Project Manager
Retail banking investigation
Competition and Markets Authority
Victoria House
37 Southampton Row
London WC1B 4AD

20th November 2015

Dear Sir,

Competition and Markets Authority - Provisional Findings

As requested in the Notice of provisional findings, published on 22 October 2015, this letter and the attached appendix form our response to the provisional findings and the notice of possible remedies issued by the Competition and Markets Authority (CMA).

In our response, we have focussed on the findings and remedies which relate to the supply of retail banking services to personal current account customers. We are not proposing to respond on the findings or remedies in relation to the provision of banking services to small and medium sized enterprises because these activities are not undertaken by the Society.

We can identify with the observation that Nationwide offers one of the lowest cost products, coupled with high satisfaction relative to other providers, yet this is insufficient to encourage the majority of customers to switch (see Slide 10 of the CMA's presentation). However, it is not clear to us that the proposed remedies will have a sufficient impact on the market dynamics and competitive tension.

In the appendix, we have set out our detailed thoughts on the issues raised and the suggested remedies but there are a number of key points we wish to make, as follows:

Comparison

We support the CMA's proposal to introduce remedies which are designed to promote customer engagement, in particular measures which improve comparability between PCA providers. Further, we welcome the CMA's acknowledgement that it is necessary to incorporate non-price factors, in particular quality of service, into any comparison in order to make it as meaningful as possible.

This conclusion is consistent with our view that changes need to be made to the metrics of comparison as well as the tools for comparison.

1. *Metrics* – the current emphasis on comparison only through price is not meeting the needs of customers and is therefore not driving greater engagement (see the CMA's Dutch retail banking market case study[1]). Customers have to be able to access the metrics that matter to them, such as customer satisfaction, service levels and the available product features (see

[1] Available at https://assets.digital.cabinet-office.gov.uk/media/55bb4207ed915d1568000003/Dutch_retail_banking_market_case_study.pdf.

the GfK survey report) in order to make informed choices about potential providers and these metrics need to be given the same prominence/weight as price factors.

2. *Tools* – price comparison websites currently have very low levels of consumer trust (see a report produced by Deloitte LLP (entitled "The impact of innovation in the UK retail banking market"), which states that only 7% of consumers said they fully trust price comparison websites[2]). In order for a comparison remedy to be effective, these websites need to be genuinely and demonstrably independent and unbiased. We would advocate either:

    a. regulatory oversight and accreditation (see the Ofgem Confidence Code for energy price comparison sites); or

    b. a regulator sponsored site (see the CMA approach to possible remedies in the Energy Market investigation).

As previously indicated, we would welcome the opportunity to work with the CMA to help develop timely, proportionate and effective remedies.

Market Concentration

We are disappointed that the CMA has not made any provisional finding that market concentration is a problem in and of itself and has decided that structural remedies are not appropriate, focusing its attention on remedies which promote customer engagement.

Although we support the promotion of customer engagement, we are concerned that the proposed remedies will not have the desired effect of promoting greater searching and switching and competition amongst providers for the following reasons:

1. Incumbent institutions benefit from two main scale advantages – greater economic power in absolute terms and lower investment cost on a per customer basis. This is due to the fact that incumbents have high market shares and large back books from which they generate substantial revenues.

2. The proposed engagement remedies are not sufficient to address the back book issue. Relying on these remedies to immediately prompt a sufficient number of back book customers to search and switch, and thereby undermine the ability of the incumbents to leverage their back book, is unrealistic.

3. We have seen no evidence to suggest that the proposed remedies will have such an immediate impact and further would note that slide 11 of the CMA's Press Presentation shows that the only two events which had a significant impact on the market shares of the largest four banks over recent history were structural events - the Lloyds/HBOS merger and the TSB divestment.

In light of this, we would ask the CMA to reconsider market concentration, and the incumbency advantages it has identified, and whether additional remedies may be appropriate to complement the existing proposals to ensure they have the desired effect.

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[2] Available at https://assets.digital.cabinet-office.gov.uk/media/55ba0461ed915d155c000013/The_impact_of_innovation_in_the_UK_retail_banking_market__2_.pdf.

We look forward to engaging with you further to discuss the issues raised in this response.

Yours faithfully,

Adam Schallamach
Head of CMA Market Review

CMA Retail Banking Market Investigation
Appendix: Detailed Response to Provisional Findings and Notice of Possible Remedies

1. Introduction

1.1 This appendix sets out our detailed thoughts on the CMA's provisional findings report and its proposed remedies in respect of personal current accounts ("**PCAs**").

1.2 We have structured this appendix as follows:

(i) Part 2 sets out our response to the provisional findings in further detail;

(ii) Parts 3 and 4 set out our detailed views on the proposed remedies; and

(iii) Part 5 contains our submissions on the impact of the capital regulatory regime on competition between banks and across banks' retail banking businesses as a whole, including on the new supplementary corporation tax structure.

2. Provisional findings

2.1 Our comments are focused on the CMA's provisional findings in relation to customer engagement and market concentration. We agree with the provisional findings on barriers to entry and expansion and do not comment further on these, save that we comment in part 5 below on the impact of the capital regulatory regime including the new supplementary corporate tax structure on competition.

<u>Customer engagement</u>

2.2 We agree with all of the CMA's provisional findings in relation to customer engagement issues.

2.3 In particular, we welcome the CMA's acknowledgment of the relevance of quality of service to PCA customers and that it is necessary to consider quality indicators as well as pricing factors in drawing conclusions about market structure and outcomes.[1]

2.4 This supports our view, as set out in previous submissions and as expanded on further in the discussion on remedies below, that customers need to be able to compare PCA providers on the basis of non-price as well as price factors in order to be capable of making a fully informed decision on which provider would suit their needs best. This is further supported by the analysis our advisers have undertaken of the data made available in the data room (the "**Data Room Analysis**") – please see attached. This shows that quality of service is an important driver of searching and switching – a reduction in quality leads to increased levels of searching and switching by customers. Increased transparency on quality is likely to lead to greater customer engagement –

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[1] See, in particular, paragraphs 5.70 to 5.98, 7.89 to 7.90 and 7.127(c) of the Provisional Findings Report.

this should therefore play a central role in any comparability remedy proposed by the CMA.

Market concentration

2.5 The CMA provisionally finds that the PCA market is concentrated and that "*despite positive developments in the PCA market, the relative stability of market shares in response to differences in prices and quality across banks indicates that there is a lack of responsiveness by PCA customers, who would otherwise drive more significant changes in market shares*."[2]

2.6 We agree with the CMA's provisional view that lack of customer engagement leads to incumbency advantages for established banks.

2.7 We are, however, disappointed that the CMA has not found that market concentration is a problem in and of itself, over and above the customer engagement-related incumbency advantages that it gives rise to. In our view, the evidence available to the CMA suggests that there are competition concerns associated with market concentration[3]:

(i) The CMA's own analysis indicates that UK banks with the highest market shares tend to have the highest average prices, and that there is no general tendency for higher quality to offset higher prices.[4] This is consistent with the Data Room Analysis (see attached), which suggests that the relationship between market shares and prices holds even when analysed on a more disaggregated basis.

(ii) The Data Room Analysis also shows that there are differences between large and small banks. In particular, even though the customers of large banks are more likely to gain more from switching, they are less likely to search.

2.8 Although we support the promotion of customer engagement, we are concerned that the proposed remedies on their own will not have a sufficient impact on competition for the following reasons:

(i) Incumbent providers benefit from two main scale advantages: (a) greater economic power in absolute terms; and (b) lower investment cost on a per

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[2] See paragraph 7.12 of the Provisional Findings Report.

[3] We note that due to the CMA's chosen approach, the supporting evidence below is typically drawn from a sample which excludes back book customers – even though this is an important and non-negligible group. Further, the Data Room Analysis suggests that back book customers are likely to gain more from switching than other customers (see attached). Accordingly, if these back book customers were properly accounted for by the CMA, the evidence supporting the existence of competition concerns linked solely to market concentration may be even stronger.

[4] See paragraphs 43 and 44 of the Summary to the Provisional Findings Report.

customer basis. This is due to the fact that incumbents have high market shares and large back books from which they generate substantial revenues.

(ii) Unless the impact of the proposed engagement remedies is sufficient to immediately prompt a significant proportion of inactive customers to search and switch, the incumbents will be able to use their scale advantages (as derived from their high market shares and their back books) to win and/or retain this newly engaged part of the market, while still maintaining the incentive to set higher prices than smaller banks overall.[5] This concern is further exacerbated by the fact that back book customers are likely to be less engaged – despite the fact that this group stands to make the biggest gains from switching, it remains inactive, such that any engagement-related intervention would have to have an even greater impact on this segment to make a difference. In combination, these factors impede the ability of smaller providers and new entrants, which do not have such scale (and back book related) advantages and so cannot compete as effectively, to win additional market share.[6] The CMA appears to recognise this as a possible concern but has not investigated it.[7] Its analysis of the gains from switching entirely excluded[8] the group of customers who hold a PCA that is no longer available to new customers, i.e. back book customers.[9] This is of great concern given that back book customers are likely to be less engaged, such that any engagement-related intervention would have to have an even greater impact on this group of customers to make a difference.

(iii) The CMA has not demonstrated that the proposed customer engagement remedies are likely to have such an immediate impact[10] – and has in fact noted that the only two events which have had a significant impact on the market shares of the largest four banks in recent times were structural (the Lloyds/HBOS merger and the TSB divestment).[11]

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[5] We note that the CMA acknowledges the incentive for large banks to set higher prices overall in paragraph 11.33 of the Provisional Findings Report.

[6] We have made this point previously: see paragraph 5.3 of Nationwide's Response to the Updated Issues Statement and its letter of 9 September 2015.

[7] See paragraphs 11.34 and 11.35 of the Provisional Findings Report.

[8] With the exception of the last row of table 1 in appendix 5.4 of the Provisional Findings Report, which shows the gains from switching for all records, including for back book customers.

[9] See appendix 5.4, in particular paragraphs 19 to 33, of the Provisional Findings Report.

[10] The CMA's criteria for possible remedies include consideration of the timescale over which a remedy is likely to have an effect, with the CMA specifically noting that it "*will tend to favour remedies which can be expected to show results within a relatively short time*".

[11] See slide 11 of the CMA's Press Presentation.

2.9 The CMA's provisional findings therefore fail to identify the specific competition concerns associated with market concentration to the extent that these relate to the behaviour of the incumbent banks rather than to customer engagement. We feel that it is important that the CMA considers this issue and any additional remedies that may be appropriate (which may include revisiting the current proposal not to pursue structural remedies) given its potentially significant impact on the competitive landscape of the PCA market.

3. Notice of possible remedies - remedies the CMA proposes to take forward

3.1 We believe that the remedies proposed by the CMA can be grouped into four broad focus areas: customer engagement; comparability; effectiveness of CASS; and other barriers to switching. We use this classification to address each of the possible remedies.

3.2 All of the remedies that we support and believe that the CMA needs to take action on (i.e. remedies 1, 5 and 12) should remain in place in perpetuity.

Customer engagement

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

3.3 We agree that a remedy which requires banks to prompt customers to review their PCA provider is likely to contribute to increasing customer engagement.

3.4 In our view, the most effective way to achieve this would be through periodic prompts. These need not be linked to any particular "trigger point" or pattern of account usage but should simply be sent out on a regular basis (i.e. at least semi-annually). We believe that such periodic prompts would be the most effective way to implement this remedy as these will be sent to all customers, whether they have experienced a problem or change of circumstances or not – this will ensure that the remedy is as effective as possible (as it will not be limited to those who may have been more likely to switch in any event).[12]

3.5 In addition, we believe that periodic prompts would be easier to implement than those based on individualised events as they can be sent out automatically at set intervals and do not require any additional human intervention, e.g. to determine what is sufficient to constitute a "trigger point".

3.6 We believe that such periodic prompts should remind customers to consider whether their current account is the best one for their needs and point them to an appropriate source of comparative information – as we discuss further in relation to remedies 3 and 5 below, we believe that this should take the form of regulated price comparison

[12] See paragraph 31 of the Notice of Possible Remedies.

websites ("**PCWs**") or alternatively a PCW run by a regulated body covering both price and non-price factors. Such a general message, which is not linked to a specific "trigger point", would not only be easier to draft and implement (given that it need not be tailored to a specific customer's circumstances) but would also ensure consistency in messaging and therefore promote customer trust.

3.7 We believe that customers should be given the option of choosing the medium through which they receive such communications.[13] We do, however, acknowledge the need to ensure that such prompts are as engaging as possible – and look forward to exploring how this could be achieved through customer testing.

3.8 We also suggest sending out prompts when the terms of a customer's account change or a new account becomes available. In fact, we already employ a similar messaging device for our savings accounts: through SavingsWatch[14], we proactively inform customers who have opted in about the release of new accounts, alongside fulfilling our regulatory obligation to inform all customers about rate changes to their existing accounts – we could introduce a similar messaging device for our PCA customers.

3.9 We believe that it is essential that we continue to be able to communicate with our customers using our own "tone of voice", which we view as an important differentiator of our customer proposition and service quality. Therefore while we can see a role for regulatory oversight of the content and presentation of the periodic prompts we propose, we would not want this to prevent us from communicating with our customers in our own style.

3.10 We believe that the FCA would be the most appropriate body to undertake compliance monitoring. We also recommend that the FCA regulates such communications as per its current processes and that this is funded in the same way (i.e. through contributions from the industry).

3.11 The more complex or individualised a solution the CMA chooses to adopt, the more difficult this will be to implement and monitor for compliance in terms of the time and costs involved – we therefore strongly believe that the CMA should favour a simple, generic solution such as the one we propose above.

3.12 We do not believe that this proposal cuts across any of the requirements contained in the Second Payment Services Directive ("**PSD2**") or the Payment Accounts Directive ("**PAD**").

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[13] This should be possible for the generic messaging that we propose – a more personalised approach which refers to customer-specific data may be caught by data privacy laws which would require communication in writing (i.e. by letter).

[14] For further details, see http://www.nationwide.co.uk/support/ways-to-bank/text-alerts/savingswatch.

3.13 We believe that this remedy should be tested by the CMA and we would be very keen to be involved in this process.

Comparability

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

3.14 We agree that a remedy which facilitates price comparisons between providers by making customer-specific transaction data easier to use is likely to help to overcome the barriers to accessing and assessing information on current account charges identified by the CMA.

3.15 We agree with the CMA that the Midata initiative is a significant step forwards in this respect but that it suffers from a number of disadvantages in its present form (e.g. incompatibility with certain operating systems, difficulties locating the relevant files on providers' websites, redaction of data which prevents PCWs' systems from identifying payments which would qualify for rewards from some current account providers). We agree that these problems could be overcome if banks adopted a common standard for application programme interfaces ("**APIs**") to which PCWs had access, though we note that there are issues in terms of protection of customers' data and the integrity of firms' banking systems which need to be addressed as part of this process.

3.16 The adoption of a common standard is supported by the UK government, which has formed the Open Banking Working Group, a collective of banking, open data and FinTech professionals, to work on this issue. The expectation is that this initiative could lead to the UK adopting APIs earlier than required by PSD2, which seeks to open up and standardise access to accounts for the initiation and execution of digital payments by the end of 2017.[15] Given the UK government initiative and EU regulation, we do not see any need to accelerate the API process, nor would interim measures be appropriate. Such steps may in fact have unintended negative consequences – for example, they could unfairly benefit the only two institutions which have launched or are about to launch their API platforms (Barclays and Lloyds respectively). If the CMA were to mandate others to accelerate this process, this could give Barclays and Lloyds a competitive advantage as, unlike others, they would not need to divert resources to accomplish this.

3.17 We believe that the adoption of common API standards by PCA providers will fully address the CMA's concerns regarding the accessibility of customer-specific transaction data. As this process is well underway, has government support and is backstopped by EU regulation, we do not see any benefit in expending additional effort and resources to improve the Midata tool, which will become obsolete once a common API standard is adopted.

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[15] PSD2 applies to all PCA providers, so will also alleviate the problems associated with the fact that the Midata initiative is not mandatory for all providers.

3.18 We believe that any testing of the common API standard should be done within the framework of the government initiative/PSD2 to ensure consistency and prevent any unnecessary expenditure.

3.19 While the adoption of a common API standard will facilitate price comparisons between PCA providers, in order to be fully effective, any tool aimed at facilitating comparability must include both price and non-price factors – we discuss the non-price elements in our response to remedy 5 below. Given the evidence[16], this should be a priority for the CMA.

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

3.20 As explained in paragraph 2.3 above, we welcome the CMA's recognition that service quality is an important factor in overall customer satisfaction and that many of the key measures of service quality are not readily available to customers.

3.21 We strongly support the CMA's proposal for a remedy that would require the collection and dissemination of data on the service quality of PCA banking services in a format that would enable customers to make valid comparisons between them.

3.22 In order to make informed comparisons between PCA providers, customers need to have access to both price and non-price factors – and the latter need to be given as much prominence as the former. The Data Room Analysis shows that quality is an important driver of searching and switching (see attached for further details):

(i) Dissatisfaction with the quality of staff and customer service increases the likelihood of searching by around 12% and the likelihood of switching by around 7.5%;

(ii) Dissatisfaction with the quality and speed of problem handling has no significant effect on the likelihood of searching, but increases the likelihood of switching by 2.7%;

(iii) Dissatisfaction with the level of charges increases the likelihood of searching by around 6%, but has no effect on the likelihood of switching.

3.23 Customers respond to a reduction in quality by increased searching and switching. This suggests that increased transparency on quality is likely to lead to greater customer engagement. Accordingly, quality information should be central to any comparability remedy proposed by the CMA. This will not only enable customers who have experienced poor quality to make informed decisions about alternative PCA providers, but will also enable customers who currently report high levels of satisfaction to better

[16] See paragraph 7.89 of the Provisional Findings Report, which refers to the CMA's survey evidence, and the Data Room Analysis attached.

understand quality differences between providers, which will allow them to evaluate the quality of the PCA they currently hold.

3.24 In our view, customers need to have access to information on the following key metrics in order to be capable of making valid comparisons between PCA providers:

(i) Service: covering quality of staff and customer service and quality and speed of handling problems (the Data Room Analysis indicates that both of these factors drive searching and switching and therefore need to be included).

(ii) Access and account: covering the availability of features such as internet banking, mobile apps, telephone banking, contactless cards, Apple Pay and providing information on branch availability.

(iii) Price: covering interest rates, overdraft charges and switching incentives/rewards.

3.25 Each set of metrics should be given the same level of prominence and the language used should be simple and easy to understand.

3.26 Providing information on (ii) and (iii) is relatively straightforward – in relation to (ii), it would simply be necessary to record the presence or absence of the features listed in a standard and comparable format, along with the ability to list any additional features a PCA provider thought worth mentioning; branch availability could be based on postcode. In relation to (iii), the price and monetary benefits available to a specific customer should be easy to calculate once a common API standard has been introduced.

3.27 In relation to:

(i) performance in respect of quality of staff and customer service should be based on an overall satisfaction rating by an independent body – this should be derived from the results of a frequent and standardised customer survey to ensure consistency and reliability;

(ii) performance in respect of the quality and speed of handling problems could be based on FCA complaint data (i.e. the percentage of complaints resolved within 8 weeks) – this is readily available and would produce standardised results across all providers; it would also benefit from the trust customers place in the FCA as an independent regulatory body responsible for protecting their needs.

3.28 We believe that the most effective way to disseminate such information would be through a comparison website – PCWs have a proven track record in altering customer behaviour in other markets, particularly with respect to switching.[17] However, evidence

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[17] A report produced by Deloitte LLP (entitled “The impact of innovation in the UK retail banking market”) found that 67% of those who use PCWs use them for switching purposes.

suggests that PCA customers do not currently have much trust in PCWs.[18] We therefore re-iterate our previous suggestions[19] that the CMA should either:

(i) impose a regulated accreditation for PCWs that adhere to a set of criteria to provide reassurance to the customer that the information is accessible, accurate, transparent and comprehensive (aligned to the Ofgem confidence code; these criteria should include a commitment to use the common API standard and simple language); or

(ii) mandate a regulatory body (e.g. the FCA) to run a comparison on their website.[20]

3.29 We are finalising an example of what a new-style comparison website could look like based on these parameters and plan to share this with the CMA shortly.

3.30 We believe that such a comparison website should be the primary method of disseminating price and non-price information – providers should be free to publish such data on their own websites, within communications to customers and at branches if they wish to do so, but this should not be mandatory.

3.31 We believe that this remedy should be funded through contributions from PCA providers, based on their market share.

3.32 In order to ensure that this remedy is fully effective, we also believe that it should be brought to customers' attention through advertising – as per the suggestions in relation to CASS (see remedy 2 below).

3.33 We believe that this remedy should be tested by the CMA and we would be very keen to be involved in this process.

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[18] 26% of those surveyed by GFK said that they do not trust PCWs at all – see Figure 23 of GFK Report "Personal Current Account Investigation" (April 2015).

[19] See slide 4 of our Comparability Remedy submission of 9 September 2015.

[20] The CMA has proposed a similar remedy in its Energy Market Investigation (i.e. Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers) – see remedy 6 of the Notice of Possible Remedies of 7 July 2015. This has also been recognised as a possible approach by the FCA in its Cash Savings Market Study – see paragraph 9.95 of the report published in January 2015.

Effectiveness of CASS

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 CASS to do so in terms of security and convenience

3.34 We agree with the CMA that a remedy which increases public awareness of the potential savings or rewards (encompassing both price and non-price benefits) that could be obtained by switching and of the benefits of using CASS to do so is likely to reduce the barriers to switching identified by the CMA in its provisional findings.

3.35 We also agree with the CMA's view that the simplest way to implement such a remedy would be through increased and sustained levels of advertising by Bacs of the potential savings and/or rewards of changing current account provider and the speed, ease of use and security of CASS. We agree that such advertising should complement the messages described in remedy 1.

3.36 Bacs is in fact already in the process of developing a revised advertising strategy for CASS and we believe that this will be sufficient to address the concerns identified by the CMA. Earlier this year, Bacs launched a new multi-million pound advertising campaign for CASS aimed at raising awareness and confidence in the service – and has committed to continue this campaign into 2016 and beyond, improving it as necessary following engagement with key stakeholders and other third parties (e.g. on the basis of research performed by the University of Bristol). Data published by Bacs shows an increase in awareness of CASS, with awareness at 73% in September 2015, up 15 percentage points from September 2013 (when CASS was launched) and up 69% in June 2015[21] – this suggests that Bacs' initiatives are having a positive effect.

3.37 We believe that any testing of this remedy should be carried out as part of Bacs' current work on this topic.

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

3.38 We agree with the CMA that requiring payments into a customer's old account to be redirected to his or her new account for a longer period is likely to address the actual and perceived risk that payments made into an account that has been closed as part of the switching process would go astray.

3.39 The industry is in fact already moving towards this – Bacs is co-ordinating a piece of work which would see the industry extend the redirection period for those customers who are impacted and amend the guarantee to remove any reference to redirection having a finite life.

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[21] Figures taken from Bacs, Current Account Switch Service figures update, published 22 October 2015. Available at: http://www.bacs.co.uk/Bacs/DocumentLibrary/PR_Current_Account_Switch_Service_figures_22_October.pdf.

3.40 We strongly support the CMA's provisional conclusion that the extension of the current CASS redirection period is sufficient to address customer concerns and that this would be less costly and more proportionate than account number portability ("**ANP**"). Although ANP could achieve the same result, we believe that the costs for the industry (which the FCA has estimated at between £2bn and £10bn[22]) would outweigh any material gains in switching activity, particularly given that the current CASS process already includes compensation measures intended to reassure customers that they will not lose money from the switching process.[23]

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

3.41 We agree with the CMA that, on the face of it, a remedy which requires the transfer of continuous payment authorities on debit cards as part of CASS could promote switching by allaying customer concerns about the prospect of having to change these arrangements themselves. However, we note that the FCA has stated that "…*this is not something that arose as a major issue in our consumer research and not something that appears to have directly impaired the effectiveness of CASS*."[24]

3.42 In addition, we note that Bacs is unable to implement this remedy itself – it requires the support and agreement of Visa and Mastercard (increasingly a provider of debit cards in the UK) and there are significant technical hurdles to implementation.

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

3.43 Along with other providers, we already offer a partial switching service. Approximately **[REDACTED]** of switches in to Nationwide are partial, showing that there is demand for this service.

3.44 Implementation of any improvements to this service would need to be discussed with Bacs given its role in the management and ownership of CASS. Nationwide is happy to be involved in those discussions. However, we note that the implications of PAD for the partial switching service need to be considered.

Remedy 12: Changes to CASS governance

3.45 We agree with the CMA that a remedy addressing the size and composition of CASS's management committee, its voting arrangements and a higher level oversight would facilitate in aligning CASS governance with Bacs' objectives of promoting awareness of and confidence in CASS.

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[22] See further footnote 14 of Nationwide's response to the Updated Issues Statement.

[23] See further footnote 15 of Nationwide's response to the Updated Issues Statement.

[24] See paragraph 4.35 of the FCA report "Making Current Account Switching Easier" (March 2015).

3.46 We believe that it would be desirable to introduce an element of independent oversight of CASS.

3.47 We also believe that a review of the CASS governance structure would be appropriate.

Other barriers to switching

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

3.48 We do not see the need for a standalone remedy aimed at making 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.

3.49 In our current account opening process, customers are informed about the overdraft for which they will be eligible after they have gone through the credit check, but before they commit to opening the account. It would be possible to tell customers earlier in the process through a "soft" credit check – but any offer would then be subject to the check and is unlikely to give customers the confidence they need.

3.50 As discussed in our comments on remedy 11, we fully support partial switching and we believe that the improvements suggested to this process will adequately address any customer concerns regarding the availability of overdraft facilities.

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

3.51 We agree that banks should be required to retain and provide ex-customers with historical transaction data and that this is likely to overcome customer concerns that they may lose access to their transaction history as a result of the switching process and therefore find themselves unable to satisfy the documentary requirements for, e.g. mortgage applications.

3.52 PCA providers are already under an obligation to have such a process in place: under section 7 of the Data Protection Act 1998, an individual can make a request to its PCA provider for any information that provider holds on the customer. In accordance with this, we provide transaction data on demand (following a request in branch, by phone or in writing) for a fee of £10. We can also provide ex-customers with previous statements for at least five years dating back from account closure for a fee of £5. We believe that this is sufficient to address the concerns identified by the CMA – our experience is that this process is used exceptionally and that transaction history dating back five years is not generally required (e.g. all that is required for applications for personal financial products such loans and mortgages is three months, although we acknowledge that SME customers may require a more detailed transaction history).

3.53 We would not support a remedy which requires banks to automatically provide customers with their transaction history when they closed their account as we believe that this would impose a disproportionate burden on account providers in terms of the costs and time involved in producing and providing such data as a matter of course – in particular for customers who hold multiple current accounts with one provider.

4. Notice of possible remedies - remedies CMA does not propose to take forward

4.1 We note that the CMA has considered a number of other remedy options but has concluded that it does not currently intend to pursue these, although it will do so if the parties to the investigation or other interested persons provide evidence or reasoning as to why these remedies should be taken forward.

4.2 We agree with the CMA's decision not to propose measures that would end or restrict the use of free-if-in-credit accounts. As we explained in our response to the Updated Issues Statement, we expect a significant proportion of our members to be in favour of such accounts and as such we could not support any measure to end or restrict the free-if-in-credit model unless the CMA could demonstrate that it would be both effective and proportionate.[25] The CMA notes that it saw no convincing evidence to suggest that the prevalence of the free-if-in-credit model for PCAs distorted competition and reduced customers' propensity to change provider.[26]

4.3 The CMA has also decided not to propose any structural remedies – however for the reasons set out in paragraphs 2.5 to 2.9 above, we remain of the view that market concentration in the PCA sector gives rise to competition concerns over and above those relating to customer engagement and we therefore invite the CMA to re-assess its position, including on structural remedies, in light of the further work we suggest it undertakes on this additional concern.

4.4 We disagree with the CMA that a structural remedy in this sector would necessarily lead to significant disruption to customers and/or disproportionate cost or complexity.[27] We note that the CMA refers to the TSB divestment as recent evidence of the greater operational challenges faced by divested banks (in that case, the high cost of operating a legacy IT system).[28] The Williams & Glyn divestment has also taken longer than anticipated (having been ordered by the European Commission in December 2009, Williams & Glyn is not expected to be fully divested from RBS until the end of 2017). However, the fact that these two divestments have been lengthy/problematic does not mean that any future divestment would be similarly difficult, not least because the market now has experience of how to deal with divestments in the retail banking sector.

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[25] See paragraphs 3.11 to 3.16 of Nationwide's response to the Updated Issues Statement.

[26] See paragraphs 178 to 180 of the Notice of Possible Remedies.

[27] As set out by the CMA in paragraph 186 of the Notice of Possible Remedies.

[28] See paragraph 185 of the Notice of Possible Remedies.

5. Capital regulatory regime and new supplementary corporation tax structure

Capital regulatory regime

5.1 As requested by the CMA[29], we set out below our thoughts on whether the capital regulatory regime has an impact on competition between banks and in particular whether new entrants/smaller banks are placed at a disadvantage relative to incumbent banks because they use the standardised rather than the internal ratings based ("**IRB**") approach for risk weights.

5.2 We accept that on a published Pillar 1 basis only, a financial institution using the IRB approach will have lower risk weights for its residential mortgages than a financial institution using the standardised approach. However, notwithstanding the CMA's analysis[30], which concludes that this differential still exists even after the other elements of the capital framework are included, we believe there are two important additional factors which broadly eliminate the differential, even in relation to residential mortgages:

(i) **The impact of Pillar 2B**: taking Nationwide as an example, we have relatively low residential mortgage risk weights, resulting in us having a smaller Pillar 1 capital requirement than we would have if we measured these capital requirements under the standardised approach. **[REDACTED]**.

(ii) **[REDACTED]**.

5.3 We therefore do not believe that the capital regulatory regime has the potential to distort competition and/or act as a barrier to entry or expansion for new entrants/smaller banks.

New supplementary corporation tax structure

5.4 We are very disappointed that the Chancellor is to push ahead with the introduction of the tax surcharge on banking companies announced in the Summer Budget. The tax surcharge will have a disproportionate effect on building societies such as Nationwide, costing the society in the region of an extra £300 million over the next five years, which is equivalent to the capital required to support about £10 billion of new mortgage lending.

5.5 We continue to believe that the introduction of the surcharge represents a missed opportunity to support competition and diversity in UK financial services.

5.6 Without shareholders, building societies do not exist to maximise profits for shareholder returns. The profits we generate are held as retained earnings or capital to maintain a strong balance sheet, to meet prudential requirements and to invest in new products

[29] See paragraph 10.267 of the Provisional Findings Report.

[30] See paragraphs 10.33 to 10.86 of the Provisional Findings Report.

and services. A further tax on building society profits does not recognise the role these returns play in our business model in creating and sustaining a stable and competitive sector.

CMA Retail Banking Market Investigation
Attachment: Data Room Analysis

1. Executive summary

1.1 The Data Room permitted Nationwide's advisers access to a set of disclosed material, including the raw data, cleaned data, CMA analysis of these data and coding programs together with the means of reproducing the full set of results from the following analyses conducted by the CMA:

(i) the CMA's quantitative analysis of searching and switching ('the searching and switching analysis'), presented in Appendix 7.2 to the Provisional Findings;

(ii) the CMA's analysis of the actual and perceived behaviour of PCA customers ('the actual versus perceived analysis'), presented in Appendix 7.4 to the Provisional Findings; and,

(iii) the CMA's personal current account pricing analysis ('the pricing analysis'), presented in Appendix 5.4 to the Provisional Findings.

1.2 We note that the pricing analysis was largely conducted by Runpath Ltd. While access was provided to some of the data used by Runpath to construct its analysis, and access was provided to the output of its analysis, the actual model Runpath used to calculate estimated prices and gains from switching, and any intermediate data, was not made available in the Data Room. While Nationwide's advisers have been able to replicate the CMA's analysis of the Runpath output, they have been unable to test Runpath's analysis itself, or its sensitivity to the assumptions used to calculate average gains from switching and average prices.

1.3 Nevertheless, the analysis of the data made available indicates that there is evidence to support the following:

(i) Quality is an important driver of searching and switching, supporting the CMA's findings. Being dissatisfied with the quality of a provider impacts the propensity of customers to search and switch PCAs, indicating that customers care about quality;

(ii) [Redacted]

(iii) Back book customers are not considered by the CMA yet could, on average, save between 47% and 75% more than front book customers if they switched to the best alternative product available.

2. Detailed findings

<u>Quality is an important driver of searching and switching</u>

Methodology

2.1 The CMA's searching and switching analysis aims to identify the factors that drive PCA customers to search and switch to alternative PCAs. The CMA constructed a number of econometric models to estimate the effect of customer demographics (age, income, and education), behaviour (overdraft use and choice of credit balance) and provider characteristics (size of branch network and branch closure) on the likelihood of searching or switching.

2.2 As the basis for the analysis Nationwide's advisers use the CMA's searching and switching models described in paragraphs 63 to 65 and in Annex D of Appendix 7.2 to the Report. Paragraphs 8 to 17 describe the data used, and Annex B describes the construction of the variables used in the CMA's specifications.

2.3 Nationwide's advisers augment the CMA's analysis by constructing three variables relating to quality to include in the CMA's model. 'Dissatisfaction: Problem handling', 'Dissatisfaction: Staff and Service', and 'Dissatisfaction: Charges' measure consumers' dissatisfaction with quality and charges at their current bank if they have not switched PCA provider, or, instead, at their bank of origin if they have switched PCA provider. The variables respectively measure dissatisfaction with (i) the quality and speed of handling problems; (ii) the quality of staff and customer service; and (iii) the level of charges, for example overdraft charges.[1] Only those measures of satisfaction that are measured for both switchers and non-switchers are considered. They are drawn from the response to question E1 for non-switchers, and response to question F18 for switchers, of the GfK NOP PCA Banking Survey.

2.4 The marginal effects presented in the tables below should be interpreted as the difference in the likelihood of searching or switching of a customer who is dissatisfied, compared to a customer that is not dissatisfied, holding all other factors constant.

2.5 A variable called 'Big Bank Original' is also constructed to measure whether the customer's provider of origin was a large bank.[2] A customer's original provider is the pre-switching provider for switchers, and the current provider for non-switchers. The marginal effects estimated in the models should be interpreted as the difference in the likelihood of searching or switching if the customer's original provider was a large bank, compared to if it was a small bank, while holding all other variables constant. As the results of the inclusion of this variable pertain to our conclusion around large bank customers, the interpretation is included below within section 2 on that topic.

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[1] We noticed in the do files that the CMA has constructed these same variables, but note further that the CMA did not use these in any of the model specifications it ran and therefore did not report any of the corresponding results.

[2] A 'large provider' was defined as any brand that belongs to one of Lloyds, Barclays, HSBC or RBS banking groups. Large providers include the following brands: Lloyds, Barclays, HSBC, RBS, First Direct, Marks & Spencer, Bank of Scotland, Halifax, Natwest, and Ulster. This is in line with the CMA's assumption in the searching and switching analysis.

2.6 The CMA's four specifications[3] are run for each of the searching and switching models, adding the variables described above.

Findings from the extended analysis

2.7 The CMA's analysis is extended to gain insight into the effect of quality on searching and switching, to understand the importance of quality for customer behaviour. These results are obtained by maintaining the CMA's specifications and augmenting them to include measures of quality (described above).

2.8 The evidence in tables 1 and 2 below suggests that, in relation to quality:

(i) Being dissatisfied with the quality of staff and customer service increases the likelihood of searching by around 12% and the likelihood of switching by around 7.5%;

(ii) Being dissatisfied with the quality and speed of handling problems has no significant effect on the likelihood of searching, but increases the likelihood of switching by 2.7%; and

(iii) Being dissatisfied with the level of charges increases the likelihood of searching by around 6%, but has no effect on the likelihood of switching.

2.9 Customers respond to a reduction in quality with increased searching and switching. These results are statistically significant, and robust to various specifications tested within the Data Room. This evidence suggests that quality is important to customers, and increased transparency on quality is likely to prompt greater customer engagement. Accordingly, quality information should be central to any comparability remedy proposed by the CMA. This will not only enable customers who have experienced poor quality to make informed decisions about alternative PCA providers, but will also enable customers who currently report high levels of satisfaction to better understand quality differences across providers, and appropriately evaluate the quality of the PCA they currently hold.

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[3] As reported in Tables 1 and 2 of Annex D to Appendix 7.2.

Table 1: Searching, including variables measuring dissatisfaction and if a customer holds a main account with a large bank

Searching	(1) Coefficients	(2) Marginal effects	(3) Coefficients	(4) Marginal effects	(5) Coefficients	(6) Marginal effects	(7) Coefficients	(8) Marginal effects
Main								
Female	-0.069	-0.018	-0.072	-0.019	-0.064	-0.017	-0.054	-0.014
	(0.061)	(0.016)	(0.062)	(0.016)	(0.062)	(0.016)	(0.062)	(0.016)
Income below £24k	-0.128**	-0.034**	-0.099	-0.026	-0.115*	-0.030*	-0.153**	-0.040**
	(0.065)	(0.017)	(0.068)	(0.018)	(0.068)	(0.018)	(0.074)	(0.019)
Age 35 – 54	-0.047	-0.012	-0.076	-0.020	-0.033	-0.009	-0.041	-0.011
	(0.080)	(0.021)	(0.080)	(0.021)	(0.082)	(0.021)	(0.082)	(0.021)
Age 55 - 64	0.236**	0.062**	0.176*	0.046*	0.221**	0.057**	0.226**	0.059**
	(0.093)	(0.024)	(0.093)	(0.024)	(0.096)	(0.025)	(0.099)	(0.026)
Age 65 or above	0.176*	0.046*	0.076	0.020	0.127	0.033	0.134	0.035
	(0.098)	(0.026)	(0.104)	(0.027)	(0.108)	(0.028)	(0.110)	(0.029)
Degree	0.161**	0.042**	0.145**	0.038**	0.137**	0.036**	0.116*	0.030*
	(0.065)	(0.017)	(0.066)	(0.017)	(0.066)	(0.017)	(0.067)	(0.017)
Financial literacy	0.208***	0.055***	0.207***	0.054***	0.203***	0.053***	0.194***	0.050***
	(0.066)	(0.017)	(0.066)	(0.017)	(0.067)	(0.017)	(0.067)	(0.017)
Internet confidence	0.621***	0.164***	0.622***	0.162***	0.619***	0.161***	0.561***	0.145***
	(0.096)	(0.025)	(0.097)	(0.025)	(0.097)	(0.025)	(0.102)	(0.026)
Dissatisfaction: Problem Handling	0.231*	0.061*	0.224*	0.059*	0.207	0.054	0.243*	0.063*
	(0.134)	(0.035)	(0.135)	(0.035)	(0.135)	(0.035)	(0.136)	(0.035)
Dissatisfaction: Staff and Service	0.495***	0.130***	0.478***	0.125***	0.489***	0.127***	0.453***	0.117***
	(0.163)	(0.043)	(0.166)	(0.043)	(0.167)	(0.043)	(0.167)	(0.043)
Dissatisfaction: Charges	0.192**	0.051**	0.251***	0.066***	0.254***	0.066***	0.234***	0.060***
	(0.077)	(0.020)	(0.080)	(0.021)	(0.080)	(0.021)	(0.080)	(0.021)
Big Bank Original	-0.149**	-0.039**	-0.138**	-0.036**	-0.138**	-0.036**	-0.142**	-0.037**
	(0.065)	(0.017)	(0.065)	(0.017)	(0.065)	(0.017)	(0.065)	(0.017)
Overdraft user			-0.139*	-0.036*	-0.135*	-0.035*	-0.096	-0.025
			(0.073)	(0.019)	(0.073)	(0.019)	(0.075)	(0.019)
High credit balance			0.166**	0.043**	0.165**	0.043**	0.181**	0.047**
			(0.078)	(0.020)	(0.078)	(0.020)	(0.078)	(0.020)
Local branch closed			0.301***	0.079***	0.305***	0.079***	0.288**	0.074**
			(0.114)	(0.030)	(0.114)	(0.030)	(0.114)	(0.029)
Moved house in last 12 months					0.136	0.035		
					(0.091)	(0.024)		
Started/stopped working in last 12 months					0.170**	0.044**	0.176**	0.045**
					(0.085)	(0.022)	(0.085)	(0.022)
Changed relationship status last 12 months					-0.158	-0.041		
					(0.119)	(0.031)		
Frequency of use of apps/mobile banking							-0.189**	-0.049**
							(0.083)	(0.021)
Frequency of use of internet banking							-0.005	-0.001
							(0.073)	(0.019)
Number of transactions							-0.003**	-0.001**
							(0.001)	(0.000)
Constant	-1.477***		-1.488***		-1.547***		-1.294***	
	(0.138)		(0.142)		(0.147)		(0.165)	
N_sub	3537.000	3537.000	3537.000	3537.000	3537.000	3537.000	3502.000	3502.000
F	11.209		10.261		9.270		8.704	
p	0.000		0.000		0.000		0.000	

Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 2: Switching, including variables measuring dissatisfaction and if a customer holds a main account with a large bank

Switching	(1) Coefficients	(2) Marginal effects	(3) Coefficients	(4) Marginal effects	(5) Coefficients	(6) Marginal effects	(7) Coefficients	(8) Marginal effects
main								
Female	-0.161*	-0.012*	-0.146*	-0.011*	-0.143*	-0.010*	-0.129	-0.009
	(0.083)	(0.006)	(0.082)	(0.006)	(0.086)	(0.006)	(0.086)	(0.006)
Income below £24k	-0.114	-0.008	-0.069	-0.005	-0.063	-0.004	-0.142	-0.010
	(0.090)	(0.007)	(0.088)	(0.007)	(0.093)	(0.007)	(0.105)	(0.007)
Age 35 - 54	-0.194*	-0.014*	-0.236**	-0.017**	-0.250**	-0.018**	-0.199*	-0.014*
	(0.102)	(0.008)	(0.100)	(0.007)	(0.104)	(0.007)	(0.104)	(0.007)
Age 55 - 64	-0.264**	-0.019**	-0.377***	-0.028***	-0.386***	-0.027***	-0.350**	-0.024**
	(0.132)	(0.010)	(0.130)	(0.010)	(0.134)	(0.010)	(0.136)	(0.010)
Age 65 or above	-0.049	-0.004	-0.233	-0.017	-0.201	-0.014	-0.205	-0.014
	(0.134)	(0.010)	(0.145)	(0.011)	(0.150)	(0.011)	(0.153)	(0.011)
Degree	-0.031	-0.002						
	(0.081)	(0.006)						
Financial literacy	0.099	0.007						
	(0.088)	(0.006)						
Internet confidence	0.154	0.011	0.162	0.012	0.139	0.010	0.123	0.009
	(0.122)	(0.009)	(0.116)	(0.009)	(0.119)	(0.008)	(0.138)	(0.010)
Dissatisfaction: Problem handling	0.373***	0.027***	0.360***	0.027***	0.378***	0.027***	0.384***	0.027***
	(0.138)	(0.010)	(0.134)	(0.010)	(0.138)	(0.010)	(0.140)	(0.010)
Dissatisfaction: Staff and service	1.077***	0.079***	1.074***	0.079***	1.076***	0.076***	1.085***	0.075***
	(0.158)	(0.012)	(0.163)	(0.013)	(0.168)	(0.013)	(0.168)	(0.012)
Dissatisfaction: Charges	0.151	0.011	0.225**	0.017**	0.196*	0.014*	0.145	0.010
	(0.106)	(0.008)	(0.110)	(0.008)	(0.111)	(0.008)	(0.107)	(0.007)
Big Bank Original	-0.129	-0.009	-0.182**	-0.013**	0.056	0.004	0.068	0.005
	(0.084)	(0.006)	(0.086)	(0.006)	(0.108)	(0.008)	(0.109)	(0.008)
Overdraft user			-0.355***	-0.026***	-0.323***	-0.023***	-0.263***	-0.018***
			(0.099)	(0.008)	(0.101)	(0.007)	(0.099)	(0.007)
High credit balance			0.201**	0.015**	0.184*	0.013*	0.222**	0.015**
			(0.100)	(0.007)	(0.106)	(0.008)	(0.107)	(0.008)
Local branch closed			0.303**	0.022**	0.339**	0.024**	0.303*	0.021*
			(0.151)	(0.011)	(0.155)	(0.011)	(0.160)	(0.011)
Relative size of branch network					-0.436**	-0.031**	-0.534***	-0.037***
					(0.172)	(0.012)	(0.177)	(0.013)
Frequency of use of apps/mobile banking							-0.035	-0.002
							(0.120)	(0.008)
Frequency of use of internet banking							-0.193**	-0.013**
							(0.087)	(0.006)
Number of transactions							-0.006***	-0.000***
							(0.002)	(0.000)
Constant	-1.772***		-1.644***		-1.546***		-1.146***	
	(0.179)		(0.183)		(0.203)		(0.221)	
N_sub	3537.000	3537.000	3675.000	3675.000	3585.000	3585.000	3549.000	3549.000
F	9.705		11.479		9.539		8.713	
p	0.000		0.000		0.000		0.000	

Standard errors in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01

<u>Customers of larger banks have more to gain from switching yet are less likely to search for alternative PCAs</u>

Methodology

2.10 In its pricing analysis, the CMA estimates the average amount customers could save from switching to a better value PCA ("gains from switching") and calculates and compares the average price of PCAs. No distinction is made in the gains from switching analysis between large and small banks.

2.11 Nationwide's advisers replicate the CMA's analysis separately for large and small banks.[4] When calculating the gains from switching overall, the dataset is split by large and small bank customers in order to distinguish the gains from switching for customers of large and small banks.

2.12 In addition to running this analysis, two sensitivities of the CMA's pricing analysis are also conducted. One sensitivity disaggregates the CMA's segments[5] by the characteristics[6] it uses in its gains from switching analysis. The other adopts alternative weights to those the CMA applies, altering the way weights are applied to products within banking brands and groups.[7] In the round, the results the CMA found in its pricing analysis continue to hold. We therefore do not provide any further detail here.

Findings from the extended analysis

2.13 The table below includes the results of our analysis, showing monthly savings separately for large and small banks based on the CMA's preferred £100 OD scenario.

2.14 [Redacted]

2.15 This suggests the average figures presented by the CMA in its Provisional Findings are missing significant differences between large and small bank customers.

[Redacted]

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[4] We construct this by using the "brand" variable to identify whether a customer's current account was held at a large or small bank. Large banks are defined by the following brands: Barclays, Bank of Scotland, First Direct, Halifax, HSBC, Lloyds, RBS, Santander, NatWest, M&S and Ulster. This flag was based on the definition of "large" used by the CMA in its actual vs. perceived analysis. Of the c11,000 accounts included in the CMA's analysis, c2,000 are small bank customers and c9,000 are large bank customers.

[5] E.g. customers paying in over £1,750 a month and having two or more direct debits.

[6] I.e. days in overdraft of 15+, 8-14, 1-7, credit balances of £0-£500, £500-£2,000, £2,000-£5,000 and £5,000+.

[7] We are happy to explain our rationale for adopting an alternative weighting methodology with the CMA. Furthermore, we note that an error in the CMA's matching code for its own weighting methodology led to a substantial inaccuracy in the weights applied to a specific bank.

2.16 We next consider the extent to which the differences observed above can be explained by the characteristics of customers of large and small banks, as distinct from the pricing decisions of the banks.

2.17 We find that part of these differences may be attributable to differences in the overall customer base of large banks compared to small banks. For example:

(i) 46% of standard/reward PCA large bank customers in the sample use an overdraft facility, compared to 26% of standard/reward small bank customers;

(ii) 16% of standard/reward PCA large bank customers use an overdraft facility for over 15 days in a month compared to 10% of standard/reward small bank customers; and

(iii) 54% of large bank customers are in credit compared to 74% of small bank customers.

2.18 To gain insight into whether these differences explain away any divergence in the results in the gains from switching for small and large bank customers, we measure the gains from switching attainable within certain customer groups so that comparisons are made on a more consistent basis.

2.19 We find that customers of large banks would gain more from switching than customers of small banks even within the seven more granular categories considered.[8] For example:

(i) [Redacted]

(ii) [Redacted]

2.20 In addition, despite having more to gain from switching, the extension of the econometric analysis on the propensity to search, shown in table 1 above, suggests that a customer holding a main account with a large provider decreases the likelihood of searching by almost 4%, holding all other customer characteristics equal.

[Redacted]

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[8] The results above could be expected if there were substantial differences between the customer base of large and small banks within each subgroup. For example, if the customers in overdraft for more than 15 days at large banks have substantially higher debit balances than those at small banks. We checked the distribution of average debit balances for overdraft users based on the three overdraft categories defined by the CMA, and average credit balances for credit customers based on the four credit categories defined by the CMA. While there were some differences between these debit/credit balances across large and small banks, these did not appear large enough to account for the differences observed in the gains from switching.

Back book customers are not considered by the CMA yet are likely to have higher gains from switching than other customers

Methodology

2.21 The Runpath dataset that the CMA uses for its pricing and gains from switching analysis includes a number of accounts identified as "unknown".[9] As the CMA notes,[10] the majority of these unknown accounts are off-sale, i.e. "back book" accounts.

2.22 The CMA's pricing and gains from switching analysis excludes these customers. The exception is the final row of table 1 of the gains from switching analysis, where it includes these accounts. The CMA concludes that this check "*suggests a slight underestimation of the savings from switching*", but that this is "*not sufficient to suggest the exclusions bias the results*".[11]

2.23 Nationwide's advisers focus on comparing back book accounts with front book accounts. Nationwide's advisers use the historical price from the transactions data for the customer's PCA, and compare this to Runpath's estimated price for all other PCAs, in order to estimate the gains from switching. These calculations are performed separately for front book and back book customers, in order to understand the potential differences in the gains from switching across the two customer groups.

Findings from the extended analysis

2.24 This analysis suggests that back book customers have considerably more to gain from switching than front book customers.

2.25 For example, the analysis suggests that back book customers could, on average, save between 47% and 75% more than front book customers if they switched to the best alternative product available. This finding continues to hold when disaggregating the data based on the seven account characteristics identified in table 5 above.

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[9] For customers on these accounts, the estimated average cost of their account was not calculated by Runpath, because it did not hold current pricing data for them.

[10] See the CMA's notes to table 1 of appendix 5.4 to the Provisional Findings.

[11] Paragraph 28(d) of appendix 5.4 to the Provisional Findings.

Table 6: Monthly savings (excluding switching incentives) from switching to cheapest product, UK			
	Basis of calculation		
	Excluding switching incentives	*1 year (including switching incentives)*	*5 years (including switching incentives)*
Matched records - using historic price data for customer's PCA			
Back book estimates - using historic price data for a customer's PCA	15.21	23.46	16.60
Front book estimates - using historic price data for a customer's PCA, "all switching"	9.13	15.97	9.49
% difference - back book to front book	*67%*	*47%*	*75%*

2.26 The CMA identifies concerns with market concentration. However, the CMA's results on the gains from switching largely excluded back book customers. This is an important and non-negligible group of customers. If these back book customers are properly accounted for by the CMA, the supporting evidence for the view that there are competition concerns associated with market concentration may be even stronger.