HSBC – PCA / SME BANKING MARKET INVESTIGATION

RESPONSE TO THE CMA'S INVITATION TO COMMENT ON ADDITIONAL REMEDY SUGGESTIONS

1. EXECUTIVE SUMMARY

1.1 HSBC welcomes the opportunity to comment on the additional remedy suggestions proposed by various parties. In our view, many of the proposals are neither appropriate nor effective for the purpose of remedying, mitigating and preventing the Adverse Effects of Competition (***AECs***) as identified by the CMA in its Provisional Findings report, which include:[1]

(a) barriers to accessing and assessing information on PCA and BCA charges and service quality;

(b) barriers to switching PCAs and BCAs; and

(c) barriers to opening BCAs and low levels of customer engagement.

1.2 HSBC has already separately commented on the CMA's provisional AEC findings[2] and considers that they overstate some of the competitive concerns in certain key aspects of the PCA and SME banking markets.[3] The CMA must bear this in mind when assessing the design and proportionality of possible remedies, including these additional remedy suggestions.

1.3 HSBC supports the general direction of the CMA's own package of proposed remedies aimed at changing demand-side dynamics across all key stages of PCA and SME customers' journey to promote customer engagement, prompt searching and switching between current account providers, as well as shopping around between SME lenders. Accordingly, HSBC agrees with LBG's suggested focus on encouraging customers to engage more with how they use their accounts so that they may reduce their costs of banking.

1.4 Consistent with the views of the CMA, HSBC is not supportive of additional proposals designed to control outcomes (including the proposal by Which? and the Financial Services Consumer Panel to control the pricing of unarranged overdrafts, the suggestion by RBS to only allow opt-in unarranged borrowing facilities and the proposal by Virgin Money to require PCA providers to pay credit interest on PCAs at or above a minimum level). Not only would these proposals be ineffective and disproportionate in terms of addressing the AECs identified, there is also a serious risk that they will have unintended adverse consequences for competition and consumer welfare.

[1] See CMA remedies notice, para 24.

[2] Part A of HSBC's response to the CMA's Provisional Findings and Remedies Notice dated 20 November 2015.

[3] For example, see para 3.13 of HSBC's 20 November Response in respect of "PFs overstate disengagement of PCA overdraft users".

1.5 HSBC has reservations about certain aspects of some of the other additional remedy suggestions (such as TSB's proposal on credit passport and standardised monthly bills; and First Trust's proposed UK-wide extension of the requirement of the Northern Ireland PCA Order). They are unnecessary in light of the CMA's existing proposed remedy package and ongoing market developments, and are disproportionate given the minimal additional customer benefit that such measures are likely to deliver.

1.6 With regard to Tesco Bank's "traffic light" labelling proposal for PCAs, we are concerned that a labelling approach will be ineffective in addressing the provisional AECs and also carries a significant risk of generating unintended consequences. In particular, any "traffic light" labelling approach is unlikely to fit well with the specific banking needs and requirements of individual customers and risks directing customers to unsuitable products. The expected emergence and development of effective PCWs for PCAs and SME banking products,[4] which will enable bespoke and usage based comparisons, will also render any such "traffic light" system unnecessary.

2. MEASURES TO CONTROL OUTCOMES ARE UNNECESSARY, DISPROPORTIONATE AND LIKELY TO HAVE UNINTENDED CONSEQUENCES ON COMPETITION AND CONSUMER WELFARE

2.1 The CMA's proposed remedy package – as set out in its Remedies Notice – rightly focuses on increasing customer engagement and will be effective in improving outcomes for overdraft customers.

2.2 HSBC agrees with the CMA[5] that measures to control outcomes do not address the CMA's competition concerns at source and carry the risk of unintended consequences. Therefore, the CMA is right not to favour measures to control outcomes. The provisional AEC findings do not support such intrusive remedies. Aside from being unnecessary and disproportionate, there would be a serious risk of unintended adverse consequences both for competition and consumer welfare if such measures were adopted.

A. Which?'s remedy suggestions are likely to have unintended consequences and the CMA should focus on "real time" communications that improve the ability of customers to manage their finances better

2.3 Which? is suggesting a direct control on the price of unarranged overdrafts – and in particular that this should be no higher than the price of arranged overdrafts.

2.4 This proposal is likely to undermine competition and reduce customer engagement, which runs counter to the stated aims of the CMA's proposed remedies package.[6]

2.5 For regular users of unarranged overdrafts, the root issues affecting outcomes are a combination of lack of proactive financial management and/or financial stress. Unchecked this can lead to the recurrence of fees for these customers, as well as

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[4] Please refer to HSBC's separate submission on APIs and PCWs.

[5] Paragraphs 175 and 176 of the CMA's Remedies Notice.

[6] Paragraphs 23 and 27 to 28 of the CMA's Remedies Notice.

increased borrowing and the attendant risk of bad debt affecting both the customer and the bank.

2.6 It is important that we are able to encourage customers to manage their finances to avoid this behaviour in the first place, by planning their finances efficiently with arranged overdraft borrowing and/or responding to prompts to redress any potential unarranged overdraft position. As previously advised, our existing text alert service has proved highly effective in encouraging customers to take appropriate action to avoid unarranged overdraft fees.

2.7 By removing any differentiation in the cost of arranged and unarranged borrowing, the Which? proposal would seriously reduce incentives for customers to respond to prompts that are designed to change behaviour, leading to worse outcomes for customers.

2.8 The benefit of unarranged overdrafts is that they enable customers to make essential payments, which if missed might mean that customers could fall into arrears with their regular payments and could in some cases cause significant inconvenience if they are then refused an "essential service" (e.g.: heating, electricity, rental or other household payments). Unarranged overdraft facilities allow customers to avoid such issues, and customers want the safety net of knowing that essential payments will be made. Which?'s assertion[7] that higher unarranged overdraft charges do not reflect higher costs (and the related implication that costs of planned and unplanned borrowing are the same) is not supported by any evidence and is in any event incorrect. In fact, unplanned borrowing entails significant additional costs for the provider. For example:

(a) High customer maintenance costs, including additional communications, collection activity and processing costs (e.g. credit decisions are required for each unarranged overdraft transaction, which contrasts with one-off credit decisions that are typically required of arranged overdrafts.)

(b) Increased probability of default which causes substantial costs for the bank in terms of write-offs and additional capital costs of increased risk-weighting and provisioning. In particular:

(i) When unplanned borrowing leads to default this typically entails the customer defaulting on previously arranged planned borrowing as well ([***Redacted***]% of unplanned borrowing arises on accounts with arranged borrowing limits – on these accounts planned borrowing is estimated to be [***Redacted***] times greater than unplanned). [8] Hence, it is most efficient to recover the incremental capital and potential write-off costs associated with both planned and unplanned lending from the unarranged overdraft charges.

(ii) These costs can be substantial – in addition to write offs, the heightened probability of default increases the risk weightings attached to that customer's lending and directly increases the capital required to

[7] Which? response page 2, paragraph 5.

[8] Based on HSBC internal data.

support that lending. In addition, limit breaches can trigger account provisions which entail genuine economic costs. This is because provisioning is a charge to equity, meaning that equity capital that could be employed in economically generative activities is instead tied-up in supporting the provision.[9]

2.9 In light of the above, Which?'s remedy is likely to entail the risk of adverse unintended consequences without any overriding beneficial effects on competition. In particular,

(a) *No net static benefits due to rebalancing* – Which?'s proposed remedy would likely to lead to a rebalancing of charges between arranged and unarranged borrowers, to the detriment of arranged borrowers who arguably manage their finances well. This reflects the simple fact that in setting the price for arranged borrowing, all banks will now need to take account of the fact that this price will anchor the price for unarranged borrowing. Inevitably this change in pricing incentives will lead to higher prices for arranged borrowing.

(b) *Substantial customer welfare loss from transaction declines* – the precise responses of banks to regulation of unarranged overdraft charges will vary, however they are likely to include a tightening of credit risk appetite and in certain circumstances may result in providers removing the flexibility that allows customers to benefit from an unarranged overdraft position. This may lead to more declined transactions including direct debits and standing orders for essential expenditure such as mortgage payments, which can cause significant inconvenience to the detriment of customers.

(c) *Likely escalating bad debt and provisioning costs* – an obvious corollary of removing the incremental incentive to avoid unplanned borrowing is that it may lead customers to increase borrowing over longer periods of time and further discourage them from actively managing their finances, resulting in increased risk and costs of defaults.

(d) *Increased borrowing could result in some customers paying more* – the removal of an important incentive to avoid or address unplanned borrowing could result in some customers actually paying more interest in aggregate if they borrow more and/or hold these borrowings over a longer period of time. This would be particularly the case given the price of arranged borrowing is likely to increase. (We note that in its interim findings in its credit card market study, the FCA found that the presence of little or no incentives to repay outstanding debt caused some customers to maintain borrowing at levels that over time resulted in levels of interest akin to higher cost short term lending.[10])

2.10 HSBC considers there is no case for running the risk of these deeply unattractive unintended consequences when the CMA has identified, in our view, more appropriate and effective remedies that promote customer engagement and work with

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[9] Under the AIRB approach, a number of factors determine the appropriate account level Risk Weight (mapped from Probability of Default). A key driver is the incidence of borrowing in excess of agreed limits.

[10] See paragraph 6.49 of the FCA's credit card market study: interim report of November 2015.

the already positive trajectory of competition in the retail banking markets. In particular:

(a) *Behavioural nudges address the concern at source* – text message alerts make customers aware that they are about to incur a charge, unless they take action, and have been shown to be very successful.[11] We consider that the prospect of a charge which is communicated to the customer in real time ensures that most customers only make use of an unarranged overdraft if they consider it essential (i.e. to meet an important payment). Customers are then incentivised to bring themselves back within limit as soon as they can. This arrangement benefits customers, by maximising the likelihood that banks will process payments for essential expenditure.

(b) *The CMA's wider remedies will raise engagement of all customers including unarranged overdraft users* – we consider that the CMA's current proposed remedies package will be effective in ensuring that increasing numbers of customers, including overdraft users, are able to access the information they need, assess their options through a comparison of accounts, and act on the output of the comparison process. We have set this out in our response to the CMA's provisional findings and remedies notice. The development of effective PCWs based on APIs, in combination with enhanced awareness of CASS, and the availability of soft search functionality[12] in respect of overdraft offering, will increase the likelihood that overdraft customers consider switching, which in turn will increase the competitive constraints that banks face on overdraft pricing. Customers will find it easier to access relevant information (through the use of an API to access their transaction history), and will be able to conduct an accurate comparison of alternative accounts and available overdraft limits, through the use of a PCW. They will have confidence to switch if awareness of CASS is enhanced and overdraft offers are confirmed before the switching process is initiated. Furthermore, as set out in our response to the CMA's remedies notice, comparisons across banks will be unaffected by any propensity to underestimate use of unarranged borrowing as the use of open data will ensure comparisons employ actual not estimated usage data.

(c) *Technological developments will also increase innovation and competition for this service* – On top of the development of PCWs, APIs will enable the emergence of innovative solutions like financial aggregators / money management tools[13] who we expect will provide services which help to reduce / mitigate customer biases, and also provide opportunities for alternative

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[11] Over half of HSBC customers, and 75 per cent of first direct customers, react to the first text alert warning that they are about to incur a fee, and avoid the fee by transferring funds. See also FCA Occasional Paper No. 10 – *Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour* (March 2015). As set out in HSBC's response to the CMA's Provisional Findings and Remedies Notice, HSBC considers that increased use of mobile banking will increase customer responsiveness to text alerts allowing easier real time redress of unplanned borrowing.

[12] Credit checks can be conducted without leaving a "footprint" on the record of a search being made.

[13] See Response from the Social Market Foundation to the CMA's Remedies Notice, page 3.

providers of short term credit to access customers to offer real-time alternatives. These competitive opportunities would be undermined by direct price controls on unarranged borrowing. The Competition Commission previously observed that price controls directly undermine competition and competitive entry in retail banking markets.[14]

2.11 In summary, any proposal to control prices directly would be highly disproportionate. A cost benefit analysis (which would be required) would likely show little or no net static benefits. Instead, the proposal would likely lead to the loss of very significant dynamic benefits of competition for consumers. The CMA's remedies, which aim to increase competition, rather than control outcomes, are far more likely to have a beneficial impact on the already positive trajectory of competition in retail banking, and less likely to run the risk of unintended consequences.

HSBC supports LBG's suggested focus on encouraging customers to engage more with how they use their accounts so that they may reduce their costs of banking

2.12 In light of the obvious benefits of addressing concerns at source, HSBC supports proposed measures to provide opportunities for customers to engage actively to avoid unarranged fees.

2.13 In principle, we agree that the additional remedies proposed by the CMA can deliver customer benefit as they help customers avoid unarranged overdraft charges:

(a) Grace periods before the charge is applied – we already provide customers with a grace period before they will incur the fee.

(b) Requirements to pre-authorise the charge – we agree with the concept of this recommendation, as it provides additional benefit to the customer. However, further assessment is required to determine whether this can be implemented across all payment types in practice. We would also want this to be an option that customers actively choose to opt in to; otherwise they risk important payments not being made which they would choose to pay by utilising an unarranged overdraft.

(c) The ability to automate the transfer of funds from other accounts – we agree with the concept of this proposal, however practical implementation and customer demand would need to be assessed to ensure any costs are proportionate to the advantages available to customers. Again, we would want

[14] The CC noted that "it is reasonable to expect that price restrictions will distort competition, particularly if maintained for an extended period. Price regulation can affect the competitive incentives for firms to invest in the market, to attempt to gain market share, and to produce innovative products and service", and accepts that "retaining the price restrictions could distort competition by limiting the opportunities for entry and expansion in the market by smaller players, dampening incentives for banks to invest and develop innovative products, distorting efficient pricing decisions by banks and introducing a degree of similarity in pricing structure across a section of the market. (See paragraphs 1.7 and 1.8, OFT's review of SME banking undertakings following the 2002 Competition Commission report, August 2007, http://webarchive.nationalarchives.gov.uk/20140402142426/http:/www.oft.gov.uk/shared_oft/reports/financial_products/oft937.pdf)

this to be an option that customers actively choose to opt in to, as some customers maintain separate accounts to ensure budgetary discipline.

B. The Financial Services Consumer Panel's remedy suggestion is misconceived as there are crucial differences between overdrafts and high-cost short-term credit

2.14 The FSCP is proposing that unarranged overdrafts should be considered a form of high-cost short-term credit (***HCSTC***) and be made subject to the price cap for HCSTC that was introduced by the FCA in January 2015.

2.15 The FSCP's proposal amounts to a direct control of outcomes. For the reasons set out above, HSBC considers such an approach inappropriate and disproportionate, in particular because it carries the risk of undermining attempts to improve engagement and competition that deal with concerns at source.

2.16 HSBC further notes that there is no basis for applying the HCSTC remedy to unarranged overdrafts.

2.17 Firstly, the price cap applied by the FCA to payday lenders was not the outcome of a competition inquiry but the result of a directive from the Government (dated December 2013) partly in light of questionable lending and collection practices in that sector. The CMA's own competition investigation into the payday loan sector focused on remedies designed to address the finding that the competitive constraints that lenders faced when setting their prices were weak, and imposed remedies to improve customer engagement[15] to promote competition on price even below the FCA cap.[16] In the present case, HSBC strongly agrees that the package of remedies already proposed by the CMA should increase competition to the benefit of all customers, including heavy overdraft users.

2.18 Secondly, irrespective of the appropriateness of price caps in payday lending, there are key differences between a payday loan and unarranged borrowing that undermine the relevance of the FSCP's comparison. Perhaps the most important one[17] for remedy assessment is the behavioural context of the purchase decision.

2.19 Payday loans represent conscious borrowing decisions (similar to an arranged overdraft) and the CMA found that payday customers were clearly engaged in a conscious purchase decision (and could research many competing offers) yet still displayed a lot of price insensitivity, focusing instead on availability of credit and

[15] These primarily involved (i) promoting PCW use; (ii) improving the disclosure of late fees and other additional charges; and (iii) helping customers to shop around without unduly affecting their ability to access credit.

[16] Paragraph 58 (page 17) of the CMA's Final report on the Payday Lending Market Investigation (https://assets.digital.cabinet-office.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf).

[17] Other differences include: (i) Unarranged borrowing is typically for much shorter periods than payday lending. The CMA found that unarranged overdrafts "typically cover a significantly shorter period [than payday lending]– for example, Santander told us that the average time a customer spent in unauthorised overdraft was three days" (*ibid*, para 5.11, page 165) and (ii) Payday has a fixed repayment date whereas unarranged overdrafts exist as a revolving credit facility with not fixed repayment date.

speed of execution often because they have exhausted other means of obtaining credit (such as overdrafts). By contrast, unarranged overdrafts are not pre-arranged forms of credit and are typically utilised over short periods of time in situations where customers have temporarily lapsed in their money management.

2.20 The very different behavioural context has a direct bearing on the assessment of appropriate remedies. Specifically, the context of unarranged borrowing strongly suggests that behavioural nudges in the overdraft context are far more likely to engender positive customer responses than in the payday lending context. As discussed above, price controls would, in contrast, exacerbate such customer inertia, reduce customer engagement (and switching) more generally and remove opportunities for innovation and entry by competing services.

C. RBS's suggestion of only allowing opt-in unarranged borrowing facilities would be unnecessary and ineffective

2.21 RBS suggested that banks should be prohibited from providing unarranged overdrafts unless a customer had actively opted in. This suggestion is effectively another way of controlling outcomes which is unnecessary, ineffective and will have unintended consequences. Customers who initially opt out of unarranged overdrafts are likely to wish to opt in again as soon as they are inconvenienced by essential payments not being paid.

2.22 The most direct and effective way of addressing any concerns as to the costs of accounts used by heavy overdraft users is to adopt the CMA's existing remedies package. This will increase customer engagement, including that of heavy overdraft users, by enabling them to make proper usage based comparisons across the totality of fees they face.

2.23 It is important to appreciate that there could also be serious unintended consequences to such a remedy. Customers that have not actively opted in to unarranged overdrafts will be unable to meet certain important / periodic contractual payments (e.g. mortgage payment, rent or utility bills) on occasions where they happen to have insufficient funds in their accounts. Missed payments would mean that customers could fall into arrears with their regular payments and could in some cases cause significant inconvenience if they are then refused an "essential service" (e.g.: heating, electricity, rental or other household payments), which they might prefer to avoid by utilising an unarranged overdraft if it was available to them. The proposed "opt-in" proposal will also mean that new payment services such as 'contactless' will not be available to those customers that have not actively opted in to unarranged overdraft, as 'contactless' payments do not seek authorisation from the customer's provider.[18]

D. Virgin Money's remedy suggestion fails to recognise the different purposes for which customers use their PCA and is likely to dampen product innovation

2.24 Virgin Money suggested that PCA providers should be required to pay their customers credit interest on PCAs at or above a minimum level. As already discussed

[18] Currently, contactless payments will be processed even if the customers' accounts are overdrawn. Under RBS's proposal, customers that have not actively opted in to unarranged overdrafts will not be able to use "contactless" payment service.

above, HSBC is opposed to price control remedies of this kind which are unnecessary, disproportionate and ineffective in addressing the provisional AECs that have been identified. HSBC supports market-based remedies that have a greater potential of achieving better customer outcomes in the long term and are less likely to distort competition. On this, HSBC refers the CMA to the Competition Commission's reasoning behind their order to release the banks from the transitional 2002 SME undertakings.[19]

2.25 Transactional accounts like PCAs are designed to enable customers to manage their day-to-day finances. Credit interests are paid on HSBC's savings product range and the levels of credit interest vary depending on customers' need for access to funds. HSBC currently provides a variety of saving products ranging from Instant Access to longer-term fixed rate savings accounts, giving customers a range of options to help them save for their differing needs.

2.26 For customers wishing to save and earn interests on funds in their PCAs, they can opt for a current account that provides credit interest, as opposed to current accounts that do not pay credit interest. Any price control measures requiring PCA providers to pay their customers credit interests on all PCAs at or above a minimum level is likely to have the unintended consequence of reducing product choice and dampening product innovation.

2.27 We do not believe that compelling providers to pay credit interest on all PCAs will have a significant impact on a customer's ability to compare competing products.

2.28 Mandating credit interest on PCAs will simply amount to an additional cost for the PCA provider, without necessarily achieving the purpose of increasing competition and product differentiation. By reducing the value of each customer to the bank such a remedy would inevitably reduce the degree to which banks compete for PCA customers with knock-on impacts for other prices / switching bonuses.

3. FURTHER REMEDY SUGGESTIONS RELATING TO OVERDRAFTS

A. HSBC supports First Trust Bank's suggestion of a UK-wide extension of the NI Order in relation to certain provisions

3.1 Consistent with Articles 5 and 6 of the NI Order, HSBC already notifies its PCA and BCA customers with details of specified charges and interest rates and before deducting overdraft charges and debit interests.

3.2 As previously submitted, we consider the NI Order to be outdated in light of recent market developments. In particular, HSBC considers that an extension of provisions of the NI Order (relating to switching[20]) to be unnecessary.

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[19] Paragraphs 5.67 to 5.85 and 6.17 of the Competition Commission's 2007 report on the SME transitional undertakings.

[20] Articles 7 and 8 cover switching and include a duty to provide a switching leaflet to customers (Article 7 and 8(7)), a duty to offer an overdraft to switchers applying the usual credit assessment criteria, a duty not to apply or levy any interest/charge on an authorised overdraft facility for at least three months from the date the customer opened the PCA and a duty to repay interest/charges incurred as a result of failure of the switching process unless there is an authorised overdraft in the case of the new bank (Article 8).

3.3 The Competition Commission (***CC***) noted in its final report on the NI order that the requirement on banks to provide an interest and fee-free overdraft for three months following the customer's switch to a new bank was to address customers' perceptions that switching is "risky".[21] The introduction of CASS (in particular, re-direction service), alongside the advertising campaigns aimed at increasing customers' confidence in CASS under Remedy 2, will be effective in removing any perception that the switching process is risky. The CMA should take these developments into account when considering any amendments that should be made to the NI Order as part of its ongoing review.

B. TSB's suggested "credit passport" is unnecessary

3.4 HSBC considers the proposal for "credit passports" containing PCA customers' account usage and transactional histories to be unnecessary and disproportionate in light of the development of open APIs (per the CMA's proposed Remedies 3 and 14) as well as the increased sharing of SME data for credit assessment required under the SBEE Act (Remedy 13).

3.5 Open APIs will enable the provision of access to customer transactional data in real time, which upon authorisation by the customer can be obtained by PCWs and other providers and used to better assess credit risk and affordability of new customers. This will put prospective alternative PCA providers in a better position to match a customer's existing overdraft facility than is currently the case without open APIs. HSBC is supportive of measures aimed at making it easier for prospective PCA customers to find out, before initiating the switching process, whether overdraft facilities would be available from another provider (per Remedy 7).

3.6 The developing technology, which is being spearheaded by HMT and the Open Banking Working Group (per Remedy 14), will achieve the same objective of "credit passports" in a more effective manner by providing greater and more ready access of credit information to prospective PCA providers for credit risk and affordability assessment. At best, "credit passports" will duplicate what is achieved via open APIs. Unless credit passports are automatically updated on a daily basis they will be inferior to the up to date information which would be available via open APIs

3.7 Developing "credit passports" would be duplicative of investment and effort that industry participants and government stakeholders are expending to deliver open API standards. Open APIs will supersede any need to develop a centralised resource of "credit passports", which will require industry agreement on how, and in what format, such "credit passports" should be developed and maintained, not to mention significant operational changes and investment required from industry participants.

4. OTHER REMEDY SUGGESTIONS

A. Tesco Bank's suggested "traffic light" approach is too simplistic and carries a serious risk of directing customers to PCAs unsuited to their individual needs

4.1 Current accounts are not simple, one-dimensional products in the same way as supermarket products that are subject to "traffic light" labelling. The current proposal

[21] See paras 6.167 and 6.176 of the CC report of 15 May 2007.

is skewed towards credit interest, monthly overdraft costs and unauthorised overdraft but does not cover other price and non-price parameters (such as service quality, preferential rates on non-PCA products such as mortgages and loans, branch footprint and digital/mobile offerings) which customers need to consider when comparing and selecting current accounts. There is a risk that the current proposal will direct customers to a product that will not be suitable to their needs and preferences or lead to undue focus on prices (rather than other important metrics). For a labelling system to be useful for customers, it would need to adopt a more balanced approach to include measures of: (i) service quality (e.g. satisfaction / net promoter scores) and (ii) channel availability.

4.2 In light of the above, to ensure customers can make an informed decision, it is likely that the "traffic light" system could be complex for most customers. As the labelling system will not be individualised, it has the potential to mislead customers in their choices. Further, PCA providers may be incentivised to focus on factors that are key drivers of the "traffic light" metrics, at the expense of important factors which are not caught by the "traffic light" system.

4.3 Bespoke usage based price and service quality comparisons, reflecting customers' needs and preferences, are precisely what could readily be available with open APIs via PCWs. This provides a market-based solution, and one which should increase the competitive pressure on banks to demonstrate value to their customers, including encouraging and assisting customers to pro-actively manage their accounts. The future development of PCWs will therefore render any such "traffic light" system unnecessary.

B. TSB's suggested standardised monthly bills are likely to be ineffective in changing customer behaviour and should not include "interest foregone"

4.4 HSBC currently provides pre-notice advices (***PNAs***) to customers prior to debiting their accounts for certain fees incurred from their PCAs, which gives customers a clear view of the costs they have incurred in the previous month.[22] HSBC also includes all such charges in the annual summaries that are made available to customers on a 12-monthly basis. As customers are already notified of the charges associated with their PCAs at regular intervals, we consider any proposals to standardise notification in the form of monthly bills will not usefully increase transparency or necessarily deliver any customer benefit compared to current bank practices. Any requirement to change the way we currently pre-notify charges and delay the debiting of accounts will require extensive changes to our systems and incur costs that would be disproportionate to any potential customer benefit.

4.5 The proposal to include "interest foregone" in any such monthly notification is also particularly problematic, as an appropriate reference interest rate would need to be adopted across banks. Further, the inclusion of "interest foregone" which is not an actual "charge" in a monthly bill that sets out fees incurred also has the potential to confuse customers. Further, presenting interest foregone in this manner might give the customer the impression that the current account should be viewed on an equal footing to a savings account, when in fact they are different propositions with

[22] The only exception to this relate to charges relating to overseas debit card transactions.

functionalities and terms that are designed for different uses (e.g.: the processing of payments).

TSB considers that a standardised monthly bill could help periodically to prompt customers to take action. But in fact, it is far from clear that it would be effective in offering help to customers in comparing offerings across providers or in prompting customers to take action. The work carried out by the FCA[23] points in the other direction. It has shown that annual summaries have no effect on consumer behaviour or switching to other current account providers. Signing up to text alerts or mobile banking apps is shown to be more effective in reducing the amount of unarranged overdraft charges and in encouraging consumers to switch without closing their original accounts.

4.6 Moreover, in light of the scope of the CMA's overall remedy package, we consider this proposal to be ineffective and disproportionate. The CMA should instead focus on Remedy 1 which will be far more effective in increasing customer engagement.

[23] FCA Occasional Paper No. 10 – *Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour* (March 2015).