CLYDESDALE BANK PLC

RETAIL BANKING MARKET INVESTIGATION
RESPONSE TO NOTICE OF POSSIBLE REMEDIES

4 December 2015

1. **INTRODUCTION**

1.1 Clydesdale Bank Plc (CB) welcomes the opportunity to comment on the Notice of Possible Remedies (the remedies) issued by the Competition and Markets Authority (CMA) on 22 October. As stated in its response to the Updated Issues Statement (UIS), CB fully supports the promotion of positive outcomes for PCA and SME banking customers and greater competition within these markets.

1.2 CB appreciates the rationale behind the remedies generally, in particular the remedies designed to boost customer information and engagement. As explained at its Panel Hearing, CB is already working on a number of initiatives to: more actively engage customers; provide them with enhanced information; and encourage them to monitor and review their financial arrangements.

1.3 CB has contained its response to the points it believes to be the most pertinent. This response therefore comments on the following 5 remedies:

1.3.1 Remedy 1 (*Prompt customers to review their PCA/BCA provider at times when they may have a higher propensity to consider a change)*;

1.3.2 Remedy 3 *(Facilitate price comparisons between providers by making customer-specific transaction data more easily available and usable, including by PCWs)*;

1.3.3 Remedy 5 *(Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality)*;

1.3.4 Remedy 8 (*Require payments into the old account to be redirected to the new one for a longer period than at present)*; and

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

1.4 Whilst CB commends the remedies designed to increase customer awareness of the benefits of switching and to improve the Current Account Switching Service (CASS), CB would question a number of the other remedies based on their ability to effectively change the market or the potential scope for certain remedies to impact disproportionately on smaller financial institutions who are less able to absorb high implementation costs. CB is also mindful of current regulatory developments and that, for at least some of these proposed remedies, there is a degree of overlap with such existing, proposed regulatory intervention.

2. **REMEDY 1**

2.1 When considering the CMA's proposed remedy 1, as CB outlined to the CMA at its Panel Hearing, CB has recently implemented an enhanced 'prompting' facility, [Redacted]. This is deployed across the bank's internet banking website and mobile application and alongside issuing servicing messages, allows CB to make customers aware of appropriate products and services on a timely basis, based on an increased understanding of their transaction and credit behaviours. This facility has already been successfully utilised to contact customers who have, for example, gone into overdraft, and incurred charges, and let them know of alternative products available to them. From a practical perspective, CB believes that this tool could be enhanced to incorporate the types of triggers proposed by the CMA.

2.2 However, in considering certain of the questions posed by the CMA relating to this remedy, CB would urge the CMA to be mindful that a balance must be struck between (a) providing customers with valuable information and prompts to switch where they may derive benefit in doing so; and (b) undermining the stability and confidence that customers also look for in their banking arrangements. CB is also conscious of the potential regulatory compliance risks in implementing a remedy which essentially requires banks to promote offers from other providers, where perhaps the products might not be more suitable. Further to be effective, such a remedy would appear to require an inappropriate extent of transparency between competing banks. Overall, CB believes that this part of the remedy would require a significant investment in time and costs to establish relevant triggers and the wording of any resulting customer prompts.

2.3 Moreover, as regards the potential requirement to facilitate access to relevant customers by third parties (e.g. intermediaries), CB does not consider this would be practicable or proportionate, particularly given the data protection and security concerns it could give rise to.

3. REMEDY 3

3.1 Considering the current regulatory landscape, the CMA's proposal under **remedy 3** has links to the work ongoing in relation to open common application programming interfaces (API) and the UK's implementation of the Second Payment Services Directive (PSD2). CB notes that the CMA is mindful of these links and the UK Government's implementation timeframes. CB would urge the CMA not to introduce interim measures where full implementation of the Government's proposals will address these concerns. Implementing interim measures would have the potential to impact significantly on smaller financial institutions; given that the Government's current proposals themselves will require significant investment.

4. REMEDY 5

4.1 In terms of **remedy 5** CB is pleased to see the CMA placing emphasis on the importance of quality as a means of encouraging more informed switching. As discussed at its Panel Hearing, CB believes that quality of service is an important differentiator and that customers should be informed about, for example, trust and advocacy measures. This remedy would require a degree of standardisation on those 'services' for which quality measures are assessed. The challenge CB foresees is arriving at a definition and scope which ensures the services being compared remain relevant at a time where banking services are evolving in an increasingly more digital world. A further challenge would be ensuring that banks are able to showcase services which they believe differentiate them from the competition. Though CB commends the CMA's thinking in relation to remedy 5, it would caution against arriving at a situation where quality becomes, in effect, overly commoditised, and definitions assigned to "quality" and "services" compromise future product development.

5. REMEDY 8

5.1 CB would question whether the additional investment in IT, which is likely to be required, would result in higher usage in the switching service, given usage of the service to date. It is also concerned about how this remedy would work in practice given that CB needs to recycle account numbers. Based on CB's analysis, in order to have sufficient account numbers to service customers, it generally needs to recycle account numbers within five years of account closure. Outside of this five year period there is a potential risk of payments being misdirected.

6. **REMEDY 9**

6.1 CB remains unconvinced in the ability of this remedy to increase competition and switching. CB questions whether, based on customer behaviour to date, customers would request and benefit from reviewing a 5 year transaction history. Particularly given that this information will be provided once customers have switched. Additionally, if an electronic version of transaction history is required, CB foresees challenges in terms of formatting (i.e. distribution in a form appropriate for users of personal computers and also those who use mobile devices).

6.2 Though CB remains unconvinced in the potential benefit of this remedy, if pursued, CB would suggest that it be integrated into the account closure process in order to reduce the burden of ad hoc transaction data requests.

7. **CONCLUSION**

7.1 CB recognises the opportunity the CMA has to effect change in the PCA and SME markets, and welcomes remedial action which will deliver more positive customer outcomes. Notwithstanding this, CB would urge the CMA to give due regard to the fact that a number of the remedies of the kind proposed and other industry-wide change initiatives are more easily absorbed and implemented by the larger financial institutions without adversely impacting on their competitiveness.