear to put customers off. TSB shares the CMA's concern that overdraft and heavy overdraft users, despite having the most to gain from switching, are less likely to switch, and notes that just [redacted] of switchers away from TSB are heavy overdraft users despite [redacted] of all TSB customers being heavy overdraft users. This indicates that this small segment is unable or unwilling to switch.

32. Overdraft and heavy overdraft users are "trapped" with their current provider because a new bank is unlikely to have sufficient validated customer specific data to offer a customer the same overdraft limit as their existing provider or one they would get if they became an established customer of the new bank. TSB's own analysis shows that the average overdraft limit offered to qualifying new bank customers is £[redacted]. After banking with TSB for 12 months, the average overdraft limit available to these customers increases to £ £[redacted], an increase of circa [redacted]%[5].

33. In Remedy 7 the CMA offers two potential solutions to make it easier for prospective PCA switchers to find out whether suitable overdraft facilities would be available from another PCA provider. The first requires a self-assessment tool to be made available on provider's websites and the second requires changes to the application process in order to enable customers to obtain a firm decision on overdraft facilities from the alterative provider before switching account. However, the CMA raises concerns that the first option may not be sufficient, while the second may be too complex to implement. In Remedy 9 the CMA offers a solution to ensure banks provide customers with transaction histories to take to the new provider once they have switched.

34. Given regular use of an overdraft (and credit facilities more broadly) is important to many customers in the market, especially those with the most potential gain from switching, remedies 7 and 9 will not in isolation remove one of the biggest barriers to switching.

[5] The TSB analysis takes a sample of customers who opened their account between May and October 2014 and looks at the limit offered at the point of account opening versus the limit available 12 months later. The data excludes customers who have become inactive during this period.

35. TSB therefore advocates the introduction of a "Credit Passport" to help the customers who would benefit most from switching by providing banks with more relevant and accurate transaction history data to inform credit decisioning than is currently available. The Credit Passport would put new customer overdraft applications on a more even footing with existing customer overdraft applications because PCA providers would have the equivalent validated information on new customers to inform their credit decisioning.

36. Under the Credit Passport proposed, all PCA providers would be mandated to provide a centralised resource, such as an existing credit rating agency, with customers' account usage and transactional histories. The credit agency, when requested by the consumer, would make the data available, in a usable format, to any prospective alternative PCA provider. This will make it easier to assess an applicant's risk and affordability at the point of application or inquiry, thereby increasing the likelihood that a new provider will match a consumer's existing overdraft limit.

37. The Credit Passport would not require significant re-ordering of the PCA application process, which is also considered under Remedy 7, because the prospective PCA provider will be able to use the Credit Passport data to inform the applicant whether their existing overdraft limit can be matched at account opening, before the switch.

38. By providing banks with more relevant and accurate transaction history data to inform credit decisioning than is currently available, and increase the likelihood of a new provider matching a consumer's existing over-draft limit, the Credit Passport will free overdraft and heavy overdraft users from the constraints of their existing overdrafts. Overdraft and heavy overdraft users will then be able to choose their PCA provider based on a broader range of criteria such as quality of service and access to branch.

39. In Remedy 9 the CMA seeks to address the deterrent to switching arising from customers' concerns about losing their transaction history. The Credit Passport would be a way of addressing this issue as well, since it would also provide absolute assurance to prospective switchers that they would not be losing their credit history in the event that they switched account. While the CMA suggests that such concerns could be mitigated by requiring banks to retain and provide ex-customers, on demand, with details of their PCA transactions over the five years prior to account closure, the Credit Passport would be more convenient and give customers more certainty before they switch. Customers would not need to hold onto a one-off communication containing all their credit history. Instead, information would be available on demand and follow them from account to account.

40. The Credit Passport therefore has the potential to address the obstacles to switching caused by customers being concerned about the availability of equivalent or better overdraft facilities at alternative PCA providers, as well as the deterrents to switching caused by customers not wanting to lose access to their transaction history. In line with CMA's objectives, it would be a practicable and proportionate remedy, which would be effective within a short timescale.

41. For more information concerning the credit please see TSB's full proposal in Annex II to this submission.

<u>Other Remedies Put Forward by the CMA</u>

42. In the following paragraphs TSB provides its views on the other remedies relevant to the PCA market which the CMA has put forward. TSB is not providing more detailed standalone papers in respect of any of these other remedies. However, it should be appreciated that this is simply because TSB has less to say at this stage on the detail of the design of these remedies; it is not because TSB regards them as any less important to tackling the AECs identified in the Provisional Findings. On the contrary, a comprehensive suite of remedies should be implemented if the CMA is to be successful in facilitating the changes needed to encourage switching and overcome the structural disadvantages that new entrants face.

Remedy 2 – Increase public awareness of the potential savings or rewards that could be obtained by switching and the benefits of using CASS

43. As highlighted in its recent report, Competition Matters, TSB regards the promotion of CASS as one of the four key ways to expose banking to the full force of competition. It fully endorses the efforts the CMA makes to increase awareness and understanding of CASS. Customers must be aware of the enhanced switching service, and feel confident that switching is easy and understand how the cost of switching is underwritten.

44. Given the current low levels of awareness of CASS and customers' lack of engagement with PCAs more generally, the campaign needs to be large-scale and also sustained over a long period of time. It should be targeted at all customer groups to ensure that all PCA users are familiar with the service. CASS should be further promoted by ensuring that all PCA providers are required to refer to CASS on promotional PCA material and on The Monthly Bill which TSB proposes to enable more effective implementation of Remedy 1. This should be complemented by an industry agreement to make sure that CASS features more prominently on internet banking home pages, through mobile banking apps and at cash machines, and through customer contact.

45. Any campaign should be run by CASS, with expert third-party PR assistance. It should be funded by the whole industry, based on overall stock market share as opposed to net gains (which would unduly discriminate against those most successful in providing more competitive PCAs for consumers to switch to – or even risk deterring PCA providers from actually competing for switchers).

46. To ensure that this campaign is successful and has the desired effect on switching levels, TSB would encourage the CMA to set customer awareness targets to be achieved by CASS, which should be measured through consumer research and audited by the FCA. If targets are not met, the FCA could consider whether there is a need for additional measures in order to communicate the CASS service to consumers.

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

47. In Remedy 3, the CMA rightly recognises that customers must be put in charge of their data. TSB cannot comment specifically on the technical aspects of Midata as it has not been involved in its development so far. TSB would welcome improvements to price-comparison websites and the provision of broader, more detailed information via the Midata scheme.

48. However, TSB is concerned that Midata still requires significant further development before it becomes an effective tool, which facilitates switching. In particular, issues regarding how results are displayed persist. Midata defaults to rank PCAs based on just one year of usage, which skews the results to those accounts which offer short-term benefits. A longer timeframe of comparison is needed in order to reflect the typical lifetime of the product properly. In addition, Midata should not concentrate solely on financial factors, but also service ranking, in order to drive customer behaviour in a way which properly reflects customers' needs.

49. Also, making use of Midata still requires the customer to take the pro-active of step of obtaining the transaction data – either by downloading it his/herself or by providing permission for a price-comparison website to do the same. The customer must have already made the decision to investigate alternative PCAs before he/she receives further information regarding his/her account usage. Therefore, TSB believes it is important to supplement Midata with the event-based prompts suggested in Remedy 1 and by the introduction of the Monthly Bill. A prompt to use Midata, displayed on the Monthly Bill, would make the connection between these needs and encourage the customer to compare different providers' products in an informed way.

50. TSB looks forward to seeing more details on how Midata can be further developed to address some of the concerns mentioned above. While TSB supports any initiative which provides customers with easier or greater access to their own transaction data, it would stress that this technology should be developed with the interests of the whole industry in mind so that it does not given any particular PCA provider an unfair advantage. Any new technology platform should be tested to ensure that all PCA providers are treated equally, so that it provides a level playing field for providers to be compared.

Remedy 5 – Enable consumers to make comparison between current account providers on the basis of their service quality

51. In the same way that TSB proposes the adoption of the Monthly Bill so that customers can assess all the costs associated with their account, TSB fully endorses initiatives which allow customers to evaluate the quality of service they receive when using their PCA. Opening up the market to more service quality measures could drive an improvement in service across the industry.

52. TSB suggests that service quality be assessed by Net Promoter Score (“NPS”), a measure which, as the CMA recognises, many PCA providers already use to conduct customer

satisfaction research. This would need to be standardised. Should such a uniform approach be adopted, TSB would advocate adding this metric to its proposed monthly customer bill. As a minimum response, the CMA should require this measure to be carried by all price comparison websites.

53. Given that it is responsible for monitoring customer service in the provision of financial products more generally, TSB would regard the FCA as the natural monitor of the collection and publication of service quality results too. The FCA would also need to ensure that measures such as NPS remained the most effective metric to measure customer satisfaction.

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

54. Regardless of the period or redirection, what is important is that consumers are confident when switching that their payments are fully guaranteed.

55. TSB is not clear that Account Number Portability (ANP) would boost customer confidence in switching either. As TSB has previously argued (in its response to the CMA's updated issues statement) with regard to ANP generally, the likely difficulty and expense in implementing it is not commensurate with the possible benefits.

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

56. As with the other reforms which build confidence in and improve CASS, TSB is open to exploring this remedy with the rest of the industry.

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

57. TSB fully supports this measure. In order to ensure that CASS is as effective as possible, the switching service should be available for partial switchers as well and should be provide on the basis of similar guarantees. As recognised by the CMA, multi-banking is already an increasing trend in UK banking and this remedy could be a significant driver of more switching.

58. The need to close the existing PCA acts as a deterrent to switching. If partial switchers received the same guarantees as full switchers under CASS, customers are more likely to be motivated to try out other PCA products before switching fully. Greater customer engagement with partial switching will in turn drive providers to provide greater incentives to partial switchers.

Remedy 12 – Changes to CASS Governance

59. While TSB has had no issues with its CASS membership and the management structure of CASS to date, greater regulatory oversight of CASS would be beneficial to ensure that the scheme is operated in the interests of the entire industry and customers. This would avoid

any potential issues in the future, particularly if CASS is going to have an increasing role in facilitating competition going forward.

60. Given that the FCA has oversight of PCAs more broadly and has recently acquired competition enforcement powers, and CASS is integral to the PCA switching process, TSB suggests that the FCA adopts this supervisory role.

Conclusion

61. As stated above, TSB strongly supports the CMA's provisional findings that competition is not working effectively in UK retail banking, to the detriment of customers.

62. The AECs which the CMA has identified are serious ones and are of major significance to UK consumers and the economy. It is therefore vital that the CMA designs a comprehensive package of remedies to address fully these AECs.

63. A competitive market is one in which all customers are able to make informed choices about their banking; where all customers have a credible option to switch – particularly those who would benefit the most; and where all customers are engaged. This will result in a market where banks operate in the interests of all consumers. The success of this package of reforms should be judged against these criteria.

64. Care must be taken, however, when designing the package of remedies to avoid unintended consequences such as placing a disproportionate burden and cost on smaller challengers and/or creating a market with increased switching but one where the large banks have an undue advantage to exploit in winning those newly available customers.

65. Whilst TSB broadly supports the package of possible remedies identified by the CMA in the Remedies Notice, it considers that the CMA should go further. TSB has therefore proposed two supplemental remedies: a standardised Monthly Bill to customers for all PCAs, and a Credit Passport. For the reasons explained in this response, these supplemental remedies would support and strengthen Remedies 1, 7 and 9 identified by the CMA.

66. This is a once in a generation opportunity to transform banking in the UK and we encourage the CMA to use the full force of their powers to make banking work better for all UK consumers.

* * *

Annex I – Monthly Bill

20 November 2015

As discussed in TSB's response to the CMA's Provisional Findings and Remedies Notice, TSB believes that Remedy 1 will not, in isolation or in combination with the other remedies currently formulated by the CMA, prompt a material number of customers to consider switching their PCA provider. TSB therefore continues to propose a supplementary remedy in the form of the introduction of a standardised Monthly Bill.

This paper explores:

- The limitations of Remedy 1 as currently formulated.
- How the Monthly Bill would supplement Remedy 1.
- Research which shows how consumers would respond to the Monthly Bill.
- How the Monthly Bill would be delivered.

Limitations of Remedy 1

TSB agrees with the CMA's analysis that customers need to be provided with prompts to shop around. TSB contends, however, that the types and styles of communication currently proposed by the CMA will not, in isolation, have a significant impact on levels of switching in the market and will not best serve the interests of all customers for four reasons:

- First, the trigger points cited by the CMA will not, in isolation, address the underlying causes of low customer engagement in the PCA market and will therefore not have a material impact on switching. Without a prompt focused on improving transparency in the banking market so that customers understand how much they are paying for their banking services, customers may not see any benefit to switching even when they have experienced a significant deterioration in service.
- Second, the proposed prompts are not materially different from what banks are currently obliged to communicate to their customers. For example, a bank should already give prior warning of changes to Terms and Conditions and when customers incur overdraft charges, and should not close a customer's account without giving the customer at least 30 days' notice.
- Third, the proposed prompts are event-based and are not regular enough to influence a large number of customers. These events may also not fully reflect instances where

customers have experienced detriment. For example, if base rates were to rise and a customer's current provider did not reflect this when competitors did, this customer is still experiencing market detriment.

- Fourth, the CMA notes that a broad group of customers could receive better service and value for money by switching, however, with event based prompts alone, only those customers already experiencing a negative change (such as branch closure) will receive the proposed prompts, rather than all customers.

How the Monthly Bill would supplement Remedy 1

The Monthly Bill, delivered in a standardised format to every PCA customer, would be a step-change in transparency for the industry and complement Remedy 1 by ensuring that all consumers are provided with a regular prompt to switch, not just those customers experiencing a set-piece deterioration of service. Moreover, for those who do experience a deterioration of service, the Monthly Bill would enable them to see how this deterioration impacts the costs and benefits they receive from their bank account.

The Monthly Bill would, moreover, enable customers to see how a change in their circumstances or account usage impacts the overall cost of their banking, which in turn will act as a prompt for a customer to shop around for a new account after a period of time.

TSB agrees with the CMA that the complexity and lack of transparency around fees means customers do not understand the true cost of their bank account services. TSB's own research with YouGov found that 43% of people believe it is difficult to make an informed choice when choosing a bank account provider, while 30% say "all products are the same"[1]. As a result consumers often don't realise which deals are best for them and are not responding to variations in price and quality, even though they may deliver better service and price outcomes.

The Monthly Bill therefore will also supplement the prompts outlined in Remedy 1 by helping to address the underlying causes of low engagement by providing consumers currently "trapped" with their bank with the necessary knowledge to make informed choices about who they chose to bank with. This is because a regular prompt that clearly details the costs of their account will enable customers to understand better how much they pay for their banking and how their regular account usage is leading to potentially avoidable costs. This will mean that they are more likely to see the benefits of switching accounts.

Research shows consumers would respond to The Monthly Bill

Recent research from the Money Advice Service found that 22% of consumers do not understand their bank statement[2]. That is despite a recent Financial Services Compensation Scheme ("FSCS")

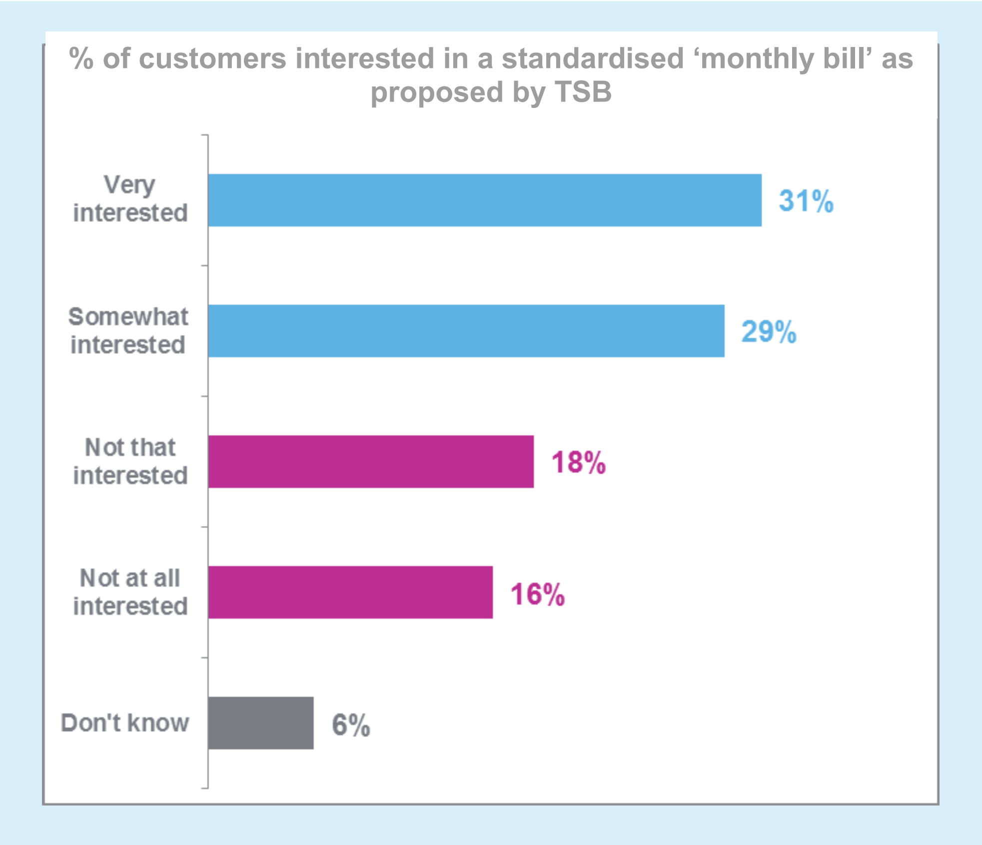
---

[1] YouGov, survey conducted for TSB – survey of2,019 respondents (Dec 2014)
[2] Money Advice Service, *Financial Capability Strategy for the UK* (Oct 2015), p.13

survey[3] published in November 2015 that found that 90% of consumers consider transparent and open fees and charges to be important.

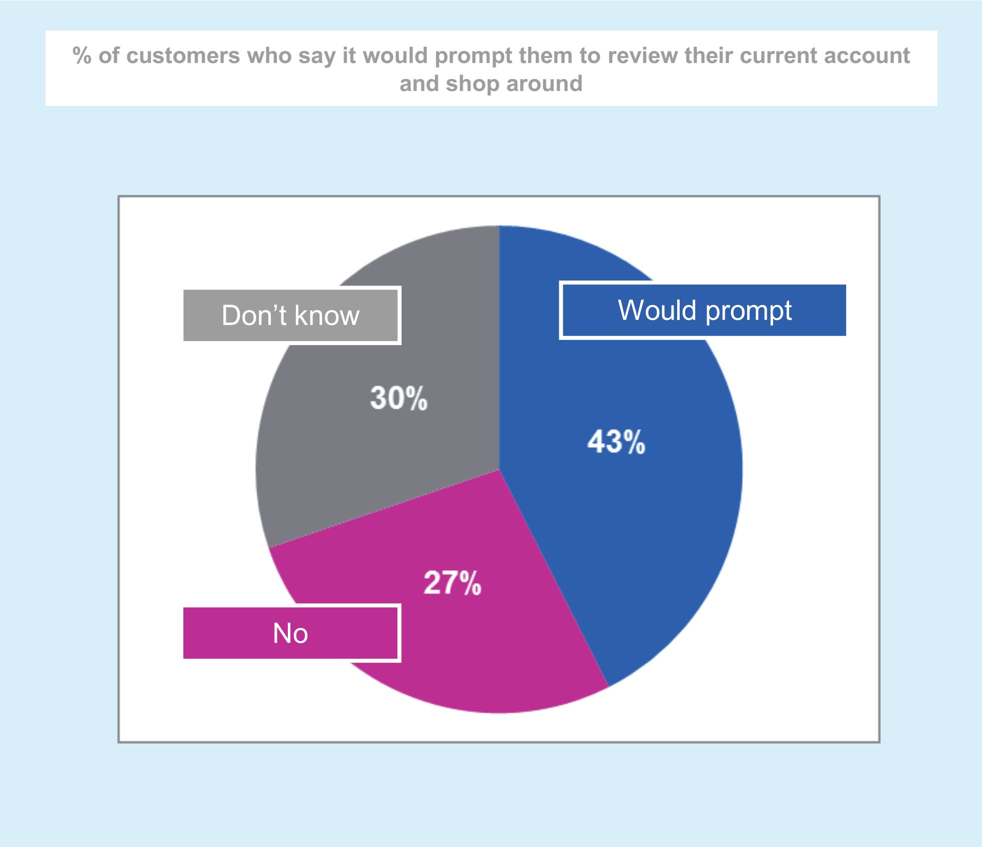
TSB's own research conducted in November 2015 indicates that a very significant proportion of customers – 60% of those surveyed – are interested in the introduction of a standardised Monthly Bill that clearly explains the cost of their banking[4]. The same survey also found that a standardised Monthly Bill would prompt 43% of customers to review their current account services and shop around for a better deal. Customers who were interested in the idea typically said that it would help them to see exactly how much their banking services cost and make comparisons between different banks. This suggests that the introduction of the Monthly Bill would have a much wider reaching and more immediate impact than the proposed prompts set out in Remedy 1 alone.

Figure 1. Chart detailing % of TSB customers interested in a standardised Monthly Bill



[3] FSCS research conducted by Professor Nick Chater of Warwick Business School and Decision Technology Limited., *Mind the Gap: Restoring Consumer Trust in Financial Services* - survey of 2,591 respondents.(Nov 2015)
[4] TSB, Survey of 947 TSB customers, (Nov, 2015)

Figure 2. TSB customers who say the Monthly Bill would prompt them to review their current account



How the Monthly Bill would be delivered

The Monthly Bill, delivered in the same format regardless of the PCA provider, would empower consumers to make informed decisions by obliging banks to be transparent over charges, fees and interest earned and foregone, and therefore tackle one of the underlying causes of low customer engagement.

Delivered online and in paper format, it would clearly outline: customers' activity over the period; what customers have been charged for these activities; a calculation of interest foregone or earned against a reference rate; and the total cost of customers' banking for the period. The Monthly Bill could also show additional benefits customers get from the account (e.g. cash back on spending).

The Monthly Bill would not only inform customers in respect of particular patterns of account usage (i.e. the cumulative costs of unarranged overdrafts); it would also create trigger points by encouraging regular customer engagement with their PCA provider and quicker identification of unexpected costs. The frequency of the Monthly Bill would also mean that customers can immediately see the impact of a change in circumstances on the cost of their banking services, such as moving from frequent overdraft usage to in-credit banking.

The Monthly Bill would provide a regular, rather than an event based, trigger and by enabling consumers to understand the true cost of banking services would act as a regular prompt for customers to engage with Midata or another comparison website. Moreover, because the Monthly

Bill would be in a standard format, it should make it easier for comparison websites to structure cost comparisons.

While TSB agrees with the premise of pointing consumers to Midata or another comparison website, the bank feels that in order for the comparison to be effective, customers first need to understand the price they are paying for their own banking. A regular prompt through the Monthly Bill will enable comparison websites to become more effective as it would enable consumers to better understand and compare costs between different providers. TSB agrees, moreover, with the CMA's conclusion that, although Midata is a positive development, it is not straightforward to use, its current application is not fully effective and its usage remains very low[5]. TSB notes that improvements to Midata are being suggested by others, however TSB considers that without the Monthly Bill customers will not be given the adequate prompt they need to use and understand the service.

The industry will need to work together with the regulator to agree the content and design of the Monthly Bill. Appendix A provides an example of what the Monthly Bill might look like, but to ensure the Monthly Bill has the maximum impact on consumer behaviour, the industry would need to invest in behavioural research with customers to ensure the most appropriate format is developed.

Conclusion

In conclusion, TSB agrees with the CMA that it is critical to provide customers with prompts to shop around, but TSB does not believe that the prompts outlined in Remedy 1 will, in isolation or in combination with the other remedies currently formulated by the CMA, have a significant impact on the market as they will only reach a limited number of customers on a non-regular basis and are unlikely to fully engage customers unless these customers properly understand their account usage and its true cost.

The Monthly Bill delivered in a standardised format, however, will supplement Remedy 1 by providing all customers with a regular prompt to shop around in a way that gives them the necessary control to make an informed choice about the products that are right for them and will critically lead to improved customer engagement.

[5] CMA Provisional Findings, 22 October 2015, p.20:47 (d)

Appendix A: An example of a provisional standardised Monthly Bill

> Mobile > Cookie policy Secure signed in > Security info > Change details

Mr T. Greenpone Log out

Back to your accounts

View another account ...

Classic Plus

30-89-57, 10812468

Show IBAN / BIC

Account balance: £21.40

Funds available: £121.40

Overdraft limit £100.00

Bill

Previous Next

Your account activity and what it has cost you

May 2015

Transaction type	Number of activities	Our charge per activity	Amount we've charged you
Monthly fee	0	£0	£0.00
Debit card transactions			
Debit card purchases	3	£0	£0.00
Cash back on spending	3	n/a	+ £1.50
Direct debits & standing orders			
Direct debits	5	£0	£0.00
Standing orders	1	£0	£0.00
ATM transactions			
ATM withdrawals TSB ATMs	1	£0	£0.00
ATM withdrawals other bank ATMs	10	£0	£0.00
ATM withdrawals overseas ATMs	1	£1 + £0.25 foreign exchange fee	- £1.25
Borrowing			
You used your planned overdraft	3 days	£6 + overdraft interest	- £6.15
Returned item fee	1	£10	- £10.00
Other			
Cheque withdrawals	1	£0	£0.00
Deposits in branch	1	£0	£0.00

Net interest benefit	Average credit balance	Reference rate	Your interest rate	Net interest benefit
	£1,821	0.5%	5%*	**+ £6.82**

Total monthly cost **- £9.08**

Other account benefits: Access to 5% Monthly Saver Account

* 5% AER/4.89% gross variable interest paid on balances up to £2,000. Customer must pay in a minimum of £500 a month, register for internet banking, paperless statements and paperless correspondence.

Your Inbox

Money Planner

Contact Us

Help and Support

Compare and apply

Saving

- > Cash ISA Saver
- > Fixed Rate Cash ISA
- > eSavings Account
- > Easy Saver
- > Monthly Saver
- > Online Fixed Bond

Borrowing

- > Loans
- > Credit Cards
- > Mortgages
- > Overdraft

How do these charges compare with other banks?

You can find out whether you could make savings by visiting the Midata website.

Annex II – Credit Passport

20 November 2015

As discussed in TSB's response to the CMA's Provisional Findings and Remedies Notice, TSB does not believe that Remedies 7 and 9, in isolation or in combination with the other remedies currently formulated by the CMA, will increase the probability that, for a creditworthy customer, an existing overdraft limit will be matched by a new provider, and therefore doesn't eliminate one of the key barriers to overdraft users switching.

Given that the regular use of an overdraft (and credit facilities more broadly) is important to consumers, and given that many overdraft and heavy overdraft users would stand to save money from switching their PCA providers, it is important this group of consumers feel able to switch. This paper proposes a supplementary remedy in the form of a Credit Passport to help overdraft customers switch by providing banks with better information to inform their credit decisioning at account opening.

This paper explores:

- Why overdraft and heavy overdraft users are an important group.
- Limitations with Remedies 7 and 9
- How the Credit Passport would supplement Remedies 7 and 9.
- How the Credit Passport would be delivered.

Why overdraft and heavy overdraft users are an important group

TSB shares the CMA's concern that overdraft and heavy overdraft users, despite having the most to gain from switching, are least likely to switch. The CMA found overdraft users could save £140 a year and heavy overdraft users could save £260 a year.

Our full analysis on this issue was shared previously as part of TSB's paper, Additional Analysis on Overdrafts & Switching, submitted on 11 June 2015.

As TSB has previously stated, customers who are "always" overdrawn, i.e. heavy overdraft users, represent [redacted] of the customer base. However, this segment represents only [redacted] of switchers. These figures indicate this segment is unable or unwilling to switch.

Limitations with Remedies 7 and 9

A potential PCA provider is unlikely to have sufficient validated customer specific data to match a new applicant's existing overdraft limit, overdraft customers are therefore "trapped" with their current provider.

At the point of joining the bank, the bank has limited evidence of how a customer manages their stated finance. This information will only become apparent over time by reviewing transactional data relating to the how the bank account is being used. As such, new customers are unlikely to be offered as high an overdraft limit as an identical existing customer**.** TSB notes that the CMA found that as many as a third of overdraft customers would not be offered the same overdraft terms if they applied as a new customer. TSB's own analysis shows that the average overdraft limit offered to qualifying new bank customers is £[redacted]. After banking with TSB for 12 months, the average overdraft limit available to these customers increases to £ £[redacted], an increase of circa [redacted]%[1].

Remedy 7 is designed to ensure customers know whether another provider will offer them an overdraft before they switch. Remedy 9 is designed to ensure banks provide customers with a transaction history to take to the new provider once they have switched. Neither will make it more likely that a new provider will match an existing overdraft limit at the point of account opening/switching (or, for that matter, soon thereafter). In effect the credit information asymmetry preserves market inertia and reduces effective competition.

Moreover, there is a risk that without a supplementary remedy to make it more likely new providers will match existing overdraft limits for customers who remain creditworthy at the point of switching, Remedies 7 and 9 could actually decrease switching rates amongst overdraft users because customers will inevitably be disappointed with the overdraft limit offered and decide it is not worthwhile switching.

How the Credit Passport would supplement Remedies 7 and 9

The Credit Passport will help consumers – supplementing Remedies 7 and 9 – by providing banks with more relevant, sustained and accurate transaction history data to inform credit decisioning than is currently available. This will make it easier to assess an applicant's risk profile and affordability at the point of application or enquiry, therefore increasing the likelihood that a new provider will match an existing overdraft limit for customers whose underlying behaviour supports such a limit.

Consumer credit regulations state that providers should ensure a customer is able to afford an overdraft before entering into a credit agreement. To assess whether a customer can be offered an overdraft and the amount of that overdraft facility, banks combine credit reference agency data and customer stated information to create a credit score, affordability assessment and policy rules.

Consumer credit regulations state that all data used for the assessment must also be validated. Banks are often unable to validate new applicant stated information because customers are, understandably, often unable to recall the full details of their income and outgoings, or unable to provide an original copy of every document required.

---

[1] The TSB analysis takes a sample of customers who opened their account between May and October 2014 and looks at the limit offered at the point of account opening versus the limit available 12 months later. The data excludes customers who have become inactive during this period.

The table below sets out how a Credit Passport would put new and existing customer applicants on a more even footing by providing banks with a customer's validated comprehensive credit and account usage information, alongside transaction history. The prospective new PCA provider can then draw on this additional information at the point of an overdraft application or when a customer makes an enquiry about how much they could borrow.

Information banks require for credit decisioning		
Data required	**Currently available through credit bureau**	**Available through credit bureau and Credit Passport**
All transactions that take place on a customer's account (including account credits, standing orders, direct debits (including returned items), etc.).	X	✓
Credit agreements, e.g. monthly payments and mortgage payments	✓	✓
Evidence of amount and sustainability of income sources (BACS salary credits, pension payments, etc.)	X	✓
Rental payments and non-discretionary expenditure (e.g. utilities and council tax and maintenance payments).	X	✓
A summary of how planned and unplanned overdrafts have been used on each account.	X	✓

In addition to providing more comprehensive and validated information to allow providers to assess a new customer's suitability for an overdraft, the Credit Passport will allow them to do the same for other lending products as well. This has the potential to increase access, choice and competition for credit cards, personal loans and mortgages.

From our experience during the separation of TSB and Lloyds Bank in 2013, we have seen first-hand the positive influence that a Credit Passport can bring to customers switching PCA providers. For a period of time, during the separation process, we allowed customers to switch freely between the two banks without losing their transaction history or overdraft and credit card facilities, effectively creating a Credit Passport in the background. We found that this extra level of reassurance removed a significant barrier for customers and allowed them to choose the right bank for them based on more fundamental factors such as branch location and quality of service.

How the Credit Passport will be delivered

Every customer's PCA provider would be required to provide a centralised source, such as one of the existing credit reference agencies, with customer current account transactional data for up to five previous years. At the request of the customer, the credit agency would make the data available in a usable format to any prospective alternative PCA provider.

The Credit Passport would be held centrally by one of the existing credit reference agencies, with customers and banks able to access it online via a secure link. This would also allow a single consolidated data set for multi-banked customers.

We believe the Credit Passport is best delivered by one of the existing credit reference agencies, rather than Midata, because their existing systems offer banks validated data such as on address matching and confidence on security, and compliance. In addition Midata allows customers to edit their own data therefore increases the risk of fraud.

The additional validated information a Credit Passport provides will equip banks with more validated, relevant and accurate historical transaction data to inform credit decisioning than is currently available, as well as evidence of sustainability of income. This information will increase the likelihood that a new provider will match a customer's existing overdraft limit for customers whose underlying behaviour supports such a limit. The prospective PCA provider will also be able to use the Credit Passport data at the point when the customer is considering switching to more accurately inform the prospective applicant whether their existing overdraft limit can be matched prior to account opening, therefore enhancing the effectiveness of Remedy 7 as well. The Credit Passport will also be a more effective way of delivering Remedy 9.

Conclusion

As TSB's own experience demonstrates and the points above set out, the Credit Passport will give those customers least likely to switch the confidence to switch. It will also, critically, equip potential providers with the necessary validated data to enable them to match existing overdraft limits for customers whose behaviour and affordability supports such a limit. The Credit Passport will therefore free overdraft and heavy draft users from the constraints of their existing overdraft facility and so enable them to choose their PCA provider based on more fundamental considerations like value for money and quality of service.