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In a recent conversation with my Chairman (Anthony Thomson), I heard him describe the challenger banks as challenged. We were having a conversation about how Atom might make a positive and lasting impact on the UK banking market. A few days later at a PRA briefing for Executive Directors, I enjoyed a short presentation by the CEO of Secure Trust (Paul Lynam) where inter alia, he very eloquently demonstrated that the overwhelming beneficiaries of the FLS were the big banks and furthermore that the advantages of using an Internal Ratings Based (IRB) method of calculating risk weights (available only to the established big banks) played overwhelmingly to their advantage. In short, he too concluded that the challenger banks were making no real headway against the big players.

But why should anybody be surprised when the big banks, with their serried ranks of highly paid accountants and analysts and lawyers, take advantage of every emerging opportunity? I think Anthony was correct in his assessment – new competitors are more challenged than challenger. In a market dominated by a small number of big players, can this really be good for consumers?

The research data that the CMA itself published suggests that there really isn't any crisis of customer dissatisfaction with banking. Most customers are reasonably content with their bank, even if they don't actually trust their banker. It's long been my experience that customers are logical. Basically banking works pretty reliably whereas bankers have been mired in all sorts of difficulty for over a decade now. So while the regulators, the politicians and the media appear genuinely concerned about the lack of trust in banks, customers appear significantly more resigned and detached.

They are so detached because over time, advances in the technology of banking has enabled them to them to manage more and more of their financial needs on 'autopilot'. Where there has been human intervention, problems arise, whether in the form of mis-selling or simple process failure. But mis-selling has since turned into a customer windfall so it's really only process failure that causes ongoing customer discontent, and then only if it's repeated failure. The customer has become accustomed to 'autopilot'. They rather like the convenience and ease and reliability it brings. The most pervasive aspect of banking autopilot is recurring payments and the overwhelming majority of these payments link to current accounts. Any failure in a recurring payment is wont to cause the customer distress. Repeated failures drive defection. Customers in the UK don't move their current account because they know only too well that if the banks are pretty reliable at repeating things, they are rather less reliable when it comes to processing new instructions or managing change.

Why should this be the case? The answer quite simply is because over decades the banks have chronically underinvested in their technologies and in their processes such that amendments to existing payments or creation of new payment instructions will almost always involve manual intervention. Where that happens errors remain endemic. It's the linkage between recurring payments and current accounts that explains why customers don't move banks. If that link is broken, then the hold that the banks have on customers will be significantly weakened. CASS was a reasonable attempt to break the bond that banks have on current accounts but it has failed to produce the increase in switching that was hoped for. Why? Because 7 day switching simply isn't credible. **CASS should and must be real-time or at worst same-day.** We live in the digital age so seven days is laughable.

Increasingly banks are linking cashback rewards to these recurring payments and in doing so making it even more attractive for customers to place their primary banking relationship with one brand. Their highly paid analysts and accountants see the threat to their dominance personified by ApplePay and they are taking steps to strengthen the hold they have on their customer's payment behaviour. Many will have acquired their customer's account using a cash incentive (typically between £100 and £200 per account) but they will increase their losses by paying cash-back or high credit interest rates on current account balances (usually operating within tiered ceilings and floors). While this looks like a good deal for the customers who hold these accounts, it sheds no light on who is actually paying for the loss?

By way of an example, here in the UK it's illegal to sell alcohol at a loss because it's considered bad for the public health but in spite of everything that has happened through the banking crisis it remains perfectly legal to sell financial products and services at a loss! **At times it seems to me that we are determined to learn absolutely nothing from the mistakes of the past. Enquiry after enquiry**

into current accounts appear determined to conclude that there's 'nothing to see here – move along'.

Like it or not, the current account sits in the eye of the storm with recurring payments providing the fuel. I do not believe that the big banks need to be broken up. Nor do I believe that cashback on recurring payment activity is in and of itself anti-competitive, but I do believe that incentivised loss leadership on current accounts is an enormous barrier to entry for new current account banks (evidenced by the scarcity of new providers) to say nothing of the conduct risk it represents, and I do believe that CASS 7-day switching is wholly inadequate.

As to whether the already proposed measures will generate unintended consequences I have two concerns. Firstly, providing clarity as to monetary value of one account compared to another is potentially useful but it shines no light on quality and of much greater concern, it will actively encourage banks to increase loss leadership as a way of making it to the top of the comparison table – a game they are already adept at playing. This will perpetuate the reality of the beneficiary not paying for the benefit!!!!

And secondly, if portability of overdrafts coupled with the ability to test risk appetite without leaving a bureau search certainly removes a barrier, then it does not confront the ongoing price gouging of overdraft users. Why are we intent on ignoring the fact that a typical personal loan rate is now less than 4% whereas an overdraft rate is closer to 20% - and that's before daily fees and charges?

As a closing thought, there is nothing in the remedies to address the ongoing practice in the credit card market of 'revolvers' paying for 'transactors'. It reminds me that **in banking as in life, if it looks too good to be true then it is too good to be true.**

With the best wishes of the Christmas season

Sincerely

Mark

Mark Mullen
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Atom