COMPETITION AND MARKETS AUTHORITY
RETAIL BANKING: ROUNDTABLE DISCUSSION

Notes of a Roundtable Hearing
held at Competition and Markets Authority,
Southampton Row, London on Thursday, 26 November 2015

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

Alasdair Smith	- Chairman
Thomas Hoehn	- Member
Philip Marsden	- Member
Ed Smith	- Member

FOR THE STAFF

Joanna Benison	- Inquiry Director
Bill Roberts	- Assistant Director, RBFAs
Veronica Mansilla	- Assistant Director, Economics
Sarah Shannon	- Assistant Director, Economics
Sophie Simons	- Assistant Director, Legal
Matt Tregear	- Assistant Director, Economist
Chris Whitcombe	- Assistant Director, Economics

FOR LLOYDS

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Nigel Parr	- Partner, Ashurst LLP
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FOR ROYAL BANK OF SCOTLAND

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Marcelino Castrillo	- Managing Director, Business Banking
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Victoria McMaw	- Senior Legal Counsel, RBS Legal
Simon Pritchard	- Partner Linklaters LLP

FOR TSB

Glenn Cockerill	- Director of Strategic Finance
Mark Jones	- Partner, Hogan Lovells

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Jatin Patel	- Products Director
Paul Pester	- CEO, TSB
Andy Piggott	- Head of Personal Current Accounts, TSB
Darren Pope	- CFO, TSB

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THE CHAIRMAN: Well, I think everybody is here now, so let me start off by welcoming you all very warmly, and thanking you very much, first of all for coming here today, I hope we're going to have a very proactive day, but can I also take the opportunity of thanking the three banks that are here, for the submissions that you made in response, and the remedies notice. From each of you, we have had a very interesting and constructive situation, so thank you very much for that.

Let us do introductions, and then I will hand over to Joanna. I am Alasdair Smith, Chair of the Banking Inquiry, in case you did not know.

Q. (Ms Benison) Joanna Benison, the Inquiry Director.

Q. (Mr Roberts) Bill Roberts, I work on Remedies.

Q. (Mr Smith) Ed Smith, Inquiry Member.

A. (Mr S Smith) Steve Smith, Director, Competition Lloyds Banking Group.

A. (Mr Pegge) Stephen Pegge, Competitive Markets, Business Policy in Lloyds.

Q. (Mr Hoehn) Tom Hoehn, Inquiry Member.

Q. (Mr Whitcombe) Chris Whitcombe, Assistant Director, Economics, CMA.

Q. (Mr Tregear) Matthew Tregear, Economist.

Q. (Ms Simons) Sophie Simons, Assistant Director, Legal.

A. (Mr McDonald) Moray McDonald, I work in Products for RBS.

A. (Mr Castrillo) Marcelino Castrillo, Managing Director Business Banking for RBS.

Q. (Mr Marsden) Philip Marsden, Inquiry Member.

A. (Mr Pester) Paul Pester from the TSB.

A. (Mr Patel) Jatin Patel from Products, TSB.

Q. (Ms Shannon) Sarah Shannon, Assistant Director of Economics, CMA.

A (Mr Jones) Mark Jones, Hogan Lovells, for TSB.

A. (Ms Lynch) Liz Lynch, TSB.
A. (Mr Cockerill) Glenn Cockerill, TSB.
A. (Mr Piggott) Andy Piggott, TSB.
A. (Mr Pope) Darren Pope, Finance, TSB.
A. (Mr Cameron) Ross Cameron, RBS.
A. (Ms McMaw) Victoria McMaw, RBS.
A. (Mr Pritchard) Simon Pritchard, Linklaters.
A. (Mr De Looze) Steve De Looze, RBS.
A. (Ms Barclay) Danielle Barclay, RBS.
A. (Mr Joyce) Chris Joyce, from Lloyds.
A. (Mr Parr) Nigel Parr from Ashurst, for Lloyds.
A. (Mr Coughlan) Greg Coughlan, Lloyds.
A. (Mr Joyce) Chris Joyce, from Lloyds.
A. (Mr Curran) Mark Curran from Lloyds.
A. (Mr Gaysford) Simon Gaysford, Frontier.
THE CHAIRMAN: Thank you all, and once again welcome. I will hand over to Joanna, who is going to do her best to keep us all in order during the day.
Q. (Ms Benison) Absolutely. Thank you, Alasdair, and welcome to everyone. I will say a few words at the start, to cover the administrative matters, and then we will try to explain how we propose to run today's session. So, first of all, obviously, you are in the presence of your competitors, so we would like to remind you about this, as you need to be particularly careful in terms of what you say, but if there are any questions that are being asked today that you feel you have not been in a position to answer because of the presence of competitors, then absolutely feel free not to.
We have individual hearings with each of the banks next week, so that will be

one opportunity to cover those items and a written submission is always the preferred option, so that is another opportunity if there is something particularly detailed that you would like to share with us.

As you can see, the session today is being transcribed, and as is our usual practice, everything is very transparent, so we will publish that transcript. However, before we do, you will have an opportunity to have a look and make changes, if needs be, or suggest that you would like to make changes for increased confidentiality or correctness.

As you are aware, we have just published our Provisional Findings and Remedies Notice. Just a few words in terms of the process of the investigation and where we are in that process. That was a big milestone that we have reached, and thank you very much for your ongoing support and cooperation with us. We really appreciate it, and obviously hope to continue that really good cooperation.

As you are aware, our investigation has a statutory deadline, and that is May of next year. The next big milestone in the process is publication of our provisional decision on remedies, and obviously today is one of the few steps to getting us to that point. I just want to reiterate that that provisional decision on remedies is still provisional, so we will have another opportunity to talk to you about our proposals, and that is currently planned for February.

Following that consultation, we aim to publish our final report in April. So that's it in terms of the process. Now, today is one of a number of roundtables and hearings that we are having with parties. Last Tuesday, we started the process; we had what we call "challenger", or smaller banks, if you like, here for a very similar session to this one, and will continue next week and also supplement that with individual conversations with each of the banks. The main objective for these sessions is really to kind of move on and think about how we can work on improving the competition environment in the retail banking, so the focus is very much on remedies, but absolutely if there is anything in particular you want to address in terms of our provisional findings, then please feel free to do so today.

You have received the presentation. I hope you had a chance to look at it. That sets the scene, if you like, for today, and should give you an indication of the subjects and topics we would like to cover. I'm not planning to go through it in detail, and certainly not talk much about provisional findings themselves, which obviously, with your submissions, I know you have read.

Just a few words before we start in terms of our remedies. We have highlighted in our Remedies Notice what we are really trying to achieve with these proposals, which is to potentially implement a package of remedies, because we truly believe that some of the features of the market that we provisionally identified are such that they have to be addressed in a coordinated way and at various angles at the same time, rather than sort of dipping in and out with individual solutions.

That is our approach and I would like you to keep that in mind. However, for today, in order to have a structured conversation, we will inevitably talk about individual remedies, but please do keep in mind that it is meant to be seen as a package, and that is highlighted on page 5 of our presentation. As the package now stands, essentially how we could summarise it is that it covers two fundamental issues: one is addressing PCAs and BCAs and switching, and getting the overall engagement of consumers and SMEs in the market; and then the second package, is around addressing SME lending. So, that is more or less the structure of today's conversation that we would like to follow, with one change - due to some people having to leave at various times, what we would like to propose is that we swap the order that might otherwise be more natural in terms of talking first about awareness and then moving to action and talking about remedies associated with switching itself, and CASS, for example, and then move back to talking about comparing, assessing and accessing information. If that is okay with everybody, we would like to propose that small diversion in our order.

Q. (Mr Marsden) I apologise, I have to step out for about fifteen minutes to deal with a procedural challenge. I apologise that, but it's a necessary disruption.

THE CHAIRMAN: We should make clear, not a procedural challenge in relation to this investigation.

Q. (Mr Marsden) No, no, it's something very different.

Q. (Ms Benison) Exactly, and I believe one of your colleagues also has to leave. So, with that in mind, finishing off in terms of the run of today, as I think you were notified, we will try to break for lunch around 12.30 and have an hour break. The session today was planned to finish around 4.00 pm, to give us as much time as we possibly need, but we are very much hoping that we will be able to finish earlier, and actually two of our members have to leave around 3.30 and 3.00 pm, so we will try to finish by that time. However, obviously Alasdair is staying, Philip is staying, so if we still have conversations to finish off, then we will do that.

THE CHAIRMAN: My next engagement is at 6.30, so I am perfectly happy to be last man standing here.

Q. (Ms Benison) I think that is all that I wanted to cover at the beginning. If there are any questions about how we are planning to run today? No? Okay, thank you very much. In that case, we will therefore start with the first item: the start of the consumer journey, which is awareness of the potential options that they have. I think Tom will start with some questions.

Q. (Mr Hoehn) Thank you. My task is to kick off the debate around two specific remedies, under the heading "awareness", and prompt you to make a comment. There are two remedies: one is about prompting customers to review at key moments what services they are getting and what the potential benefits are of switching, and then the second one is specifically about raising awareness of those benefits: cost savings, rewards, quality of service, improvements, and I would like to ask you to make comments about the trigger mechanisms that we have identified, and you have responded, you have given us a number of comments. It is quite complex, because prompting consumers is a question of communication. How do you reach out to the consumer? There is the question of frequency, the timing; there is the question of the content, and you've made a number of comments, so maybe if we start off with your view about the key triggers, the distinction between event-based triggers and regular reporting and maybe regular communications around certain regularly occurring events.

So, who wants to go first about what is the key trigger? Moray?

A. (Mr McDonald) Yes, I am very happy to, thank you. We think triggers are a good idea, and are valuable to let customers know that they have a choice, and what they can do to exercise that choice. Maybe if I can, I would like to comment on some of the triggers that we think make a lot of sense.

First of all, I think that the relationship we have with customers is around a bargain. We have set out our stall, the customer has chosen us, and we have to be good to that bargain, and so does the customer. I think the most obvious area that we support is, where we change that bargain, we think it's very reasonable and helpful to go back to customers and say, "We are changing this. You are not quite getting what you bargained for, therefore, you may want to think about switching". The most obvious areas of that would be where we change the nature of the product or service, through a change in terms and conditions. We think that is very fair.

We all have our varying views and observe different behaviours around branch usage, but there are customers who still place a big reliance on a branch. If we are closing a branch, it is very reasonable I think to contact the customers - the folks we know who use that branch - and if we have been offering a free service, like a BCA, where it is very common to have an initial free period and then levy charges, we agree, the point at which we go from offering you the service free to levying the charge looks like the point at which we should let you know that you have a choice. Also, I think that if we have a real breakage in the relationship then it is not unreasonable to do that. Therefore our suggestion would be to include not all complaints, because complaints are an opportunity for an engaged customer to say something has gone wrong, and for us to have great service recovery, and if possible, even strengthen that relationship, so I think "all complaints" throws the net too wide. Instead our suggestion would be FOS complaints i.e. when we have done our best to resolve things with customers and the customer says, "No, I'm going to use my rights to go to FOS", I think that would be an appropriate point for a trigger.

Q. (Mr Hoehn) Does anyone want to respond on the question "all complaints" or only "some complaints"?

A. (Mr S Smith) Something you might get tired of hearing me say today, but I think the natural answer to all these questions won’t come as a surprise, to the CMA, is to trial some of these. We conducted some trials of some of these prompts over the summer. Good ideas that you think will work actually don't, so we trialled things like where there were service interruptions, other things do work, so we think that they are all good ideas, but the right way to go about this, which is relatively easy to do - we can do it in a matter of months to get them up and running - is to try different variants of this, both in terms of what the prompt is, what the channel of communication is, and then see how customers respond. I think we think they are all good ideas; they all seem like potentially natural prompting points, but some of our results over the summer surprised us, for example, around service interruptions, where we communicated some of that. Frankly, no impact on customers at all.

Q. (Mr Hoehn) Which one would you look at first or test first?

A. (Mr S Smith) I think it is perfectly possible to test all of them. You have got enough providers in the market, and as I said, I think you could run a test programme that tested all of the variants that you have come up with across different providers, and then just observe and see which ones actually have the desired impact.

A. (Mr Patel) I think we'd agree that prompts to get customers to review their banking are a critical part of the equation. The trigger-based events - or the events-based triggers, should I say - that have been put forward, there is a risk I think, a significant probability actually, that they are insufficient to reach a broad range of customers that could benefit from reviewing their account. I know we can trial and pilot various options. The question becomes two-fold: one is, how do you define what customer detriment is? As an example, sometimes banks may not know when the customers experience detriment, because the bank has not managed to pick up the phone, and the customer is angry with that, but the bank would never know.

Secondly, if you go through the potential triggers, there will be a whole bunch of customers who will never experience one of those scenarios, and the risk is that we do not get to those consumers, and I think the analyses show that a broad spectrum of customers could benefit from reviewing their accounts.

The other danger here is that the prompts do not have the right content. The prompts are one part of the equation. Actually giving customers meaningful information to act on those prompts is actually the more critical thing, I think. The question we need to ask ourselves is: why are the event-based triggers any different to some of the wording we need to put on the letters already when we write to customers, when we change their terms and conditions, and we already say to customers, "Obviously, if you are not happy with these changes, you have the right to close your account". I don't think, in itself, those words, without any meaningful data for a customer to understand how much they are paying for their account and how much they are being impacted by this change, will actually lead to any fundamental change.

Q. (Mr Hoehn) What about frequency? Annual statements? Monthly statements? We have heard different views. Where do you stand on that?

A. (Mr McDonald) I think we were surprised that there wasn't the suggestion that we should do this annually. I think, for the reasons you give, you cannot rely upon events being triggered. This would mean that once a year you might write to your customers and summarise, "Here is what has happened over the last year", and include within that, "Remember you have a choice". I think that would make sure that we were drawing switching and choice to everyone's attention.

Q. (Mr Hoehn) Does Lloyds have any view on the regularity with which such a review should be triggered through a report or a statement?

A. (Mr S Smith) It is not "one size fits all"; the other important thing here is targeting. To Jatin's point, if you like, we know there are groups of customers you have identified, for example, overdraft customers. You might want to think about how you go after them as a separate and different group to the generality of customers. I think you have correctly articulated the tension here. We know that the more frequently we write to customers the more likely it is for many of them to just tune out, and so again, I am sorry to keep coming back to it, this is something you can trial. I think for certain customers, an annual statement, but to Jatin's point, again, something that is far more impactful - and that is really what the trial allows you to do - is not just send them some words or anything like that, trial different variants, give them real information about what their account is costing and what their choices are, and find the form of words that actually drives the engagement, and measure it.

For some customers, I think annual would be fine. There may be others who need a bigger push, a bigger nudge, and we know what some of those pockets are, and certainly in the work that we have done in other retail financial services markets with the FCA, targeted messaging to certain groups of savers drives a high response rate, but I think if you sent that to everyone, all the time, monthly or yearly, you would blur some of the messages.

Q. (Mr Hoehn) How do we measure the success of a remedy or a particular mechanism that has been introduced? You said it is very important to learn and refine, you can't design it "one size fits all", so how do you measure whether something is successful or not? The second question, if I may, is who should evaluate the success of such a measure?

A. (Mr S Smith) With the trials we have done, you can measure in terms of a measurable change in customer behaviour, which could be that they switch product with you, they switch to another provider, they change their behaviour on the account, and these trials give you the data. You can see that, you can observe it, it is a measurable, quantifiable impact, and I think, naturally, for these trials, they should be done as openly as possible. If you get that data, you can see it, you can measure it, you can observe it, but all of those things can be seen --

A. (Mr Pegge) Just to add, I think you can set up randomised control groups to look at it. I think there are some natural benchmarks in terms of response rates that you normally get, that you can compare and would expect a greater level of response, and I think, to Steve's point, very importantly, to analyse the segments of customers and different groups of customers, because the average might not show as much of a change as particular groups, and if we are able then to isolate how that targeting should work, I think you will move forward and make a better aggregate change.

Q. (Mr Hoehn) How would TSB measure their impact?

A. (Mr Patel) Well I just want to talk about the frequency, because there is one line of argument that says doing something more than annually or too frequently, doesn’t get the response you need. I think this is where it comes back to the content, not just the frequency, because if the information you give customers is powerful enough, and you are giving it regularly, there is a good chance that it has a sustained impact on customers' behaviour, either to change their own account usage, or to shop around. The danger of doing it too infrequently is it becomes something that is non-sustainable, something that customers only consider once a year. Customers change their account usage frequently. We see customers going into credit one month and debit another month, and changing their pattern of behaviour, so as long as the information is digestible and useful, I think there is an argument to say that frequency, whether it's monthly or quarterly, is going to be much more impactful than annual. There is a risk that annual doesn’t have the impact of sustainably changing consumers' behaviour.

Q. (Mr Hoehn) Can we stick with impact just for the moment? How do we measure impact? If somebody switches, yes, there is a measurable impact, but somebody may just be satisfied at the end of the review. That is also an impact, and somebody may just change arrangements a little bit, or say, "I will at this point change" and they are fully aware; they have been made aware. That information rests where? It rests with you. You are the ones who are prompting that review, and no action is taken.

A. (Mr McDonald) The outcome we are looking for here is for customers to consider. Having considered it, they may have great reasons to stay, and that is the business we are in: giving customers great reasons to stay. This is why, personally, we don’t have any fear of prompting them, because we want them to search, but decide to stay. I think, in your own data, 22 per cent said they had searched on a PCA; 6 per cent took action and 3 per cent was to open an additional account with the existing bank, and the other 3 per cent switched to another bank. I think all of those are perfectly measurable.

Were we to trial these, I think we can, as you say, take cohorts versus controls, and actually engage with those customers and find out what action they took: i.e. how many of them searched? Of those who searched, how many left or took some other form of action? I think that is all measurable.

A. (Mr S Smith) The FCA has done a lot of work in this area, and typically you follow up, so the observable hard facts are what the customers do, but then you follow up by speaking to those customers and get more qualitative data for those who you cannot observe any change: did they understand? etcetera. I think there are well-known techniques that are commonly used around what you do after the trial to make sure that, if you are not observing a big behavioural change, or for those customers who didn't change, whether it is actually because they understood what went on, that it just passed them by. As I said, I think there is a standard toolkit that is increasingly being deployed to make sure you can measure what you can observe, and begin to understand what you cannot.

The other point, just on these variants, because I do agree with everything Jatin is saying. The whole purpose of trialling is we know the difference in language is profound, and the clarity of presentation, and what the trials allow you to do with multiple variants - because you surprise yourself - is find what combination of simplicity and transparency of message works best. You will see that from trials we have done with the FCA, with six variants that any of us would look at and say, "They all look pretty good, they all look a dramatic improvement on what we have got at the moment", but one of them has that significant additional impact. We did some in general insurance, where one variant had a dramatic impact, and I would challenge some of you to know the subtleties of the difference, and so I do agree that it needs to be clear and simple, but trials of multiple variants enable you to pick through that complexity and find out what actually works.

A. (<u>Mr Gaysford</u>) There is a whole, rich set of experiences on this type of setting, including what clients do themselves with direct marketing. There are other reasons that banks contact customers, and I think the bridge between an effective prompt and the metric we are looking for is a call to action, and the call to action doesn't necessarily need to be a switch, you could reconsider

some things. What we know is, the more specific the call to action, the easier it is for the customer to access, like an embedded link, and the more context-specific it is, the more likely are you to have an impact.
We know through digital platforms, we can measure the whole journey of what did you look at, did you look at the terms and conditions, did you look at other factors…? All of that, can be set up a behavioural metrics, but none of it works if you don't have a call to action, so you don't want awareness without a call to action, and that is the way to trigger the prompts and then the behaviour …

Q. (Mr Hoehn) I appreciate that. You talk about trialling and testing, let us just go to the situation where we actually have decided which mechanism to propose and see how it works. It is not a question of what is the impact on you for maybe not delivering what the customer wants. We are all penalised maybe for not delivering to the customer what they want. Have you thought about that? What would you accept as a measure?

A. (Mr S Smith) I am not sure I quite understand the question, because I think that is what the competitive process should do, isn't it? If we get the customers more engaged and more aware and willing to shop, then the reward for us will be gaining more customers and making more money, and the cost to us for getting this wrong will just be losing customers and not having those relationships. I think that is the process we are trying to --

Q. (Mr Hoehn) Right, that is the ultimate consequence. There may be intermediate steps, there may be some rankings, there may be some quality measures that come out of this review process. If you say it is measured, you can measure it at different stages. There will be at every stage be some way of measuring satisfaction with the information provided, or the service provided, and these measures could then be used to incentivise and to change your behaviour - I'm talking about you changing behaviour, rather than customers. Have you thought about that?

A. (Mr Pester) I agree with the point that Tom was making, that you have to think about some of these remedies together. The prompts in themselves, I do not believe will lead to sufficient action. You are prompted to look at your current account, but you do not know what you are paying for your current account every month, you do not understand the level of potential benefits, so, to your question on what would I expect this to lead to, it would enable those customers who could, let us say, save £260-£270 a year on their overdraft, understanding that. They only know that if they knew what they paid on the last month. They only know that if they can track their behaviour and see what they pay on a regular basis. Sending a customer a reminder that they can look into different accounts, because you happen to close the branch, or send them the fact that they can look at another account because you happen to change your terms and conditions, in themselves are good, but I do not think will be sufficient to prompt a customer to look back at what they have paid, to then actively search, and to look for a better deal. It will lead to a rebalancing of those customers who are paying so much for their current account, that £270 benefit will end up being spread across a range of investors, so I think I would argue for absolutely a monthly bill. We must be the only industry that does not tell our customers what we charge them every month, which seems to me unbelievable. It is incredible that we do not tell our customers, "This is what you did when you were engaged with us over the last month, and this is you effectively paid for it," and then that we do not prompt our customers to look at those bills. That, to me, seems a very straightforward way, before you get tangled up in very interesting analytical comparisons of running prompts. If you do not give customers the ability to understand what they are paying, they will never be able to take action.

Q. (Mr Hoehn) Can I ask my colleagues, or prompt my colleagues to add comment as well?

Q. (Mr Whitcombe) Certainly. Building on Tom's question, I think what we are getting at here is, in some cases, your incentives to encourage your customers to consider other options, and even potentially switch to one of your competitors, are not necessarily that strong, because obviously you want to retain them. Now, I guess what we are thinking about doing is, how can we change those incentives so that you get rewards, true rewards, for actually telling your customers that there are some options out there, and so you actually truly are genuinely incentivised to give that clear message, because I think, as we are saying, a lot of it is "the detail matters", so actually making sure that you and we get the detail right, what can we do to make sure your incentives are aligned with what we want to achieve.

A. (Mr Castrillo) I would say that a sustainable business is based on one in which customers stay because they feel they get a fair deal, rather than one in which they stay because they have nowhere else to go. So we are definitely up for any measure that will give customers information and will facilitate switching. As Paul said before, to not just give customers the option but to actually make it easy for them to move. We have shown our support regarding the prompts. I think some of the remedies we will go into in a second will cover price comparison websites, and also not just from a quantitative perspective, in terms of how much you pay, which is an element of the service that we provide, but it is only part of the element. If you look at SMEs, you will see that a lot of them also value the relationship manager, and the engagement they have with them, so I think we need to be careful not just to go down the purely quantitative aspect, but also into the qualitative aspect of that relationship as well.

A. (Mr Patel) I think the question of how do we incentivise the banks to put the right message in is maybe the wrong way to look at it, because there was an alternative, which is not to incentivise, but to mandate a standard way of doing things, and the concept of having a standard format bill that is common across the market, but in the same way we are mandated to do other bits of communication for customers, is a way that will mean that every single customer will get the same kind of information and they can all make the same informed choice. I think that gets rid of the question of whether each of the individual banks are incentivised to do it, because actually there is only one way to do it.

A. (Mr S Smith) I just disagree with that, and I think colleagues of yours on the Energy Inquiry, where you have had a regulator that has tried to go down that route and standardise bills, will tell you that that has not solved anything, and there is quite a lot of evidence that it has made things worse. I do agree that we need to communicate more clearly with customers, but you have to trial that stuff. A lot of effort has been put into other industries, particularly energy on standardising bills, and it has created problems, and for a lot of customers who do not have a lot to gain or are perfectly happy. We can all look at this, in relation to other businesses where they send monthly bills. On your digital channel, what proportion of your credit card customers - because you can see it - actually open their bill and look at it? We can measure that, so I think where we are in agreement is that we need to put this ecosystem together so that customers are prompted and then there are really simple, easy-to-use tools for them to assess price and quality, but I think we are kidding ourselves if we think there is a simple silver bullet, which is "standardise a bill and send it to customers", because customers are diverse in behaviour and attitude, but if we really think that's a good idea, it's a trial you can run, you can try a standardised monthly bill and see what happens, but I am sceptical.

A. (Mr Patel) I don’t say I disagree, but --

Q. (Mr Roberts) Can I ask you what you meant earlier on when you described the statements containing important information. You made that distinction. I just wondered what you meant by "important information"?

A. (Mr Patel) Well, I think the key thing - back to Paul's point - is making it very clear to customers how much they are paying for their account. All the information we provide today to customers does not articulate how much they are actually paying for their account, and how their behaviour impacts that cost, and that is a fundamental piece of information that I think customers need, to make an informed choice around whether they shop around and look for an alternative provider. That is the key bit of information I think is missing from all existing communications.

THE CHAIRMAN: Can I just ask Jatin to enlarge on that? For a customer who has a free-if-in-credit account, and is in credit, what information would you see them getting at the end of the month?

A. (Mr Patel) We have submitted in our submission an example of a monthly bill. I think the key thing is what you would show those customers in all of the activities that they have undertaken, the fact that actually we are not charging customers, or most banks are not charging them for those individual activities, but what the customer has effectively given up and used to pay for their account is foregone interest. It is a myth that we have got free in-credit banking in the UK. The analysis in the report that the CMA published said the market makes revenues of £8-9 billion. Actually breaking down and making sure customers understand how much they are contributing to that will galvanise them to take action.

Q. I don’t want to pursue the details of the statement too far, not least because not everyone in the room has seen it, but if you are giving me a statement at the end of the month that says, "You have paid these following charges and you have also foregone interest of a certain amount of money" and you subtract one number from the other --

A. (Mr Pester) No, you add the two together. I would expect it to say, "You did ten ATM transactions so we did not charge you for it, you wrote six cheques and we did not charge you for it, you had ten direct debits and we did not charge you for it, you actually went into overdraft three times in a month and we charged you these fees, and then at another part of the month you left £4,000 in your account for six days and we did not pay you interest on it, and therefore you have lost that income, so we have added that up and your bill for this month is £13.26". You will then know what you are paying for your account. You will then know the next month, if you choose to spend less days in overdraft, the £13.26 will become £3.26. You can then take action. I challenge anybody in this room to be able to manage their account to that level of accuracy, because no bank sends their customer a bill; we send statements, but we do not send bills. By having a bill, then all of the prompts would prompt a customer to look at the cost of their account, and those customers that have the most to gain will see a very big number in the bottom right hand corner of their bill, because they are using overdrafts regularly, will be prompted to go and find a better deal every single month. We are the only industry that does not do that to our customers, and I am staggered to understand why, and I cannot understand why Lloyds, as the biggest current account provider in the country, would not feel obliged to tell their customers how much they pay.

Q. I do not want to pursue this too far, but I have no difficulty with the notion that you add together my Foreign Exchange charges and my overdraft charges. It is the foregone interest on my positive balances that I have problems with, and I may be not as financially sophisticated as some of the people in the room, but if I get a monthly statement that adds together money that I have paid and money that I have not paid, it confuses me.

A. (Mr McDonald) I think that is true. My question would be how many other things should we include that we did not say we would do for you? E.g. if banks do not pay interest on current accounts. So should banks list other things they have never promised to do, in that statement?

I would just like to pick up on Steve's point. We are all for transparency, but I do not think we should start to include things that we have not said we will do for you, like pay you interest. So I have a slight concern with what is being proposed here. Making this bargain purely economic is actually not what customers value or the way they behave. We think, in an economic comparison, we would actually compare pretty well, so we do not oppose it for that reason, but actually when we asked our customers why it is they stay with us, we're competitive in some areas and less in others, but the things they value are things that I would defy anyone to put into a monthly statement. They value us because we have got the best mobile app in the UK. They value us because, when they are at risk of being charged an unauthorised fee - we warn them in time to credit their account so they do not pay the fee. They value us because we are the only bank that will allow you to get money out of an ATM using your phone if you do not have a card, etcetera. I could list another ten of those but you would not want me to.

I worry that a focus on this monthly statement is just the economic aspect of the relationship. When you ask customers what they value, they do not speak about that. They actually speak about the things that differentiate us and make their daily lives easier.

A. (Mr S Smith) Can I just be clear, because I think Paul has misunderstood me, so I think we need to understand what we are really debating here. I have no objection in principle to a monthly bill. I have no objection in principle to a monthly bill that includes anything. It is simply a practical concern, and I think it is a testable concern, particularly given the complexity of foregone interest, and let's be clear, Lloyds offered to test foregone interest on annual statements five and a half years ago, with the OFT. We stood up and said, "We think this is an interesting idea, we're happy to test it". We remain happy to test it, but as the market has moved on -- I mean, what is foregone interest today - to your point Alasdair? What is the point telling a customer what they can earn on instant access deposit account when they've got to flip between the accounts. There are current accounts out there paying credit interest. If you want credit interest, there is an observable real number, which is what you can actually earn with a product, so I think we are just debating semantics here. To be clear, I am not saying it is not the answer, I am saying that you can test different forms of communication that try and convey to the customer what the value exchange is, what they are paying, what the benefits are, and prompt them to go and look around, but I am not anti it, it's --

A. (Mr Pegge) I think, just to be clear -- we will come onto it when we look at comparison properly, but the way to really look at the comparisons is to pull together all that data, look at the eligibility for various types of interest you might be able to get, look at the service aspects and the quality and so on, as part of it, in a way that is richer and can be done through a combination of all those factors.

A. (Mr Pester) I am encouraged to hear that Lloyds is in support of a monthly bill. I think it is a great thing. I am worried that RBS is not in support of a monthly bill. If you stand back and ask the question: do your customers understand what they are paying each month for the services you provide them? We have got to be able to answer "yes" to that question. We can have a long debate about how you calculate foregone interest and what index rate you use to calculate it, but there is a fundamental point, and you put it out very well when you looked at this market, that customers do not understand what they are paying. You have to fix that point first, and it sounds like a monthly bill is the best way to do it.

A. (Mr S Smith) I don't think it is. I think you are being deliberately mischievous, Paul. That's not what I said. I said I didn’t have a problem in principle. I am suggesting a far more rigorous process. This industry has consistently -- and your predecessors invented solutions like "It's as simple as a monthly bill". We spent millions of pounds implementing them. They have had no impact. Look at the FCA's own research on annual statements. No impact whatsoever. I think what we are saying is let's be rigorous around this. Let's fix it, let's trial it properly, let's work out what works with customers, and then let's implement that across the industry, and I think we are kidding ourselves if we think it is as simple as a monthly bill. I wish it were. If it were, I would do it, but I am saying, all my experience, not just here, but also in other sectors, suggests that is not the silver bullet.

A. (Mr Patel) I want to come back on the point around what customers value. I think it is dangerous just to look at what customers say they value today. Yes, they value great Internet banking, all those things. All of those things are easily observable to customers. The reason they often do not say they value where their account costs more or less than what they can get elsewhere is because they just do not know. They cannot value something they cannot measure. If you look at the data around how many customers actually understand how much they pay on their bank account is staggering. There is about a third of customers who think they earn credit interest, but they do not. I mean there is lots and lots of research on this, where customers do not know, or get it completely wrong in terms of how much they have in the account. That is a fundamental problem.

Q. (<u>Ms Benison</u>) Can I suggest that …

Q. (<u>Mr Hoehn</u>) One more question before we move on to comparison. I think implicitly we have been talking about PCAs rather than BCAs and SME customers. Is there a difference, and do SMEs need to be prompted in a different way? That is the first question. The second question is: how should you be incentivised to engage with SMEs, to do reviews and consider alternative arrangements? Who wants to go first?

A. (<u>Mr Castrillo</u>) I can go first. If you look at the data, I think SMEs are aware that options are out there, so there is a level of engagement, and there is a question around the follow-through, and I think we will go into some of the remedies later that will deal with that. I think the advent of the CASS system for SMEs is not widely understood, and the small number that switch I think attest that we should probably do something around how we promote that service, specifically around the smaller SMEs especially. I think we will go into price comparison websites as well, which I think is, again, something that has not been exploited in the SME market, and I think currently lack that objective information. I think that is how I would encourage SMEs to not just be aware of the option, which I think they are, but essentially how you can overcome that sentiment that it is just too hard to change banks.

A. (Mr Pegge) I was going to add that I think there are some great similarities between the smaller SMEs and consumers. You would have to test different arrangements and you will get different responses no doubt to consumer trials but the same principles and trials and practices would apply. I think once you start to get to larger SMEs, there is much more common negotiation, so there are less standard tariffs to use for the process of comparison and so on. I think the diversity of their needs and their respective relationships become more important, so I would say probably the focus ought to be at the smaller end, but the principles would be the same.

A. (Mr Pester) We, of course, do not have a big SME business, so we have only about 100,000 SME customers, and they are at the very small end, so at the small end the needs of SME customers are quite similar to retail customers, but it is hard for us to comment on the larger SMEs and the large corporates.

Q. (Mr Hoehn) What would you think if there was a specific target set by a regulator for somebody that you prompt a regular review, and whether it is a PCA customer or a BCA customer, would that be something useful?

A. (Mr S Smith) I would focus on the outcomes. It goes back to the conversation we have had. We could have a target that says - Paul's point - you prompt 90 per cent of the customers every month, but if nothing happens, and they do not understand that you have achieved nothing, so the difficulty here is how do you gather that around outcomes, and it is not necessary that the outcome is the customer switches, but a genuine belief that customers start to understand what it is they are getting and what it is costing them It is interesting in SME, because you do have transactional charging, people do have a real bill. They get it every month, it tells them all of this but still we see low engagement, so I think we just need to be honest with ourselves that this is going to be complicated and take some time, because even business customers, who have a much clearer charging structure, don't really engage with these products, and that is the thing we have got to fix, so we have got to focus on outcomes, and accept it is going to be lots and lots of different things, whose cumulative effect is what we want, rather than single silver bullets.

Q. (Mr Whitcombe) You mentioned targets here, and you also mentioned outcome, so I guess, in some sense, if you can join the dots and say we could give you targets on specific outcome measures that we want you to achieve, and that would be combined with a way of rewarding you for meeting those outcomes - or maybe sanctioning if you did not - I guess we would be keen to get your reactions on such a system?

A. (Mr S Smith) I think it comes back to that point about: what do you need to do over and above the competitive process? So let's say, at the end of this process, having trialled things, we have this collection of remedies and we start to see more engagement, more activity, more switching in both markets, what do you need to do to incentivise or penalise us? If you deliver all of those things, then the market will do that for us. If Paul has got a better product than me, and it has got a better combination of price, quality, range and service, he will be taking customers off Lloyds, and he will be getting his rewards and I will be getting my punishment. So I am answering the question with a question, which is I am just trying to understand what you think you need to do that the market, if we got this engagement going, wouldn't actually deliver?

Q. (Mr Whitcombe) If it would help give a bit of colour, maybe an example of one thing that we could do, would be that for those banks that we think are really helping customers to understand their banking arrangements, as well as understand what the options are out there so they can get the best deal, then there could be, for example, a ranking - which bank really has your interests at heart, and then if you perform well in that ranking, that comes to the forefront of customers, they say, "Yes, I can trust banking with you because I know you've got my interests at heart", but if you perform low -- this very system could incentivise you to genuinely care about giving customers a choice.

A. (Mr McDonald) Can I just ask for a bit more detail? What would you be ranking us on?

Q. (Mr Whitcombe) Well, there is a variety of outcome measures that you could rank. This is all the general principles. I guess what we are interested to hear from you is how this might work in practice, what your views would be on it? I guess getting the detail right, that kind of thing.

A. (Mr Gaysford) Can I just clarify something, because it may help us to address -- what you just described is not an outcome. What people think about something is not an outcome.

Q. (Mr Whitcombe) We can flip it so it is about outcomes, yes.

A. (Mr Gaysford) Right, but I think that is the key point in making the call to action. So let's take the BCA point we were discussing, you mentioned in your remedies. Suppose one thing that you try at the end of free banking is the prompt that you raise awareness of other options, but if you come back to what the wording is, the format, the mechanism, and so on, but if the call to action is to then hit a website that allows you to consider, including all things that Moray is describing would be important, the behavioural outcome is how many customers hit the website. So what you'd say to the banks is, "These are the conditions, and you can standardise to some extent, but you have to communicate". The outcome is how many customers hit the website. If 80 per cent of your customers - and you will never get that response - hit the website and they all stay, the competitive process is working, but I think it is really important that you get "outcome" and not survey impressions.

Q. (Mr Whitcombe) Yeah, that could certainly be built into the --

A. (Mr McDonald) So we have got twin goals. Goal number one would be that the maximum number of all of our customers are aware that they could move, and why they might move, and what is on offer. Correct? That would be a great goal. But my goal is that, of all of those customers, the minimum number do so. So it would be anomalous to set goals for RBS based on how many of those customers then moved away. We are in the business of incentivising our customers to stay. So I think those are twin goals, right? Being ranked or encouraged or penalised around number one, I think, is absolutely fine, so it is our obligation to make our customers as aware as possible of their options.

A. (Mr Pegge) Today, the FCA require us to send certain communications. The trouble with building a very big kind of infrastructure of "these are the various procedures you must follow" is that they are inputs rather than outputs. They tend to freeze what is currently being done, which might become increasingly less effective, and miss the differences between customer reactions, rather than allowing innovation and change, which we would have an interest in developing, so I have no doubt the FCA will continue to be very interested in overseeing the kind of communication framework and so on that is used, but I think I would absolutely agree that the outcomes are the things we have talked about.

A. (Mr Patel) I think we have just got to be careful about the unintended consequences of incentivisation. So, back to your example, if the incentive is that if you become more transparent you are ranked at the top of the transparency table, that might not incentivise the right behaviour, because if you are a large incumbent bank, if you are not ranked as the top of the transparency table, because you choose not to make yourself as transparent as possible, will that actually get the customers of those banks to consider their behaviour? I would argue not, because they are not engaged or do not know that they could be better off somewhere else. The incentives, I think, are something that you have got to be careful about. You have got to be careful that we create a level playing field for the incumbents and any new challenger banks which enter the market, because the incentive for any big bank to make their products more transparent is very little, so there will be no incentive to get to the top of that table.

A. (Mr S Smith) I think you do need some quality metrics - and I know we are going to come onto this - and we are going to have to be honest and say, some of those can be objective but some of those are going to have some element of subjectivity in them, because to flip that the other side, if we make this market all about competition on price - we have seen the damage that can do, and you can have very transparent pricing that is contingent etcetera, and very low quality - so, I think the way to go about this, to make sure the competitive process does discipline properly, is to try and make it easier for customers to be focused on price, rightly, because that is very hard to observe at the moment, but we need to recognise, as we crack that problem, that quality also becomes important, and that is increasingly complex in a world where some customers value branches, some value digital, so there is no simple aggregate measure, and that is the problem with some of the quality metrics out there, including which measure you would use. If you aggregate all of that, you include either some very good or very bad performance amongst the different elements, so we need to have that and make sure that we prompt customers and get them to consider their choices, because the customer is helping you get that, and they want to understand that.

A. (Mr Castrillo) Can I just make a point, before we move on. I just wanted to say that I think we disagree with the comment around, "It is not in the bank's interest to make things transparent". There is some evidence I would like to share with you on a one-to-one basis when we have the opportunity.

THE CHAIRMAN: I think what I read as being behind that comment is, you can all talk positively about your desire to have more active customers because you are confident that with more active customers you can persuade them to stay with you or you can recruit customer from other banks, but the reality is, in an active market, some fear it will be gaining market share and others will be losing market share, and being realistic, the ones who feel at risk of losing market share and going to be less enthusiastic about energising the customer base than the ones who are gaining customer share, so we have to be realistic and face that issue and not pretend that it does not exist. I think one answer to that is that everybody has got to behave in the same way, but if getting everybody to behave in the same way is not actually effective, then we do have an issue about the more banks have discretion in what prompts to use, the more the system is exposed to the ones who are unenthusiastic about competition being unenthusiastic about prompting their customers.

A. (Mr S Smith) Yes, and again, to be clear, I am not arguing for discretion, and I know when we talk about trials you might be thinking, "Oh, this is just kicking it into the long grass". It is not. The outcome of those trials is what works, and then you impose, and impose on all.

Q. (Ms Benison) I suggest we move on, and actually, despite what I said, that we are following maybe an illogical order, actually the second remedy is a good segway to then talking about switching, and that is still related to awareness and making customers more aware of the benefits of switching, and also the ease of switching, which is CASS, so before we go into more detail, I just wanted to open up with that more general question: what are your views of increasing customers' awareness of the benefits of switching and CASS itself?

A. (Mr Pester) It has to be a good thing, ultimately. I think your research has shown, our research has shown that knowledge of CASS, or awareness of CASS - certainly awareness - is low. I think increasing awareness of CASS has got to be a good thing to do. So I think either an input measure of the amount that is spent on promoting it, or some sort of output measure on the awareness of CASS has got to be a good thing, but also enhancements to CASS itself, to enable all customers to benefit from a switching service. I think those two go hand-in-hand. Certainly, from a TSB perspective, we are very supportive of increasing awareness of CASS.

A. (Mr Patel) Just to build on Paul's point, when we talk about the benefit, making sure customers are aware of the benefits of switching, I think this is where -- back to the point earlier that these remedies need to be looked at and packaged, because one of the key benefits of switching, yes, it is a smooth process, hopefully, if we made the improvements that we aspire to do. One of the benefits of switching is you can get a better deal, so I think you have got to look at these together and make sure that the awareness if focused on the genuine benefits of switching, not on the process, and that it is guaranteed, customers will take that as a given, but they need to be informed, to be aware of the benefits.

A. (Mr S Smith) I agree with Paul's opening statement. This is unambiguously a good idea. I think there is a genuine debate to be had on the awareness front, so certainly a lot of the stuff we have looked at, as the inventors of CASS, there is something we have got to get ingrained in the DNA of the population, which is not there at the moment, which is whether you are a small business or you are a personal customer, switching your bank account is simple, it takes seven days, it doesn't go wrong, it's fine, then there is a separate conversation around, once you have ingrained that, about shopping around, there are better deals, you can save money. Certainly, when we have looked at it with our marketing folk, they worry that the more you combine those two messages - because the first one is quite hard and you are fighting against years and years of history, so I do not think we are disagreeing on the principle, I think it is a mechanical question about how - we definitely need to do more. How you mould those messages and whose job it is to do the CASS one, versus the provider saying, "This is why I know you believe that you should join me", I think is something worth debating. There is no objection to the idea that we need to do a hell of a lot more on both.

A. (Mr McDonald) We agree a hundred per cent. We think it is a great service that is not well enough understood by enough folks, and therefore promoting it more heavily is a great thing.

A. (Mr Pegge) It's not just standard advertising. I think we have got to think, just as we all do in all sorts of forms of market communication, we should be thinking innovatively about social media, about really getting the engagement of intermediaries and the business groups about testing and trialling again, to go back to the same issue, and a much broader set of tools, so that we can really push a bit harder. It has been a bit pedestrian so far, if truth be told.

Q. (Mr Marsden) Does enhancing CASS require a change in its management and governance, and if so, what do you think would be most helpful?

A. (Mr S Smith) We think it does, so I think, with all due respect to colleagues at Bacs, marketing and communications is probably not their core strength and skill, and I think trying to get people for whom that is their bread and butter to run the campaigns, however much money is spent, to deliver some of the innovations Stephen was talking about, I think you possibly need step-in rights for regulators, so there is a possibility of “tragedy of the commons problem” here; everyone is under budget pressure, everyone knows more money needs to be spent, but how do you actually make sure that that commitment is there, and you can run a sustained campaign. So I think those two changes are probably necessary to really believe that this will happen, so the level of spend will be right and it will be spent in the right way. Let's be honest, we all have marketing plans, and this stuff is hard, so I don’t think it is for want of trying on BACS' part, but you really need very good people who do that bread and butter day job.

A. (Mr Pester) We would agree, and I think it needs a consistent message, because there is so much financial services advertising out there, and I think the industry spend is £500 billion a year at some point, and as Steve says, having generally experts -- BACS needs to keep running payments, and they do that very well. This is a different set of skills.

A. (Mr McDonald) Yes, and I think the comments you are making are as much about effectiveness as governance. We don’t see there is a fundamental problem with governance. It is not dominated by the big players. We do not think that there is a problem there, but the comments about marketing effectiveness I think are obvious. I agree.

A. (Mr Pester) Just to add, the marketing effectiveness is more effective when all customers can use it, of course, and there is a separate point that the enhancement of CASS to enable it to cope with all customers is vital. The last thing anyone wants to do is advertise a service that promises something that can then not be delivered. That would undermine the effectiveness of the advertising straight away. You can prompt a service and advertise a service, but then still customers find it very difficult to use, or customers who choose to keep their donating account open, so they partially switch, and all of those sorts of things, and it needs to be fixed as part of promoting CASS. They would go in hand-in-hand.

Q. (Mr Roberts) Can I ask you please whether you think there are particular segments where awareness is lower than other segments?

A. (Mr Pegge) SMEs for one. I think the advertising has been quite generic, hasn't it? Many SMEs assume it does not apply to them, but of course it does up to £6.5 million turnover now …

A. (Mr S Smith) I think there is a technical point that is important. The awareness targets were set by Treasury, but I am not sure we have really got the right metrics. I think the Behavioural Insight Team's response to you was interesting, which is, you don't want to ask people are they aware of CASS. What you really want to ask is, "If you wanted to switch your bank account, do you know what you would have to do, and do you think it would be simple and easy?" So I think there are some technical things in there about what is the objective we are trying to hit, because it is not Treasury defined targets of 75 per cent of people. Frankly, half of the people in the bank probably don't know it as

"CASS". So it is that you are getting to, driving through in the groups that you care about, that when you ask people those simple questions, their answer is "Yes, I know how to do it", and "Yes, I genuinely believe if I did it it would work and it would be quick, and it would do what it said on the tin".

Q. (Mr Hoehn) Shall we jump ahead a little bit?

Q. (Mr Marsden) It is probably easiest if we just turn to slide 13. It has a bunch of options on it, and really the discussion we are looking at having here is a comparison of the relative merits of some of these options, and one of the options in terms of action, of course, it is a fundamental one that I know you all have views on, which is "account number portability". Thinking about that, would that be more effective or less effective than longer periods of redirection - comparing that with partial switching guarantees, comparing that with credit passports or new issue statements, or whatever you want to call them, in terms of allowing customers more surety?

Perhaps some of these issues relate more to perception of customers, but some of them will be very important to you as well, not least to do with costs, and also to do with what would be most effective for you in engaging with customers. So perhaps just start off maybe with a discussion of the relative merits of account number portability versus longer redirect periods, and that sort of thing. What are people's views?

A. (Mr McDonald) I don't think it is yet 12 months since we moved to 36 month redirection, so if there is good research data around the impact that that had, I am not aware. I certainly have not seen it. Having been involved in that improvement to the service, I think it would be good to know whether it had the desired effect. I don't know if you are aware of data, I am certainly not. The intent was that we believed that pretty much everything would be caught on that basis. I think we ought to know what impact that had. Comparing the potential extension of 36 months to some other time, with account number portability as an option, I think is a kind of using a sledge hammer to crack a nut type of question. I am not sure it is a question that naturally sprung to me, because account number portability is a seismic and massive infrastructural change to banking, and would crowd out much of what we wanted to do across the whole waterfront with our customers, to improve our services to them. So I think it would be a massively disproportionate act, for a marginal benefit, compared to the actions we have already taken.

A. (Mr Curran) I should probably declare a bit of bias, because I chaired the CASS programme, I think two years ago, so I led the development of it, and I think the point around the redirection period is a valid one. I don't run it, I am not worried about the time period, as such. I am not conflicted any more, but I did build the thing. I think that period of redirection is kind of nice, but not necessary because the expectation is 36 months would see everybody roll to the new sort code and account number. We specifically set out, when we built CASS, to make it as easy as possible for customers to switch, and I think we have achieved that, and I think actually if you look at the recent guidelines for a good switching service, you can improve it. I think most of the things we have that are CASS-like - you can go to the new bank and never have to go to your old bank again, like no requirement for wet signatures, like the capability for your sort codes and account numbers, and all your details and your electronic banking terminal, to miraculously appear on the electronic banking terminal of your new bank from day one - we tried to build it like the Apple experience. I think ANP is a very different stretch. CASS redirects. ANP, if you look at the infrastructure of the UK, not just in banking, actually sorting codes and account numbers are very important to that. So, for instance, the sort code, account number directory that is used to validate customer's sort code and account numbers at gas companies, is downloaded on a six-weekly basis from a central infrastructure and the gas company holds that detail. So they know if you're putting an RBS sort code and a certain account number, to validate. That is held in 67,000 companies around the UK and is embedded in all their systems.

If the sort code is not something that allows you to identify with which bank to settle transactions, and who owns the customer, then we would have to create something else that does. The sort code is not just about identifying what branch you are at, it is right at the core of the technology, so ANP would be a massive step. If you look at CASS, what it has achieved, the redirection and the switching marketing to one side, and I agree with everything by the way, on the governance and marketing. If you look at what it has achieved, it has achieved a seismic change in the way people move their bank. Those who have done it have experienced a very smooth transition, and the direct debits happen on the day following, and their salary miraculously arrives in their account, without them actually telling their employer.

ANP would require the entire UK to change infrastructure, not just banks, and my question, I guess, that I would ask that we all think about is, is that upheaval for another major engineering project worth the effort, when actually redirection is proving successful.

A. (Mr S Smith) And through the customers' eyes, as I said, because it is not self-serving. We have looked at this when we did the original research on this. We could not find any evidence, but the very small incremental benefits, the things that customers were interested in, and even ANP does not solve everything. We are going to come onto CPAs and cards; we need to remember the card schemes. We could spend billions do this; it doesn’t fix that problem. For most customers, probably what is one of the irritants today? When they switch bank, they get a new debit card, it might be a MasterCard, increasingly, rather than Visa, and then they find all their online transactions where there is a card on file, and although they have got their card details stored, they have got to change that, so I think there are improvements we can make. I think if you look at it through the customer's eyes, there are some more obvious things to do than actually saying, "I want my bank account number to shift with me". If we didn’t have that infrastructure and that sort code logic, etcetera, we would be having a completely different conversation, but unfortunately because we have it, you have to ask the question.

A. (Mr Patel) I don’t have anything more to say on account number portability, but I think on the question of redirection it is quite easy to get lost in the technical detail here, and I think we have just got to forward it back to the customer. From a customer perspective, what they are offering as an industry is a guaranteed switch. In their mind they will see it as indefinite, so without knowing what the actual failure rate might be after 36 months, because that data will not come through yet obviously, we need to give the customer the confidence that this is a guarantee that is indefinite. I think we need to go into this with open eyes, and say, "Actually, if it does look there is a failure rate beyond 36 months, that is something we need to address", because we cannot have a half-baked guarantee to customers, because it will undermine confidence.

Q. (Mr Marsden) Do you think it is too early to say yet, or confirm, what sounds to me to be quite an intuitive conclusion, that if you extended the redirection period to whatever it was it would just deter customers from arranging their affairs until that period, or is it too soon to say that?

A. (Mr Curran) I think there is a key point here, that actually the redirection is one element of two spokes to the switching population. In the same way that we direct the customers' transactions, we don't just redirect it, actually there is a separate process which informs the payer that that customer has moved, so it is not the customer that has to tell the gas company that they have moved, they get an automated message to tell them that they should change their records. So we are funnelling down to an answer where you will get one or two transactions after the three-year period, and we do not know yet whether we get the one or two transactions or we get them all. Actually, the initial response seems to suggest we are picking up most of them in the first year, but it is a two-spoke process. The customer does not have to go back and tell his employer that he has changed his sort code and account. He does not have to go and tell the gas company. That is all done automatically in the background.

A. (Mr S Smith) Part of the reason we did that, the large "industrial" direct debit users should and could be potentially made even more likely to do that, and there is no excuse, but you do have numbers of very small clubs, charities, schools, people like that, who use these systems, and what we did not want to do was load the cost onto them, so there was a very customer-focused point in building a redirection service, so typically they would batch these up, and do them once a quarter, because they have got small numbers of them, so we want to give them the ability to still get paid, without us having to say, "The banks are now imposing on you that we have got your customer switch, and you have instantly got to change the details on your system", which might be somebody sat there with a spreadsheet. That is part of the logic of why we did it, to protect that fringe, but as I said, Mark and I have a history in that. I think we could do more with some of the big industrial users of direct debits, the originators, to sharpen up the speed at which they change their details, so that the customer does not, for example, say, "My gas company still have not worked out that I have switched bank accounts". It must disturb them a bit.

Q. (Mr Marsden) Well, how would partial switching benefit from a CASS guarantee? Is that possible? Feasible? Expensive?

A. (Mr S Smith) Before answering that, the question is what are you trying to achieve by that? It is an open question, because I think it is easier for Mark and others to give you the answer. What is the problem we are trying to solve?

Q. (Mr Marsden) Well, it is all to do with this perception point, rather than reality. I think we accept the point that CASS is working quite well. I think it is just the fact that people do not believe it yet. They do not seem to, but some of that could be redressed by marketing, but it is more to do with giving customers an opportunity to test things out, and whether it is this idea of having something that is moved over, and they get to see how that works, and not having to close an account, not having to wait for a firm decision on an overdraft, but actually to use some of the soft overdraft eligibility tools - those sorts of things, is what it would be interesting to talk about.

Q. (Ms Benison) Yes, and just the understanding that potentially that is a deterrent, when it is so definitive, which is obviously associated with the confidence. Confidence can be addressed in other ways as well, but that is potentially quite a big deterrent for customers to actually even consider doing it, on top of maybe testing before you try benefits as well.

A. (Mr S Smith) I think one of the things it is worth just saying up front. "Try before you buy", you can do at the moment. Although it is a seven-day switch, you can forward date it. Perhaps we do not communicate that as clearly to customers, or market it that way, but if you want to, basically, walk into Lloyds, open an account, get your debit card, get your pin and get online, play around with the account and start the switch in 20 days' time, that's fine, the service allows you to do that. We could even build into that the fact that if you decide to do that on day 19, we send you something to say, "Are you sure you want to proceed with this?" That is something you can do at the moment. Mark will talk about the technical bits. The partial switch, although attractive, you need to remember - getting back to some of the other problems in this market - for our frontline staff, that is really difficult, because once you start moving some payments in and out, we have got to explain their eligibility criteria: is this the right account for you? If you get mismatches, are you then going to go into overdraft charges? So, not liking partial switch is partly driven by the ability to communicate clearly to the customer that, if you do that -- so I think there are just probably better ways to do "try before you buy". CASS is reversible. You can build a proposition that says "you try" and then you reverse the process, but Mark can also explain why technically it is simple.

A. (Mr Curran) I would just make a comment that supports and builds on what Steve said. Our experience of partial switching is the rate at which a customer feels it had a bad outcome, resulting in complaints, confusion, is much higher than on CASS, and at the root of it is this question of which payments go to which account? That level of complexity and confusion does not seem to be very helpful to customers.

A. (Mr Pester) Maybe the only point we would say is, we do not think it is appropriate for CASS to dictate to customers that they have to close their accounts. We agree completely with what you say, that of course it is a deterrent being told that, and Steve makes a very good argument, to be able to switch back and everything else, but in entering into this, first of all you do not want to have to be forced to close your account, because that is a deterrent. Secondly, we are seeing an increased use of multi-banked customers in the UK. The world where every customer had one bank account is long gone. I do not know how many apps we all have on our phones for online banking. We all have more than one; I am sure we do. So customers tend to be multi-banked, and so having a CASS system that caters for customers who are multi-banked I think is really important. We would certainly support a partial switching service. I am sure it is very difficult to deliver.

A. (Mr Patel) Again, I think it goes back to making sure we understand the interconnectivity between all the different elements of the package. One of the reasons customers choose not to do a full switch is, with that account closure on the other side, they do not keep their credit facility, they do not keep their transactional history, and that fear of not having that continuity of the new bank understanding what your creditworthiness is and whether you will get an overdraft on the other side, or you will get a credit card or loan, or whatever you want, is a key driver for that. By making a guarantee around partial switching that allows customers not to cut the umbilical cord and lose all those facilities, is one element I think to help improve the switching rate of the customers who need it most, and who benefit from it most. I think we need to take it in that context as well.

A. (Mr Curran) Yes, I do not disagree with any of the comments. The reason why we built the thing the way we did was that the whole driver for this was to simplify this for customers, so that on the given day you know that your new account becomes functional, and all your transactions flow to that new account, because what was happening previously was - because people were opening new accounts and moving a few mandates across and leaving a few mandates behind - and actually they then did not know actually how much money they had to have in each account, so they could actually be in a worse position, historically, where actually there was stuff was bouncing from one of the accounts because they had not funded it to the right level. The certainty is actually what has driven the simplicity, that you know on day seven, that your new account fully functions, your Internet banking is there, all your payments come off of it, and all your money is transferred into it.

There is nothing to say that you could not build partial switching, but in terms of rolling it out to the industry, it is quite complex, because of the training to make sure that everyone understands, "I want to move payment 1, 3, 5 and 9, but leave 2, 4, 8 and 7 here, and I need to fund this amount to this account, that amount to that account", actually starts to undermine the simplicity of the switching service itself.

THE CHAIRMAN: What about partial switching, where everything is switched but; the old bank account is left open and semi-dormant, would there be any problems with that?

A. (Mr Curran) That is much simpler to do, and actually I do not think you would want to leave every account open perennially, because effectively we will then all be issuing collateral and stuff to customers, confusing them with debit cards and statements and stuff on accounts -- you would have to make them dormant, and likewise, some of the industry re-use their account numbers at a later date, some years down the line, but you could switch out and switch back. We call it the boomerang switch effect. They will try it for a month, and then if they do not like it in a month, you can unwind that and send it all back again. That, technically, will be relatively simple to do, but actually it's a double switch effectively. You could do that today. You could go from Lloyds to TSB and then decide your account at TSB was not what you thought it would be and you want to go RBS or vice versa; you could do that today. In ten or twelve days. You can re-switch today on day 8. If you switch on day 7, you can start your new switch on day 8, and then day 15 your transactions will go to the new bank. It is that sensible.

A. (<u>Mr Pester</u>) I don’t think we are arguing that the default would be you have to leave your account open; it's a matter of giving customers choice, because I agree with the point that if every donating account was left open, that is not going to work for everyone, but at least giving customers the choice, and giving the same guarantee to those customers that choose to keep an account open as those that choose to close it, we think would make sense.

A. (<u>Mr S Smith</u>) I think that is why I asked the question, and it has been helpful, because I think, if we clearly articulate what we are trying to achieve, it then becomes a practical matter about what is the best way of doing that.

A. (<u>Mr Curran</u>) I think we just have to be careful on the confusion, if we leave the account open, that customers then start to -- they have fully switched from Lloyds to RBS, and we leave the Lloyds account open, and the customer starts to re-use the Lloyds account again, because actually we have told the central infrastructure that Mark has moved from Lloyds to RBS, so transactions that are destined for Lloyds under redirection are now going to RBS. If I try and re-energise that and have my old account open and my new account open, actually that could engender more confusion again with customers.

A. (<u>Mr Pester</u>) I think what we told the various direct debit originators, is that those direct debits that moved, we have not said that the customer, by name, has moved, and therefore, if we see a new direct debit set up, they have set it up to the wrong account and they have to move it, it is direct debit by direct debit …

A. (Mr Curran) Remember, for the redirection period, there is a direction flag that is set for that account that says, any payment coming into that account has now moved to an 83 series at RBS. So new direct debits that are being set up have to redirect, otherwise there is no money in the old account and they will just bounce anyway, so it is account level.

A. (Mr Patel) I think it does need to come back to: what are the objectives we are trying to achieve?

A. (Mr Curran) Exactly.

A. (Mr Patel) One of the key objectives I think is this: you are right, Mark, you can switch between Lloyds and TSB, and switch back again. The problem is that the customer then starts entering two new relationships, "I've lost all my history. When I come back I'm a new customer". That fear for customers of losing that history that drives so many decisions for us in the industry, around where we extend credit, the evidence you need to show when you are applying for a mortgage and all those kind of things, is a big issue for customers and a barrier. There are certain things that we need to make sure are protected, and credit facilities and transaction history are clearly two of those.

A. (Mr S Smith) I agree with that, but obviously we are going to come back to that when we discuss Midata, because again it comes down to the objective, which I agree with. There may be better ways to achieve that, which is to move the data across. I completely agree with what you are saying. I think it then comes down to: what is the best way of achieving that for the customer?

Q. (Ms Benison) Was there anything you wanted to ask?

A. (Mr McDonald) I was just going to say, I think partial switching, if it encompasses a broad range of behaviour, has the potential to be very messy and confusing. If the goal is: "try before you buy, and don’t burn all your boats", that is pro-competitive. I think that is a good thing, but I think we would have to define the behaviours and the time period. So the behaviour, I think, would have to be all of your payments move to the new account, and I think a period would have to elapse where there comes a decision point that you have tried, and then you make a decision, and then the switch becomes full. I can see that working. I just worry that, without us describing the nature of the "try before you buy" experience, it could be a real mess for customers - and potentially undermine CASS, as a brand and as a service. I think there is a big risk, if people get poor outcomes from partial switch, it will undermine the full switch brand experience, which I do not think we would want to do …

Q. (Mr Marsden) Just sticking with past customer transaction data for a minute, and we might move into a bit of Midata discussion here, but just thinking about feasibility of credit passports or other mechanisms, issue statements, other things that you might want to consider telling us about in terms of your views of how much surety that would give customers, would it help you in various ways, and how much data should pass over to customers themselves? How much choice should they have, if they actually go through some other system, whether it is APIs, or other, to the new bank? What do you think would be most useful in that area?

A. (Mr Pester) I guess we would argue from the customer's perspective, that the asymmetry in data between the existing bank and the new bank needs to be addressed, so the new bank is able to take as informed a credit decision as the existing bank does. That means that overdraft customers who have so much to gain from switching would be able to take properly informed decisions on whether they want to move their account. They would not be in a position where they may have £300 or £400 or £500 overdraft at their existing bank, but they may only get £100 with the new bank, and therefore it is very difficult for them to pay that overdraft off and live on that smaller overdraft, so breaking the data asymmetry is key. I know there is debate on how to do that. Certainly from our perspective, the easiest way is through the credit passport, but there may be other ways of doing that.

A. (Mr Patel) Yes, there is a segment of the population who use an overdraft day-to-day to manage their finances; there is also a segment of customers who may not use it day-to-day, but actually, psychologically, rely on the overdraft being there as a bit of a buffer, so I think the concept of freeing up customers to switch using something like a credit passport, to transport data, actually has much broader benefits than just the overdraft users. It is actually a broader benefit. As I said, the function of having transaction data that the customer owns effectively, he can take with him, potentially frees up lots of different issues that we see in the market today.

A. (Mr S Smith) We completely agree. I think somebody said at our hearing that this is the customers' data, it is not ours, we might be the custodians of it, but it is their data, so it is a simple, practical matter - there are credit passports, there are direct APIs bank to bank, or bank customer to bank, but that data should port across, and as Jatin said, to have much wider benefits, it is not just the overdraft thing - how many applications do you do where you are asked for six months bank statements? We act as if customers are being irrational in having these views that there is something about my bank relationship. They are not, because they are frequently asked these questions or to produce this information, so we have got to make the switching process as frictionless as possible, so they feel switching does not mean that that if I'm ever asked one of those questions I'm not going to be able to produce the information in a quick and helpful way, and also this is potentially part of unlocking the overdraft conundrum, because it allows the receiving bank then to be able to, in real time, say to the customer, "Here is what I can offer you", so no objection in principle, it is just a technical question about what is the best way of doing that.

Q. (Mr Marsden) Are there some technical points or regulatory points that you think would cause problems with the various kinds of options in this regard, whether it's credit passports or other?

A. (Mr Castrillo) We need to make it very explicit for it to be in the customer's control, to be absolutely aware that he is providing the information, to make it very visible to them, rather than just to hope that it sits somewhere …

Q. (Mr Marsden) So that they think that their data is suddenly washing around?

A. (Mr Castrillo) Exactly. As long as they are totally in control of who they provide information to, and when - it has to be visible.

A. (Mr Patel) There are existing protocols for this stuff. When you sign up to any credit product, you give authority for the bank to share and get information from credit bureaus, and there is a whole infrastructure around that. In terms of feasibility, like Steve said, there are lots of different ways of doing it, actually I think there are very feasible ways of doing that, using existing infrastructure.

Q. (Mr Marsden) The last one from me is just to focus in on PCA customers. We talked about it a little bit before about overdraft eligibility tools, soft searches, or a firm decision - for the best mortgage. Which do you think is more practical and more helpful for you and for the customer - the way the market will involve, in a sense, because you can see that obviously it is a great customer benefit to use a gadget and try something out, linked or not to a price comparison website? What do you think is the best way of doing this?

A. (Mr Patel) To look at the overdraft eligibility tool to allow customers to test through a software print or some other mechanism, before, is a good idea. The key is making sure that the receiving bank has all the right information to give an accurate response to a customer, because there is a danger actually with the data that is available just today, that actually you could put some customers off switching, because, as a new bank, you are going to be more cautious with what you do, so it is about unlocking the data that facilitates the right communication back to customers.

A. (Mr S Smith) I would agree with that, and I think you are walking a tightrope here, because there is a competitive tension, in that we all should be trying to compete on how we can make this as simple and easy for customers, because they are an attractive group of customers, so I think Jatin is right. You need to identify: is there any data or problem that is stopping people doing that as a competitive proposition? I would be very wary about you imposing any sort of minimum standard or anything there, because this is a key focal point you would want us to be competing on, and saying, the slicker and easier and better I can get this, the more I can make this attractive to customers, so I would focus on what is stopping people doing that, and I think there are some things, and they could be fixed, but I would be careful about going beyond that.

A. (Mr Patel) I think it is important to distinguish between the competitive process of making sure the experience on an online tool is slick, and actually the competitive process of offering the actual overdraft facility based on how much risk appetite a particular bank has, but I think the thing that is less about competition but more about standardisation, is the information available to all the receiving banks to make an informed choice. How they then go and make that decision is entirely up to them.

A. (Mr S Smith) I completely agree.

A. (Mr Patel) But you have to get rid of the information asymmetry, where banks that are trying to recruit customers just do not have the information to try and match the overdraft the customer already has.

A. (Mr McDonald) I agree completely, so I will not repeat any of that. If it is mandated now that any offer has to be guaranteed, I think you will see less credit offered, because the infrastructure is not in place for us to make those guarantees. You can see there are many many more tools, which give predictions for customers, and I think that is evidence that we are competing to attract those customers, but I think mandating it right now will mean we will get a little bit wary, because we are not in a position to make guaranteed offers with the information available.

THE CHAIRMAN: But are you saying the information could be made available? Would the credit passport solve that problem for you?

A. (Mr McDonald) I think we support the customer being in control of more and more of their own data, and that when they choose to move, they are able to give that to their chosen provider, and the more information that they have, the easier it will become, but I think this is going to be an incremental process. Mandating that any credit offer made has to be guaranteed before the customer applies, I think you will see less offered rather than more.

A. (Mr Patel) Just to be clear, I think, what we are proposing anyway, is different to remedy 9, where the data passes once the customer has switched. That is useful, but it is not going to unblock the problem of giving certain customers the right incentive to switch. That data needs to be made available earlier, before the switch.

A. (Mr McDonald) Essentially it is part of the application process.

A. (Mr Patel) Yes.

Q. (Mr Roberts) Can you just clarify exactly what the information is, because you get quite a lot already from the credit reference agencies? Is this transactional information that you are not getting from CRAs?

A. (Mr Patel) Yes. If you think about how we would -- and it would differ by bank, and I won't go into specifics how a bank would typically score for an overdraft or a credit product. Yes, they would get data from the bureaus, but there will be a whole series of questions that we are required to ask around the affordability and sustainability, and those need to be evidenced, so things like sustainability of income, evidence of non-discretionary spending outside of mortgage payments, which we can get from the bureau, things like rent, or utility bills, but having that data, we effectively would have the same data that we have to score existing customers who have been with us for two years.

A. (Mr S Smith) I think Jatin has stayed on the right side of the line, but I think this is a conversation we are in danger of breaching the thing at the front about things we should not be talking about, so I think you should talk to us individually about what data we use and how we use it. It is something that I do not think particularly appropriate for us to discuss in this forum.

Q. (Mr Roberts) It would be on the ground that it would be tamper-proof.

A. (Mr Patel) It would have to be tamper-proof, I agree, but I think the key answer to your question is it is more than is currently available from the credit reference agencies. The credit score is not sufficient effectively, so there needs to be more, and it probably is transaction data. Different banks will use the transaction data in different ways, but it is the underlying transaction data that is key.

Q. (Ms Benison) In that case, what I would actually suggest, if okay with everybody, maybe have a five minute comfort break, before we move to the next session, and that will be about comparing the offers …

(Short break)

Q. (Ms Benison) Thank you very much for coming back. We would like to propose to move to the second session, in the consumer journey once they are aware of the potential options and how they go about actually accessing information, assessing and comparing potential options on the market …

Q. (Mr Smith) As Joanna said, it has been a fun morning, because in a way the first session was waking people up, and then we jumped to what are you going to wear, and we sort of missed out on: is it worth getting out of bed? And I think this bit is about what information do we need just to work out whether it is worth getting out of bed, and what type of clothes you are then going to wear. So, sorry to be humorous at the start. I think it sort of sets it in tone.

So we talked about remedies around price comparisons, service quality comparisons for PCAs, and then how we do that in BCAs. It will be very interesting to have your perspectives on what we say around price comparison, the use of Midata, the development of Midata, the alternatives to Midata to support that price comparison, and then sort of look at that later on in the context of why we have not got something similar on the SME market, and then finally come back to this area of how do we move away from price to service quality, and how do we do comparisons around that. So that is the sort of theme, which is exciting people to get out of bed. Can we start with the price comparison stuff, and the Midata side, and perspectives on what we say on that?

A. (Mr Patel) Well, we think Midata has been a positive step, but frankly I do not think it has proven to be sufficient to generate the behaviour we would want to see in the market. Part of this comes down to awareness and prompt. It is just not well enough known, and I hate to bring us back, but I will do, to what we said previously - there needs to be a prompt for customers to go and see Midata. So without re-going through everything we talked about before, that prompt needs to be effective, because customers are not directed to the site. No matter how good you make it, it will not have the impact.

We agreed with the suggestions in the provisional remedies that the broader aspects need to be looked at, like service, and we talked about that, but we also need to make sure that what is thrown back to customers is done in a way that is representative of genuinely how they are going to use their account. So things like defaulting to showing the results on a one-year benefit, when customers see a current account as something that they would like to use for a longer period of time, feel appropriate, and also I think there is something about friction that we need to solve, because clearly the process of downloading your statement and putting it into a CSV file and then uploading it somewhere else -- other major barriers just feels like there is too much friction, so we would advocate ways to reduce that and eliminate that friction, if we can.

Q. (Mr Smith) What would some of those be?

A. (Mr Patel) Well, there are some choices. You have talked about APIs to bank websites, that is one way of doing it. We have talked about, separately, just before the break, things like a credit passport, which contains customers' transactional history, if that is held somewhere centrally and secure, in a way that it cannot be manipulated, which is critical, then that could also act as a data source. So I think there are options, and the key thing is that none of them feel disproportionately complex to overcome.

A. (Mr S Smith) I think we have talked to you about a lot of things that we think you should trial. This is one of the ones that we said that you do not need to, and actually you could get on with really quickly, so we demonstrated to you what a decent Midata service would look like, showed how quickly that could be built. The reason it does not work at the moment is the customer experience is terrible. There is no other way to describe it. It does not even work on tablets. Why anyone even thinks that is credible, I do not understand.

As we said, we think you could get an API standard agreed within six months. We think if you did that you could get banks to build it within twelve, and if you did that I think you would have all of these services up and running in PCA on the date that that service launched. People fell away from the table as Midata 1 developed. We had lots of people round the table. When they saw the customer experience, they said, "I am not investing in that". So if you make it credible, standard in six months, in twelve months banks deliver the comparison services will be there at launch; I think they will invest at that date in PCA.

I think the interesting idea, which might go back to this morning's discussion, so we have been thinking, all of us, that the customer journey is: I go to a Midata site and get some information. APIs work in both directions. There is no reason why that algorithm could not be used to deliver some of the content to customers, and we want to actually help customers understand, so we could trial variants of prompts or statements, or things that instead of just telling people, "foregone interest" they do not understand, actually says to them, "If we have got your permission, we need to get the ICO comfortable, we would run your data through this algorithm on a traffic light basis, or something, here is how your costs stack up", and we think that could be something interesting to consider. We certainly trialled things like that in the savings market, where we have actually revealed to customers how their current pricing stacks up against the market. So do not just think of this as fixing it, but it is still the customer in your diagram that has to go and find it, this might be something we can pull back in, as banks, and say to the customer, "Here is how it stacks up".

Q. (Mr Smith) What does that do to aspects of data security? There is quite a bit of stuff in the public domain now about: is secure data really secure? Are there implications around the whole perception, never mind the reality, but the perception of security of data that is interchangeable across?

A. (Mr S Smith) I think if you were doing that, we could actually -- we would have to have commercial arrangements with the people who provide the algorithms, you could bring that inside, so the data would never move, because it is an algorithm. So you are right, I think it is very important how we communicate this to customers, and I think it will be a fear, but I think technically you could do it in a way where you could say, "Look, the data never leaves the bank".

A. (Mr Pegge) Actually, in real terms, this should be more secure than what is going on at the moment, screen scrapes and all the rest of it, that people are just giving their passwords away. It is a nightmare, frankly. We need proper security, objectively, but you are quite right, tackling perceptions is just as important.

A. (Mr McDonald) I was just going to make a comment. I completely agree that Midata is the horse we have got, so we should back it. It is not running very well right now, so I totally agree with that. I think that the perception point about Midata - it is called Midata for a reason - whatever technical solution we come up with, I think we have to have the customer not only feeling but being in control of what goes where, so that they understand, I am doing this to get that, and Midata is going here or there. The feeling that it is there for everyone is going to undermine the customer's confidence in the whole approach, I think. A situation where the customers perceive that data as being available to whoever wants it, will lead to the perception, and maybe the reality, of customers being bothered by service providers the whole time, and I think that would be negative and undermine confidence in the system. It has to centre on the customer controlling what goes where I think. I do not know how to make that work, but I think it is going to be important.

Q. (Mr Smith) Steve's point about getting to a standard in six months, is that a generally accepted timeline? Six months to do that? Twelve months …?

A. (Mr McDonald) [✂]. Is it technically possible? Yes, but obviously it would have to stack up against other …

Q. (Mr Smith) I was trying to go beyond the technical side …

A. (Mr McDonald) In terms of will, absolutely. We would want to deliver something that gives a much better service for customers, as a priority.

Q. (Mr Smith) This was your perspective on API development and standards and …

A. (Mr Pester) In a way, Lloyds is our IT pilot, so if Lloyds can do it in six months, then it should work in six months for us. We have not asked Lloyds, so it is actually very difficult for me to answer, but if it is to doable for Lloyds in six months, I imagine -- again, I am not guaranteeing we can do it in six months, but it would seem to make sense that it would be in the same period of time for us.

Q. (Mr Smith) And then I guess, within the Midata stuff, that is the data side of it. What is the comparison to? What are the dynamics of the components of the prices that people are comparing it to, and how far do you go? That sort of goes back to some of the earlier debate about notional interest and hard charges, soft charges, lost income. What components of price comparison do you see being in a further development?

A. (Mr S Smith) I think there is one important point there that goes back to the data. One of the other problems with Midata 1 is it redacts, and the moment you redact, you lose the ability to do the complete honest price comparison, including everything like what you pay when you use an ATM abroad, and the stuff that people really do not understand, so an absolute core principle has to be no redaction, and that also futureproofs you. We are all inventing new things all the time. We have got Apple Pay, other things coming up; who knows what data and price comparison websites need in a year's time? But we do know we can only generate propositions off the data we have, so if you give them everything they are futureproof.

Q. (Mr Smith) So you come back to a philosophical standard which says it is everything?

A. (Mr Pester) That, generally, I think, will lead to innovation, as Steve just rightly said. We would not have guessed a few years ago that we would be doing cashback on Apple Pay, because it did not exist, and so you do not have to find a system that prevents you doing that sort of thing …

Q. (Mr Smith) Is it easier to have "it is everything" rather than a greater constrained, redacted transaction system?

A. (Mr S Smith) I know in Midata 1, redaction created problems for us, so I think unredacted is simpler, because you are just creating a simple stream of data that is unmodified. I think the reason for redaction, and you need to understand this, because I think there were some spurious arguments about data privacy, and a concern, which we never understood and fought hard against, was that you were potentially revealing information. For example, it is a fair point. Your transactional data - if I am making a payment to my Mum, it will have her bank details in there on-line, but I think in a world where you are moving the information securely, machine-to-machine, with all the data protection laws that apply, that should not be a concern. I can see why it was a concern when people were physically downloading files, and it was sitting on their computer; it might get phished, etcetera, so I think you can take that away, and once you take that away, as Paul and I said, it is everything, and you make it secure, but you have to get customers to believe and understand that it is secure.

The ICO said lots of things on this, but, to be absolutely clear, the law is clear, anyone who receives that data becomes the data processor. At the point they do, all of the law applies to them. They have to have the consents from the customer, they cannot misuse the data. So the law has envisaged this, and it is for that service then to convince the customer and get their express permission for what they can do with it.

A. (Mr Patel) Privacy and security is obviously going to be critical to this, and this is going back to the conversation we had before about the credit passport, and this whole bunch of transactional information and where you store it; one viable option - and clearly we would need to do more work on this - is you use the infrastructure that already exists with credit bureaus. You have all the security protocols, you have the infrastructure, and there may be some small changes that need to be made, but that could be a viable option for the data being stored and processed. The exact infrastructure exists today and would definitely reduce the cost of implementing something like this.

A. (Mr Pester) All banks already call credit reference agencies as part of the application process, and so it is the obvious way to get the data.

Q. (Mr Smith) Can I come back to this interesting point though, that the ICO may well dictate and require, and all of those logical things, but you often find the public is less logical than the information commissioner and the regulators, and how do you, in this world where things seem to be going wrong at an increasing rate, with the security of personal data, convince a pretty sceptical public? What would you suggest? What would you recommend? What is key?

A. (Mr S Smith) It is back to CASS marketing, and this I am afraid - and you could help us - falls on government. I have been involved in Midata for five years now, across not just banking but other industries, and I think on day one we all sat down and said, "We have got a big job persuading the public on this. We need a brand, we need a guarantee". It comes back to the same when you have got to convince people CASS works and it is simple, and given the government's aspiration if Midata is a brand and it works as well in telecoms and everything else -- we talked about simple charters, simple metrics, equipping it with CASS like guarantee for Midata, and we just hit cloth ears with government, and this thing is never going to get off the ground, unless you get -- and in the same way, we are trying to convince it is safe to use CASS and it is guaranteed, that wherever you see this Midata logo your data is protected, it is secure, it will not be used for purposes other than XYZ, and I think many people agree with this; it is just trying to get some action behind that.

A. (Mr Pester) We agree. That is what led us to think about the credit bureaus and the credit agencies, because what Steve is describing, we agree would be a fantastic outcome, but it is a very challenging outcome, but the credit bureau links with banks are there, I think the customers' trust in the credit scores in the way that they do is managed around that. So potentially using that infrastructure may just be a step towards a world where there is a perfect Midata out there.

Q. (Mr Smith) If we just progress the concept of Midata for SMEs, and we talked earlier on about the large number of SMEs that were more like consumers, and then, as you step up through, they look less and less like consumers, more like corporates, how would you characterise what one might do in the SME space, with a price comparison mechanism, and which ranges would you say it works, and beyond which ranges would you say it does not really work?

A. (Mr Pegge) I do think this has particular benefits for small businesses actually. Because of the diversity of small businesses, because of the way that charging works, because of the other things and dimensions of service that businesses are looking for, that at the moment makes it quite difficult to make those comparisons, and the small business end they are time-short, so anything that can really simplify and create a straightforward mechanical process is going to be a benefit. Technology is enabling that to happen. I think API is again a key building block of it, and I think there are some wider benefits that can potentially come to an SME in terms of running their business, in terms of getting that kind of information that can be used for other purposes, even then into simplifying - which we will come onto with another remedy - at the account opening process, with central information stores and so on. So I think there is lots and lots of benefit there, but I think to your point, that as you start to get to the larger end of SMEs, just because of the resource that those SMEs already have to do a lot of this stuff, and then the broader complexity and the fact that it is a negotiated kind of relationship, and the dimensions become very big, and I think people naturally tend to work with intermediaries, or sit down with banks and talk through the range of their services in a way that is more difficult to kind of systemise, but small businesses, definitely and where you cut it is a little bit arbitrary, but you have said two million turnover. That feels about the right sort of level there. One difference, and I think this could really work to the benefit of the impact of this service in the whole, is I think you have spoken to Nesta about the challenge process, I think there is great potential here for throwing these challenges out to the wider marketplace in terms of technology businesses and Fin Techs, the credit reference agencies, with a bit of incentive to develop what will become, I hope, a sort of comparison ecology, a broader infrastructure, because we are going to need a number of different moving parts. It is not just as simple as the transaction data of the SME. There is some good momentum behind a number of those. I think BDI, the Business Data Initiative, was something that you mentioned to us at the hearing. I think it could be a very useful part of the process.

On the service side of things, when we come to talk about that, business banking insight as building blocks and feeds into the ultimate comparison tool. I think it can go beyond business current accounts to loans and so on, but business current accounts are a very good place to start to build the thing. So, I think there are reasons to be optimistic.

In terms of timescale for delivery, as you asked, I think the way Nesta were talking about the challenge prize, if it were to launch first quarter next year there would be a rolling delivery of a number of different things because of the structure of the competition. So it would be opened up at an early stage to seed funding for lots of different ideas which would get supported and have an incentive to deliver things, and then it would narrow down to some bigger prizes for bigger deliverables against key outcomes that we are looking to get delivered into 2017. But within that 12 to 18 months period there would be some meaningful progress, I think, on comparison.

A. (Mr Castrillo) I think we agree on all those points really. I would also make the point that a price comparison website has not naturally occurred for us this year. That is probably for a reason, and I guess it is not that easy to compare one against the other. So, I think from an industry perspective we would need to agree what are the bases of comparison. Whether it is through Nesta or through an alternative, we are absolutely open to all options.

I will raise, first, the point that it is not just about price. It is a component, but also we would need to include some qualitative metrics based on existing surveys that we may want to beef up. We would definitely aim to include that relationship aspect, which as we know for us is significantly important. I do not think we need to put a cut-off point at any turnover level, but I think what we would say is that companies beyond two million probably operate more than one account, they already have accountants, even a finance director. They would not benefit from that.

Q. (Ms Benison) It would be interesting to hear from Paul and Jatin, in the sense of you building up that SME business, whether this initiative would be really beneficial from your perspective?

A. (Mr Pester) As we imagine entering a larger SME business, then yes. As I said earlier we do not have a large SME business and most of our SME customers are very small SME customers, so they are much closer to retail customers. So, all of the benefits we are talking about for retail customers would naturally bleed through to some of the smaller SMEs. But I think enabling a set of comparisons by SME customers has to be a good thing. As we think about growing that part of our business we would certainly support it.

A. (Mr McDonald) Could I just make a comment on the basis of comparison or are you going to come back to that?

Q. (Mr Smith) One of the questions I was seeking was, "What are the components of pricing comparison?", and then we will come onto service.

A. (Mr McDonald) Well, I just had a comment on an experience. I am involved in the Council of Mortgage Lenders and one of the things that has been noticeable, although not well-reported, is how inaccurately or in what a misleading way the comparison industry has compared mortgages; generally through ignoring fees which are a very significant component of mortgage pricing. What the Council of Mortgage Lenders decided to do, along with Which?, the consumer organisation, encouraged by the Treasury, was, as an industry, to “look at improving the comparison of fees that everybody charges”. “Rate” is very transparent, “fee” is not. We have ended up having an agreed proposal for comparison that says, “Here are the range of possible fees relating to your mortgage, either at the start, in the middle or at the end of your mortgage period” - and, critically - “this is what we are going to call them, and this is the format in which they are going to appear on every lender’s website and potentially any comparison site, and here is how you should calculate the real price of the mortgage over a two-year fixed period”. We have done that in about six months, and lenders who lend 99 point something per cent have all signed up to that. Our experience in doing that over six months as an industry has been around the descriptions and how the language should appear to facilitate comparison. Little things like if you do not charge that fee do you put “zero”, do you even list the fee? All of that stuff has got worked through and we have ended up in a place where we all call the same thing the same thing. You only list out the fees you charge. So a visual comparison actually shows this lender charges 23 of the 25, this lender charges 5. That alone tells you something, and then you can compare the fees.

So there is a good precedent for an industry being able to sort this out in what we think is quite a transparent way. So I do not think it is insuperable and I do not think PCAs should be any more complex than mortgages.

A. (Mr S Smith) Just on the technicality of the data, I am sympathetic to what Jatin and Paul say about credit reference agencies being the path of least resistance. The other part of me says, "I would no more give it to them ..." We talk about concentrated markets in financial services and if I look at it through the customer's eyes, there, for me, is an example of where it is not Midata. So they collect data on me and then charge me £10 or £15 a month, which is a lot more than I pay for my current account, to get any useable information back on how that data might be used by any financial services provider. Without wanting to suggest that you might end up with another inquiry, I think we should just tread very carefully. I would far rather see machine to machine transfer, open data, and not reinforce any position they have at the moment, or at least if you are going to use them we need to look carefully about pricing.

A. (Mr Pester) I agree, and obviously that is something to be protected against; having customers having to effectively buy back their own data. This is about trying to find a remedy that is quick to implement apart from anything, trying to build confidence in Midata. It is an absolutely admirable challenge, but it is not going to happen overnight. I guess all we were saying is this is one way in which we could make this work much more quickly. If, over time, it turns out that Midata is actually the right solution then maybe that is a solution that could supersede this.

Q. (Mr Smith) So it is worth looking at that, is it?

A. (Mr Pester) Yes, I would say so.

Q. (Mr Smith) You talked about getting to prices based on charges. We had quite a discussion earlier on about the fact that quite a significant amount of the earnings from a PCA is derived from notional interest foregone. Is that part of a price comparison?

A. (Mr McDonald) My own opinion would be you should list the things that you offer. So listing a bunch of things you do not do probably does not aid understanding. So, if you choose, as a provider, to pay credit interest then I think you should show how valuable it could be.
A. (Mr Pester) Well, is this so different from the way that Moray described mortgages, which I thought was very good; being able to see a list of 25 fees or charges, credit interest being one of them.
A. (Male Speaker) You either pay it or you do not pay it.
A. (Male Speaker) If you do not pay it then you should be clear on that, that you are not receiving that benefit as a customer.
A. (Mr McDonald) Yes, those who pay credit interest would outrank those who do not and that would be weighed against other benefits. I think that is correct.
Q. (Mr Smith) But you would not see what you had foregone?
A. (Mr Pester) Yes, I think you have to.
Q. (Mr Smith) But how would you?
A. (Mr Pester) Just use a standardised base rate or we, as an industry, can choose a base rate to compare it against.
Q. (Mr Smith) So you would have to go, "This is the base rate at which you ..."
A. (Mr Pester) Yes, that could be based on the Bank of England base rate.
Q. (Mr Smith) And it is either real interest you have got, or interest that you have not got because we do not do it, and it would be an amount?
A. (Mr S Smith) But how does that work in the market today? So, you are telling customers, “You got half a per cent, but if you had gone to Santander you could have got 3 per cent”. The market has moved on. I just think it is far better to say, “This is what you could earn”, and the Midata profile we had basically tells you the pay rate. Then, if you want to understand why, if it is because you are

getting cashback, this is how you are being paid, or it is because you are getting credit interest. But what we want in a single number is, “This is what your bank is costing you while you are being paid and this is what other offers in the market would be in pounds”; taking all of that and rounding it up, then with the ability to drill in to understand whether you are actually getting it through with cashback, or whether you are actually getting it through credit interest.

Q. (Mr Roberts) I think Ed’s point is if you go into Midata and you are currently with an account which does not pay interest, then in order to make a reasonable comparison with another account which does pay interest, how do you carry that out? How do you engineer that comparison? You, presumably, have to assume some kind of foregone interest?

A. (Mr S Smith) Take a simple one where I pay no credit interest and I am transacting in a way where the price is zero, then if I put that through an algorithm with a credit interest that zero will immediately become a positive number and it is immediately apparent to the customer what the pound benefit is.

Q. (Mr Smith) The notional interest foregone is more important for awareness than it is for accessing and assessing?

A. (Mr Pester) I think the data in Midata would need to be something like a daily balance level so that the interest could be calculated and it is separate to but linked to the statement or the bill idea. But at the moment there is a lack of understanding of what customers are truly paying.

THE CHAIRMAN: Jatin and I had a brief conversation about this last week and the message I took from that conversation was that your proposal that consumers should be told about foregone interest is primarily a prompt tool, so that if I am a free if in credit account and I get a statement at the end of the month that includes foregone interest, then that is a prompt to me to say, "It is not really free. You might want to look around". However, if I have got a free if in credit account and my wife has got an interest-bearing account and I get a statement that has a prominent number if it has foregone interest on it and she gets a rather similar looking statement that has a prominent number that has actual interest paid on it, that actually makes it harder for us to work out which one of us is getting the better deal because if I am comparing her interest-bearing account with my free if in credit account the number I want to compare with her interest is zero, which is the actual interest I am getting. I understood you to be saying it is a prompt, not a comparison tool.

A. (Mr Patel) It is an important prompt. The majority of customers in the UK still get no credit interest on their current account and it is an important prompt for them to realise that there is an opportunity cost for them. We can argue about how you define the opportunity cost and what the benchmark is, but there is an opportunity cost for them of holding their money in that account, and that needs visibility.

For customers who are on an interest-earning account that will also be visible for them because they will be earning 5 per cent - for example on one of our current accounts - less the reference rate, and that will be very clear. I do not think the comparability point is important, but also just the absolute point of a customer who, even before they go on to compare, knowing how much they are foregoing and what the opportunity cost is, is the thing that will drive an action from that customer.

A. (Mr McDonald) Can I just ask question? So, I offer 3 per cent on household bills to current account holders, TSB does not. You should have to declare the 3 per cent 'cashback' on household bills that you do not deliver. It is an analogous situation to interest foregone. Your customers are foregoing the opportunity to earn 3 per cent on household bills, so you would declare that to them, would you?

A. (Mr Pester) I think there is a very easy way of showing cashback, or whatever you want to call it. The position is we pay cashback on contactless transactions.

A. (Mr McDonald) But that is what you pay, not what you do not pay.

A. (Mr Pester) Trying to generalise the specific point of credits and bank accounts is not helpful. Banks make money out of balances sitting in current accounts. It is important that customers understand that. I know it seems conceptually strange that we are saying to a customer that we are going to tell you something you have not received, but there is a very specific pointer on why that is relevant for current accounts to understanding the fact that that is the biggest source of income. We are in a half per cent base rate at the moment. When base rates - assuming they ever do - do go back up, this will become even more important to customers. There could, conceivably, be a bigger opportunity cost to them. So, I know it is unusual, but it is a key point we would recommend.

A. (Mr S Smith) I just have a really bad feeling about this because you are focusing on one element of pricing, as Moray says. It is free for all of us. So in Halifax we have £5 a month because customers said, “Actually I find all this interest rate stuff complex, just give us a number”. So you end up with all these complex things. The customer is interested in the cost. What happened back in the supposed days when “challenger banks” pre-crisis were challenging the market, typically, if you look at pricing: very aggressive credit interest rates. You can find the adverts, 8 per cent, 9 per cent, very expensive overdraft charges. So if you focus on a single metric, and we know behavioural economics teaches us customers will frame around that, even as a prompt you are in danger of driving bad pricing outcomes, because people are going to think, “I have got to get that element”. It needs to focus on the total cost; how you use the account.

A. (Mr Patel) We agree with that statement. Whatever you show a customer needs to show all of those explicit and implicit charges. It needs to be looked at in the round.

A. (Mr Pester) I know we are sounding like a stuck record, but it needs to be a bill. It needs to lay out the transactions.

A. (Mr Gaysford) I suppose I am trying to give a pragmatic answer because I think there is a very simple point here. As far as I can see everyone in the industry agrees that most customers do not understand the cost of their banking and that is an engagement issue, but then there is a leap made, intellectually and evidentially, that says therefore it is foregone interest. As far as we have been aware - and we have had conversations and we have looked at other markets like savings - there is absolutely no evidence at all that customers would be motivated by any which way you could deliver that message.

Remember that foregone interest is a political, regulatory label. No customer understands what foregone interest is. But there is a very pragmatic solution; devise your call to action, forget about your total revenue package, go to some customer labs next month. You could do this in one month. Devise a call to action. Get people like TSB or the Treasury Select Committee, whoever is really interested in this, to give you six statements or six interactions and go and test it, and you will know in one month whether it is motivating.

Q. This is perhaps a good point at which to emphasise that however vigorous a discussion those of us on the table have, our minds are open. Clearly, we have some questions about the foregone interest proposal but it is something that we will take very seriously across a whole range of possible remedies. We are very strongly committed to testing things out and making sure that things work, so we will be looking very seriously at this proposal, as at traffic light proposals and other ways of prompting people and helping people to make comparisons.

Q. (Mr Smith) On the basis that quite a lot of people get out of bed for money, even if it is not real money but notional money, a lot of others actually want service quality in what they do. So I am really interested in this sort of slightly challenging, broader question, "How do you define service quality? How do you assess service quality? How do you access comparisons about service quality?" It would be interesting to have your observations.

A. (Mr McDonald) I would just make one observation, that I do not believe that mostly customers think purchase decision by purchase decision. They deal with organisations, be they banks, retailers, not–for-profit organisations. Whatever organisations they deal with, they deal with them as much because of their experience with them, because of their beliefs about them and their feelings towards them, and the series of good and trusting interactions that have led them to have confidence to go there when they need something additional, and that is very much the strategy of RBS. We have a real worry that ignoring that reality about how people choose and why they stay, in favour of the easy path which is to make economic comparisons, we think that that is potentially not only misleading and incomplete, but actually is going to be prejudicial to people who are focusing on relationship-based and service-based strategies. At a high level, that worries us quite a lot, because we are such an organisation.

A. (Mr Patel) Just to build on that point, I do not think anyone would disagree that all of these other elements are important: the relationship you have with an institution; the service you get. That should not deny the fact that customers should know the basic cost of what they are paying for their banking and we are not suggesting it is a substitute. It is a hygiene factor to some extent. We have talked about it a few times, but this whole concept of giving customers regular information on the cost of the banking, we think, can transform people to think in a different way and look across different dimensions. The research we did showed that 40 per cent of customers would use such a prompt to go away and consider alternative options. Just to put it in context, that is like 20 million customers across the market considering switching. The kind of numbers we do not see today. So I think it is dangerous for us to believe that price is something that customers should not be worried about, because all of these other elements are so important. The fundamental hygiene factor here is customers need to know what they are paying.

Q. (Mr Smith) We have had quite a good debate about the pricing stuff and I think what we are saying, or what is being said in this room this morning, is price is a component and it is important; it is a necessary component, but it is not the only component. Then there is what Moray is saying around service quality. Are there particular components to this service quality that might be compared relatively across banks?

A. (Mr Pester) I would say it is very hard because every customer uses their bank in a slightly different way, and so to some customers it may be the brand, it may be their branch location, it may be the way the internet service works, maybe whether a mobile app works. But that, in a way, all boils down to whether they are happy with their bank and willing to recommend it. So, simplistically, the only really similar growth we can see is a net promoter score because that is a little bit of a leveller. By definition, it affects the way you personally have chosen to use your bank and whether you are willing to recommend it. So that is our suggestion.

A. (<u>Mr Pegge</u>) I agree to a certain extent, but I think it is important to distinguish between that kind of general sense of satisfaction and some kind of objective factors, especially if you are able, through comparison tools, to give customers the chance to rank or filter by those. For those customers for whom branches are important, distance from branch might be important. There are some more generic factors, which are quite clear and objective, such as complaints that could be built into it.

On the business banking side there may be specific services that they want to be assured are available from that particular provider, or list of providers that they want to search by, because for them that is a fundamental.

I think, rather than just a generic satisfaction level, especially if that were averaged which I think would be risky, with a diverse range of customers and the fact that if you look at any of the kind of service satisfaction metrics different banks are ranked differently amongst different customer segments. Perhaps that is a reflection of the targeting that those banks are pursuing or just the nature of the customer groups that they are serving.

I think there are a number of factors, and what Runpath did when they looked at the Midata prototype was to just categorise a few of those systematically and then give customers the chance to rank and order the options that are played back to them by those different categories. I think that is going to be pretty important for businesses, but consumers as well, Steve, I think.

A. (<u>Mr S Smith</u>) Just to keep this simple, what we know is that having no quality indicators is a disaster and we have to have them, and we have seen what happens in markets that get framed without quality there. Yes, it is a bit difficult, but it is not beyond the wit of us around this table - we all monitor this obsessively - to come up with three or four metrics. Some are objective, as Stephen said, complaint data, you cannot hide from that. That is real. Some are a bit more subjective, tested and trialled with customers to feed through the APIs of comparison sites, and then again the customer can say, "Well, what is important to me? If I am digital only I probably want to look at something a bit different to if I am branch-based". But I do not think it is difficult to do that. We all use common data feeds where we are able to compare measures of quality between ourselves, so we just need to get down and come up with, as I said, three or four that will do that.

Q. (Mr Smith) And you think that is a practical thing that the industry can come up with, a standardised set of prioritised --

A. (Mr Pegge) I mean other industries do it. TripAdvisor works on that basis for restaurants and hotels.

A. (Mr S Smith) We might need a bit of corralling. Inevitably, everyone thinks that they want the quality measure that makes them look the best, so you may well need somebody to bash heads together at the end of that process to get from six to four measures.

The only point I would make, it is semi in jest but there is a serious point, you must not use things like Which where you use algorithms to take satisfaction measures and bend them so that a bank that gets 4 out of 5 and 3 out 5 is rated at 55, and a bank that gets 4 out of 5 and 4 and 5 is ranked at 92. There are some very bad metrics out there that just do not work, so get the metrics right. We probably need a bit of help to get from six to four, but do not use some of the other things that are out there that claim to be that measure.

A. (Mr Gaysford) I think there are two messages. One is bending the algorithm, the second is do not enter a single number, because that is not what a competitive market is doing. So if you try and compare motor cars you would not a compare a Land Rover and a Mini on a single number, it would be ludicrous. So you need to accept that you probably need four or five or six to pick up the different usage. You want a mix of your objective and subjective measures and let customers choose, and I think after that it is easy to do.

A. (Mr McDonald) We tend, within large organisations, to have a dominant NPS number which is the answer to, “Would you recommend the bank?”, but [✂].

A. (Mr Gaysford) Exactly. You have got NPS by channel, NPS by product and NPS by event, so it is not a criticism of NPS - although there are criticisms of NPS - it is: do not chose a single number, because it would be misleading.

A. (Mr McDonald) Right. So you could have a range of comparisons based on NPS where people look at the services and products they are interested in.

A. (Mr Pester) Can I just make one point? I agree it is very, very hard to compare a bank on one metric. I do not think all the banks here are as different as a Mini and a Range Rover, so that may not be a perfect analogy, but we have got to avoid the confusion of throwing lots of numbers at customers. So, a solution that does give you the overall banking NPS is raised as a double-click on and you can see what it is by channel or by product.

Q. (Mr Smith) So there is some sort of click through to the greater detail?

A. (Mr Pester) But bringing up immediately a whole raft of numbers is just going to confuse people, but I think a combination of the two could well work.

THE CHAIRMAN: I will just remark on that and then I have a question for Steve. The remark is I think when we are looking at this we need probably not to argue too much by analogy because bank accounts are different from motor cars and they are different from restaurants. So motor car qualities analogies and restaurant five star analogies are a dangerous temptation to say, “Well, the restaurant sector has cracked it. Why not just get a TripAdvisor kind of tool to work?” We need to be aware of different products that work very differently for consumers.

I want to go back almost to the beginning, to a very specific question arising from something you said, Steve. There is a lot of enthusiasm we are hearing around the table for Midata and developing Midata, and potential for getting something working relatively quickly seems to be the message, with your particular worries about it, but I did not hear anyone say that you were being completely unrealistic. What brought me up a little bit short was you saying that you had been at it for five years and people walked away from the table because progress was not being made, and somehow it has run into difficulties in the past. If we are going to take this forward and make it work in a relatively short period of time what - mixing analogies - are the tips for avoiding the pitfalls in the sand that have trapped the elephants in the past?

A. (Mr S Smith) I will try and answer this without any analogies. So, I think the reality is that there are lots of more enlightened people now. Perhaps there were not five years ago. A lot of people five years ago, ourselves included, were trying to fix broken things and therefore any system spend, no matter how brilliant we thought it was, we were trying to spin out TSB, do other things, so there were always ten good reasons why this was a good idea, but let us not do it.

The thing that changed that was a letter from the Chancellor to the chief executives of all the banks saying, “You will deliver Midata in banking within 12 months. Please write back to confirm”. That is what suddenly put some momentum behind it. Then where it went wrong was Chancellor’s letters are great at getting chief executives to get their organisation to work but then in the process nobody focused on the customer experience.

We had a 12-month deadline everyone had to meet and there was no process. I am not a big fan of regulators having to step in on these things but it became apparent that the customer experience was hopeless. The first meeting I went to I said, "This will not work on IOS devices". I might have said, "Why are we wasting our time?" There was nobody there who could step in and say, "That is unacceptable and therefore that has to be built as part of the solution". So I think you need a change to the governance structure. At the moment the governance structure of APIs is broadly similar and they are trying to boil the ocean. You need to say, "We need to have a clearly defined target which is an API for current accounts within this time" and you need to give somebody the ability to step in and corral that group and keep it on the straight and narrow, which is probably not the Treasury, because they have lots of other things to do. It is probably a regulatory authority who is just tasked with ensuring the delivery of a brilliant customer experience within a defined time frame.

Q. [✂]

Q. (Mr Smith) I think that is a good time to have some lunch.

Q. (Ms Benison) Before we break for lunch, just a very last question and I think, Stephen, you mentioned the bank opening process for PCA, that is one of our remedies proposals. Very quickly, what are you views about that?

A. (Mr Castrillo) [✂] We are definitely up for that. I think our only point would be around the AML process around account opening. Then it is left to the bank's interpretation as to what they define as high risk, low risk. So we will want something that works. As an industry, we need to have some consistency around the definitions. It would be important to understand what "low risk" means. But as a concept we are supportive.

A. (Mr Pegge) Yes, I agree. We do need to leave some scope for businesses to be able to compete with each other in improving the customer experience, so it is not standardised to the extent that no innovation is possible any more, but there is undoubtedly a degree of overlap. There are clearly occasions where SMEs have to go through the same questions and provide the same information over and over again. A bit like the earlier discussion about data, if it were possible for there to be something within the customer's control, a central repository of some of that standard data that could be permissioned under their control to people for the purpose, I think that would make a difference and that is clearly one of the design features of the BDI service. There, no doubt, are alternative means of doing that, but that has got a bit of momentum which I think has the potential to streamline things.

A. (Mr Pester) Yes.

Q. (Ms Benison) Well, on that really good note we will break for lunch.

Q. (Mr Whitcombe) Any thoughts on at what point in the customer journey do we need to be getting information, as customers, and how easy is it?

A. (Mr Pegge) At start up, really, for a small business, if the experience of starting up is straightforward. If it is terrible then that is going to give you a bad impression about the fact of processes switching a little bit later on. If there is a mechanism which gives you confidence that when you are dealing with another supplier and so on, it has been straightforward, then that again will reassure people. But we will need also to reassure customers that their data is secure and safe and within their control, and I know some of the business groups have already been expressing their concerns, perhaps because they have not had enough reassurance yet, as to how the mechanism will work, the extent of that data, the ways in which they can be confident they are not opening themselves to fraud or whatever else.

Q. (Ms Benison) Well, thank you very much. We will break for lunch now, definitely, for one hour. If we can be back by 1.35 that would be great. Thank you.

(Lunch break)

Q. (Ms Benison) Okay, thank you very much for coming back and on time. We really appreciate it and we will continue the discussion. The next topic that we would like to explore with you in more detail is SME lending and I think Tom will start the questions to get us started.

Q. (Mr Hoehn) I am going to kick off our post-lunch session, so hopefully fortified. Now, SME lending covers three remedies and there is a lot of similarity with some of the other remedies we have already discussed. Before going into the individual remedies I would like to just state what I think are two important issues. One is we have, provisionally, found a separate AEC in business loans and SME lending for GB and Northern Ireland in that we put a lot of emphasis on incumbency advantage which is very pronounced because of the links from BCA to BCA going into SME lending and I think that gives a particular colour and importance. The second is that there is a trigger point here. There is demand being asserted. There is a demand for a loan or some form of lending facility. So, some of the issues may be a little bit less pronounced or more pronounced than in the previous discussion.

So having said that I am interested in some of the obstacles that you see specifically with data sharing with credit rating agencies. Maybe we can start off with that remedy. Anybody want to go first?

A. (Mr Castrillo) I think SME lending is quite a broad topic, so I think we probably need to think about basically two types of lending: the business loans, which without going into too much detail are similar to what would be an unsecured personal loan; and what goes beyond that which is a much more subjective call in many cases, much more than just driven by data and analytics. So, I think it would be good if we are going into a discussion to explain the two issues.

From our perspective, to your question, we already provide a lot of information to credit reference agencies and we would not see any issue in providing an enhanced level of information if we understood that that brings a benefit to the process. So from our perspective there is nothing fundamentally, apart from the issues that we have discussed around ensuring privacy and ensuring that the customer is in control of who is going to see that information. Beyond that, we will probably support it.

Q. (Mr Hoehn) Are there any specific obstacles to SMEs consenting to sharing the data, do you think?

A. (Mr Pegge) I think, as with other customer information, they need to have confidence, as we said, in terms of the security and the way that it is going to be used; who has access to that data. So consent is important and I think that this is a very well-established principle that actually customers, when they sign up for accounts or relationships, do consent that information can be shared with credit reference agencies, and the fact that they are the main body involved in this should enable this to be extended without too many problems.

Clearly, we have got the Small Business, Enterprise and Employment Act and we are very supportive of the extension because the way that it was set up in the past was on the basis of reciprocity; that you could have access to data if you shared certain data. The way that it operated in the past has been rather limited in that if you did not, for instance, offer current accounts and overdrafts you would not see that overdraft data, you would just have access to loan data, which might be the facility that you are offering. I think this changes that arrangement - still to require within a reasonable period of time, which is fair enough, that lenders should contribute data, if they are of a certain size - but not restricting it in any way and I think that is a good thing.

One of the benefits to us, we are interested in looking for lending opportunities amongst small and medium sized businesses, whether or not they happen to have a business current account with us. I think, increasingly, it is possible therefore to have better credit decisions on a more open basis across the market. I think what is also important is that customers, increasingly, are looking to wider and different forms of finance than just a traditional bank loan and very much part of the competitive scene within the category are HP and leasing, invoice discounting and factoring, supplier finance, trade finance and so on; all of which can benefit from that wider set of data.

Clearly the IT systems need to be appropriate in order for that information to be sent and received in the right format, but that is again relatively straightforward, it is just a matter of working that through. Once we start submitting data on the new basis, which will take effect from early next year, we need to test that to make sure that the data is as is required and it is secure and accurate and so on. Apart from that, and making sure we retain the confidence of SMEs in the security of their data, I do not think there is any problem.

Q. (Mr Hoehn) Is there a level playing field: incumbents versus competitors, whether it is larger or smaller banks?

A. (Mr Pester) Well, again, just to state the obvious, we do not have that big an SME business, but certainly this data sharing with the credit agencies, to us is very analogous to the credit passport suggestion we were talking about in retail. This would go a long way to levelling the playing field and making it easier, we believe, for banks like us and new banks into SME to take informed credit decisions for SMEs. So, yes, I think we would support it.

Q. (Mr Hoehn) What about opening up platforms where the information is made available to applicants and you can create, in that sense, a market. Is that an option that is feasible or realistic?

A. (Mr Castrillo) Well, I think it is an option. As long as the customer is in control of who he provides information to I think that is a feasible alternative. I think where you need to be careful is what the customer experience is on the back of providing that information – i.e. whether you are going to be bombarded by seven or eight different offers, what is the prioritisation process? So those are the things I think we need to consider and that is part of the work that we are doing in terms of implementing the bill that Stephen was referring to. To your question, "Is it feasible?", it is, but I think it is the customer journey aspect that has to be understood.

A. (Mr S Smith) A couple of those platforms do exist already, albeit in a nascent form. I mean nobody talks about the fact that business current account price comparison websites are there to provide business finance comparison, et cetera. So, I think we are all agreed on the principle you ought to talk to them to ask whether it delivers and enables them to do what they want to do and need to do.

A. (Mr Pegge) Yes, I mean there are a dozen or more platforms and if you actually add up all the sources of finance there are 300 or 400 different providers of finance which are linked through there. With richer sets of data I am sure that can be very helpful. I do think, as per our earlier discussion about price comparison websites, it is important that this data is available to a wide range of potential users, not just designating one credit reference agency - and I am sure you were not thinking of doing that anyway - so that there is a competitive process in the intermediation of it.

Q. (Mr Hoehn) Will the mere sharing of data, whatever shape or form, reduce the incumbency advantage? We have seen in our investigation that most SMEs, if they need a loan they go to their bank. A large majority only look at one provider. So will the behaviour of SMEs change by virtue of having some competitors having access to more data?

A. (Mr Castrillo) I think what keeps SMEs focused on one bank as a potential provider of finance is satisfaction with the service, especially the relationship management they get from that bank. On the flip side if you do not get that service that is the key for them to look for alternatives. So, I think we can do more in terms of providing more information, making the change slicker, making processes slicker, because sometimes I think SMEs struggle with the concept of a banking package, and providing the information. So I think we can simplify the process, but I think there is quite a level playing field already.

A. (Mr Pegge) There is clearly an opportunity, through having better access to richer data, to enable the customer experience of going to a lender they are not familiar with, to ask for less information from them, and provide a quicker decision. One of the barriers at the moment could be that, “My own bank knows who I am, they already have the data. They can give a quick decision. They are more likely to say 'yes'. Do I want to go down the road and see somebody who will ask for a lot more information and that will take a bit more time?” So, by streamlining the customer process and enabling those lenders to have as good a view of information so that they can make the right credit decisions, that does, I think, offset any incumbency advantage. Then people’s choice might still be that, “I am going to choose to go to that bank”, but again then we probably need to link into the comparison process so that even if people are making a decision to choose a provider they are familiar with they will have done that on the basis of the knowledge of what other offers might have been available to them.

A. (Mr S Smith) I talk to them directly. I genuinely have had a couple come and see me. These are pretty seriously private equity backed enterprises that are funded and up and running, so they clearly must believe that they can drive that behaviour change and get people on to them. So it is not a hypothetical, they are there and they have got money behind them. As I said, we do not know, they come and sell their wares to us and say "Be on our platform", but you look at the people behind them and the funding they have got suggests that they think they can.

Q. (Mr Roberts) We are talking to them and one thing one hears in this context is that maybe more data, richer data going to the credit reference agencies would make things better, for example transactional data which will not be shared between the banks and the CRAs. Those of you who are wanting to increase the size of your loan book to SMEs, would it be easier if you had that data as well as what it is proposed would be handed over to the credit reference agencies?

A. (Mr Pester) As I said, to us it is completely analogous to the credit passport concept in retail banking for retail customers and if there is a way of accelerating competition by making that available through existing channels such as credit rating agencies, then that would seem to be a good move. I know that Midata may be the perfect solution but it just may be too far down the track and may take too long to get to. So, providing the transaction data for what may be retail and SME customers to credit rating agencies could genuinely help in credit decisions.

A. (Mr Pegge) The test, I think, is what information do lenders require to make decent decisions and what reassures businesses that the information that is being provided is reasonable and they are comfortable with it being available and shared? There obviously was a process to develop what the list of information set out in the Small Business, Enterprise and Employment Act was, but this is only going to be introduced in the early part of next year so it seems to us reasonable to keep an open mind about whether that is the right list or ought to be extended somewhat.

A. (Mr S Smith) In the endgame of Midata, however long it takes, although we said we think it could be done in 12 months, there is potentially 5 years of transactional data freely available from machine to machine for business as well as personal. It covers both.

Q. (Mr Hoehn) Any other observations? We can move on to other remedies. Would an eligibility indicator help, so that I can find out whether I could get a loan somewhere else, because sometimes I do not want to be rejected and I do not want to seek out alternatives; for fear of rejection? Sometimes you are asked, “Have you ever been refused a loan?” and that counts against you, so would a tool allow SMEs to be better informed also about their own eligibility?

A. (Mr Pegge) I think at the small end of SMEs, very similar to consumer lending, a lot of the decisions are made on a credit scored, fairly systematic basis and with that rich source of data that is increasingly available it is possible to make those decisions quickly. A lot of small businesses now actually request finance online and the initial assessment is on an online basis, which requires the use of those kind of checking processes. It has been mentioned, and I think it was discussed in various earlier stages of the process, that perhaps people would be concerned about shopping around because they would leave a credit footprint. I do not think there was a lot of evidence that that was really putting businesses off, but it would help that it should be possible to have a soft credit search which would not leave a footprint. I think that might be a helpful additional point.

To come back to the point of whether these tools would be useful: yes. And I think we are incentivised, all of us, to develop them so that we are able to give people a quick assurance that finance is available. There is a bit of a balance there, though, to provide an absolutely assured offer of finance. You might need to ask, increasingly, as the business gets bigger, more and more questions and how far it is worth going for the SME to get that assurance is a bit of a an open question. I think the small business, unsecured, maybe Consumer Credit Act type small business loan, it should absolutely be possible to have these arrangements and it would fit very well, then, in with the remedy for the price comparison side of things. Essentially, it should be possible to search as you do with car insurance - I know I should not be using too many analogies - to see whether you are eligible, as part of the search process, so that it is effectively integrated.

A. (Mr S Smith) The Nesta process, when it launches, one of the questions it is doing in the early phase incubator period is trying to work out what data these people actually need to offer the sorts of services they want. So there is an iterative process in the early stages of that to try and work out if they have got everything they need to develop these services or whether there is actually more they need. As and when the launch documents come out, that is certainly a part of the first phase.

A. (Mr Pegge) Yes, absolutely. There was mention, as well as eligibility and price, and clearly in SME lending risk-based pricing is the norm and I think it may be that some providers provide fixed pricing at the very smallest end. Indications can be given and, again, I think it was similar to the discussion we had a little bit earlier, it depends on how firm you want those indications. If it is going to be a guaranteed price then that might end up being slightly higher. If it is a guaranteed loan the chances are the decisions will only be given firmly on a fairly cautious basis, but again that comes back to the small business as opposed to the slightly larger SME. As you get into the larger end it tends to require more information, but the reality of that situation is you are more likely to have the financial expertise within the business; external advisors who know the market well and can do that shopping around.

Q. (Mr Hoehn) What is the difference between a PCA customer seeking a loan and a PCA customer seeking a loan and using that loan for business purposes? Is there a real difference?

A. (Mr Pester) At the small end, so very small customers, ultimately, no. Like Stephen said, the differences are where the decisions are made on essentially statistical modelling of that sort of customer and so it is typically an automated decision and a risk-rated decision versus an assessment of the P&L of the business and the merits of the business and the competitive position of the business, which is a sort of manual process for assessing whether credit is extended. We operate at the small end, and business, small lending, decisions are taken in the same way as we would take retail decisions.

Q. (Mr Hoehn) So is there a separate remedy if you are minded to go for a remedy necessary for the very small SMEs?

A. (Mr Pester) It is a good question. In the world we are in, with SMEs, you can do a lot of read-across from retail. Things that work in retail will typically work for a small business.

A. (Mr Castrillo) No, I agree. [✂] So I think it is a very similar problem and I suspect it requires a very similar solution.

Q. (Mr Hoehn) Where is the limit? What is small and very small? Is it £100,000? Is it turnover? Is it more? Where would you put the limit? Where does it become more important to really understand the business?

A. (Mr Castrillo) That is part of the credit appetite of each bank. [✂] You are moving into a space in which you would probably want some security, beyond their personal guarantee. The Consumer Credit Act is --

A. (Mr Pegge) Is 25[,000].

A. (Mr Castrillo) Is 25[,000]. That seems like an obvious limit to start from.

A. (Mr Pegge) I mean there are some competitive limits about our different --

THE CHAIRMAN: I was beginning to think a health warning is needed here.

A. (Mr Pester) When we were created the perimeter that was to define TSB was to be predominantly retail and so there were two criteria applied. The customers had to turn over, I think, less than £500,000 a year and have less than €1 million of borrowing. So that is quite a high limit. Most of our customers are a lot smaller than that.

Q. (Ms Mansilla) Can I ask a question? You mentioned that in lending to the smaller SMEs they are very similar to personal customers and one thing I wanted to know is that when you look in the personal space you see lots of best buy tables, say for like mortgages or personal loans, and I wanted to know why does that not translate across for smaller SMEs and would that be a possibility?

A. (Mr Pegge) I think the answer is because mortgages tend to be at one tariff. So one price on SME lending tends to be risk-based pricing. There is the possibility a comparison website could do that if the providers were able to input the price they would quote for that particular business, but they are not standard products. It is a service, if you like, which is risk-based.

Q. (Ms Mansilla) I know that for mortgages it is one fixed tariff but on personal loans, where you also get best price comparison, what is the difference there?

A. (Mr McDonald) Personal loans are generally risk-based price. They tend to get advertised meeting the CCA requirement that the quoted rate has to be available for more than 50 per cent of the target audience. There is a model there, albeit that model has a lot of critics, but that is the way that loans get promoted.

A. (Mr S Smith) I would be careful thinking that personal works as well as you think it does and I know it is something that the FCA is interested in, so representative APRs and all of that fun, that you do get in those comparisons. How much they relate to what you would find ... But it comes back to personalisation. I think that is where people are going, because it is risk-based. It is trying to give, whether you are a small business or a personal customer, an accurate view of what you would actually get, given who you are, and that is increasingly where the websites are going.

Those sorts of best buy tables were helpful ten years ago in The Sunday Times and things like that, but they are increasingly, in a behavioural sense, probably not that helpful to customers because they are framing a price that may or may not be relevant to them.

THE CHAIRMAN: Let me pick up something that was said earlier. I cannot remember who it was referred to the Small Business, Enterprise and Employment Act and the sense of the discussion there was that the things that we are talking about here are going very much with the grain of SBEE interventions and with developments in platforms that are doing some of these things. What do you think the CMA's role is in pushing these processes forward? You might even look at it and say, "Well, this is all happening already. We do not need further intervention". What do you think would be helpful, if anything, to push forward things that are already happening under the SBEE, in particular?

A. (Mr Pegge) Well, SBEE is a statute and it is a piece of legislation that has been introduced to achieve a certain set of objectives. I think the CMA are in a position to encourage competitive developments on a market-based basis and linking into some of the other remedies that are suggested here, so it works holistically with price comparison websites. That is not going to be within the scope of SBEE and I think you have an opportunity to help us all make sure this develops in the right way and it moves forward and extends and becomes ever better.

Q. (Ms Mansilla) And what do you think could be the role for the CMA in terms of encouraging particularly platforms? At the moment the regulations just require banks to refer those rejected. You mentioned that they have their own plans for acquiring customers, but what could the CMA's role be in facilitating making them grow or become more important? One of them might be linking it to price comparison websites. Are there any other thoughts on that?

A. (Mr S Smith) I think you are asking the wrong people. I think your role is to go and ask them, listen to their arguments, and if you can find things that appear legitimate, which is your process, that are impeding what seem like pro-competitive measures, then bring them back to us. We are not really aware of any. It does not mean they are not there, but if they are we are willing to listen to them. So, that is trying to be helpful, but we cannot directly answer the question.

A. (Mr Pegge) That, obviously, is a separate requirement within SBEE. That is the referral of declines to platforms which will happen at some stage next year and that will no doubt add to what already is a developing market around online broking, and so on, of lending, which is well-established and I think has an awful lot more traction in the future as businesses become more digitally enabled and more aware of the range of options that they have got.

Q. (Ms Benison) Thank you.

THE CHAIRMAN: Is there anything else on SME lending that anyone wants to talk about? Okay, then. I want to ask about remedies that we are not pursuing. There are two headings there: one, name remedies that we are not pursuing; and then a more open-ended question about whether there are things that we do not have on our explicit list that you think we might have missed.

So, first of all, remedies that we are explicitly not pursuing; remedies to control outcomes. This, I think, primarily refers to overdraft charges on PCAs and I think it is recognised that customers facing, especially, charges for unarranged overdrafts are among the more lucrative customers of PCAs. So if you are looking for evidence of competition not working as well as it might work in PCAs, you might look at them, if the result of not enough competition is some customers are paying what seem like excessively high prices. Some people have suggested we should simply have overdraft fees on PCAs.

I think our institutional position is that any competition agency is going to require a bit of persuasion to use price regulation as a substitute for competition. I do not need to rehearse the reasons why that is; intervening in relationships with customers and so on. Nevertheless, it is something that people pursue and people have suggested we ought to pursue. Do any of you think that we are missing a trick by not pursuing the regulation of overdraft charges?

A. (Mr S Smith) I think you are potentially missing a trick. We would not advocate controlling, but we know from the work of the FCA, from things we have observed in the market, from things we have done, that it seems to me that a lot of your focus, rightly, is on getting customers to switch providers and products as a driver of competition. There is something you can do here to try and drive behaviour change without any need to switch provider, and you have observed and you have seen the FCA's work on text messaging, mobile banking applications, things like that, and their impact on the incidence of overdraft charges. So, you could consider whether there is a role for the CMA in looking at some of those sorts of behavioural remedies. So they are not control, they are within the spirit of prompting, but the outcome you are looking for is not necessarily, "I want to get you to change your bank", although that would be part of the other remedy package. It is saying that some customers could reduce their charges quite quickly with relatively simple changes in behaviour, and that is something we would like you to look at. Some of our trials that we have done over the summer have pointed to some things you could do. I think we do recognise that that is a concern and that, frankly, we have talked about all these good things and we think we will deliver the outcomes you want, but it is going to take some time and therefore these might be things you want to do which you could get some quicker results from.

Q. Thank you. Well, a possible prompt for a prompt is a customer who is in danger of going into unarranged overdraft. There is not a very clear distinction between a message that says, "Can you take some action within your existing banking arrangements and sort this out?" and "Have you looked around at whether someone else can offer you a better deal?"

A. (Mr Pegge) So, SMS texts when people are getting near to their overdraft, and we have tested that, both on the business side and the PCA side and had some interesting findings.

A. (<u>Mr S Smith</u>) We tested, as you know, some things, a bit like the mobile phone companies do, "You have used an unplanned overdraft three times in the last month, it has cost you X. Click here. Phone here. Do this." Those sorts of things do deliver quick results.

Q. Moray, are you looking sceptical? No?

A. (<u>Mr McDonald</u>) No. Those of us who believe that unauthorised overdraft charges are unsustainable, [✂], take action about it. Those of us who would rather not believe that do very little.

Q. (<u>Ms Benison</u>) So, that is exactly what I wanted to ask, because obviously there is nothing to stop banks doing it.

A. (<u>Mr McDonald</u>) Nothing prevents any of us doing a bunch of things and I can list you five things we have done. [✂] I just think you either believe it is better for a customer to have an arranged overdraft and take very active efforts to give them one and you warn them about the imminence of charges so that they can avoid them, or you do not.

A. (<u>Mr S Smith</u>) I think there is a distinction here. This is not about any level of price. We believe our prices to be fair and reasonable, it is just about saying that we know people, by accident, do these things, and it is good what Moray says, but you may have a view, quite rightly, that having observed this market, and I am not talking for Lloyds Banking Group here, but you have got nine or ten providers that over a number of years not everyone has been that self-enlightened and I think it would be legitimate for you to say, "Do we want to force the pace on some of these things?". But it is not a pricing point, it is a behaviour point that we know that there are simple things that could be mandated, that can be evidenced, that just get people to not inadvertently at the end of the month trip into that. So you just take the cost to zero.

A. (Mr Patel) I agree there is room for behavioural remedies here, but we need to look at what has happened over the last few years with the OFT's remedies in these areas. So SMS alerts warning customers before they go into unplanned overdrafts are relatively common now in the market, given the interventions that the OFT have made.

To some extent some of these behavioural things to warn customers have happened. You will need to see whether that has had the right impact or not across the market. Going back to the point of making sure that customers actually understand what the consequences are of going into unplanned overdraft or using a planned overdraft, or whatever it may be, is absolutely critical in making sure they understand how their actions translate into costs. It does go back to some of the things we talked about earlier in the day, which I will not go over again, but having clear, articulation on what customers are paying for their actions would add another stimulus that we do not have in the market sufficiently today.

Q. (Mr Whitcombe) You mentioned what you as a bank can do to help your own customers make sure they do not slip into their overdraft, things like that. I just wanted to open it up, potentially, so that other organisations outside of your institution could actually take that role as well and what your thoughts would be on facilitating - I guess this is linked with Midata and things like that - other organisations help customers manage their financial arrangements, and maybe as part of that these other organisations can also encourage customers to think about searching around for where they can get the best bank deal and using this almost as a hook that can lead to wider search activity in the banking world.

A. (Mr McDonald) Are you suggesting that for customers who are repeatedly going into unauthorised overdrafts that that behaviour is published or put out there to attract alternatives?

Q. (Mr Whitcombe) Something along those lines, yes, very loosely. You could tweak it. I am open to other suggestions.

A. (Mr S Smith) I think you need to widen that out. Certainly, in the FCA's credit card market study where they have found problematic forms of behaviour, what is clear when you look at those customers is that you cannot look at this through a product lens. So, the problematic behaviour in credit cards is actually also reflected in other forms of lending, including overdrafts. I think, there, we definitely said to them, particularly as we typically do not hold all the different products, that having trials around using people like StepChange and others to say how would you actually get an intervention and a prompt to say, "There is actually no point just talking to your bank. You need to talk to the whole piece". I think for those customers who do not have those issues, and it is just overdraft, one of the things that the behavioural insights team have told you, which we know, is ease of action is everything. So as soon as you go to a third party you introduce a bit of friction which means you are going to get much lower response rates. So where it is a customer who candidly does not have the need to go overdrawn because they have funds elsewhere, or because they just need to reorder their direct debits, it is better, typically, when you do the trials, for the bank to do that because you can link through to, "All you have to do is click here" and the problem is gone. The moment you say you have to go and do something else you will find people just say ...

A. (Mr McDonald) If we talk about the interplay between unarranged and arranged overdrafts [✂].

From the point of view of comparison, if we could get to a point where on an overdraft alone or a credit card, or a mortgage, for that matter, in the background, say on your mobile or digital banking, you can see what you could get. I think that is a very transparent thing.

[✂] That is a great relationship builder with those clients and it also extends them some credit headroom that previously they would have been completely uncertain about.

I think we strongly feel we can bemoan the down sides of unauthorised overdraft things but the answers are at hand. Competitively, if we want to get very active at giving everybody a line that we could, what is stopping us? Competitively, if want to warn everybody - and we know who they are - who are at repeated risk of incurring charges then what is stopping us telling them?

So that is our focus, [✂] and we hope it is good for relationships. I do not see this as being regulatory territory. I am, though, interested in the interplay between this and the free in credit banking because that is a link that is often made that we are not discussing here.

A. (Mr Pegge) Moray, how does that work with those customers with no marketing indicators?

THE CHAIRMAN: I think probably we should not go there.

A. (Mr Pegge) Okay, I will make it as a general point which is that it comes again to how far you can go in terms of making offers to customers and that being allowed within ICO.

A. (Mr S Smith) That is safer territory. To move on from the discussion about whether you should do this, there is a genuine problem for all of us no matter how self-enlightened. You have seen that from the ICO’s response. [✂]

I think one thing you could definitely do to help here is to think about - I am not going to quote numbers, given the audience - but a significant proportion of customers have a non-marketing indicator on and therefore even if we decide to this unilaterally because we believe it is the right thing to do, we just simply cannot get at a significant proportion of our customer base. That is a real issue whether you do it from a regulatory perspective or unilaterally. So, that is something the CMA could absolutely help us with.

A. (Mr Pester) For what it is worth, we do not support any sort of price limits or minimum or maximum limits. We support informed choices by customers, of course. As Jatin says, it is back to enabling customers to understand what costs they have incurred. We think by putting a minimum or even a maximum fee on unplanned overdrafts it is not going to help competition, or in fact could play into the hands of the incumbents.

Q. Can we move on to free if in credit banking more generally? As you see in our report we took the view that free if in credit banking per se is not creating competition problems. It is not the source of customer stickiness, but we recognise that not everyone agrees with that and possibly two of the banks in this room have concerns about free if in credit banking as a model. The other thing to say by introduction to that is that does not mean that we are in any sense supporting free if in credit as the right model for the majority of customers in current accounts. Indeed, we can see that if the remedies that we are pursuing had a very significant effect on competition for personal current account customers, the free if in credit model might become unsustainable. If all your high balance customers go off to interest-bearing current accounts and everything that we have just been talking about in relation to customers with overdrafts linked to overdraft charges falling, then free if in credit banking might become uneconomic.

So we are relaxed about free if in credit banking but we are also relaxed about the disappearance of free if in credit banking if that is where competition took the market. But some people, for example the Treasury Committee, evidently believe that we should have taken a firmer line and taken active steps per se to try and sort out free if in credit banking. Any comments on that?

A. (Mr Pester) Transparency: let customers understand how their actions drive what they are charged for their current account. Again, I am going to bore you by saying what we all say, free if in credit is a misnomer. It is not free if in credit. How does a product that is free if in credit generate £7 or £8 billion or £9 billion a year for the industry? So we can stop talking about free if in credit, because it is not free. And one way to do that, of course, is to send customers a bill. I know I am repeating myself. Putting some minimum fee on accounts cannot be a good idea. That would, I think, probably kill competition and it would plainly benefit the incumbents and with four million current account customers if you said we have to charge all our current account customers a fee of course it would drive income immediately and probably take away our incentive to compete. So, I think transparency, enabling customers to understand what they are paying for their current accounts, enabling them to vote with their feet, is the way to bring a better price model, a more transparent pricing model. That will lead to different pricing models undoubtedly.

Q. Moray, I think RBS have commented on the free if in credit model?

A. (Mr McDonald) Definitely. I think whichever way we come at this we cannot escape the conclusion that it is anomalous and it is a distortion. Current accounts are something that are very expensive to provide and, in some ways, becoming more so as we add features. So charging nothing for something so important, that is at the centre of customers' banking lives, we think must limit competition innovation. Our view is that this is definitely not a good thing.

Now, getting from where we are to a better place I do not think is really simple, and I agree that slapping a minimum price on a current account is probably not the answer. [✄]

A. (<u>Mr S Smith</u>) I think there would be a very bad outcome for certain customers. We need to remember what drives you into unauthorised overdraft is quite often a direct debit. If that direct debit gets bounced, quite often the direct debit provider will instantly hit you with a £10 or £15 fee. So it is not as simple as that. You cannot just say, “ban unauthorised overdrafts”. I am with you in spirit in that we would we always rather our customers borrow from us with a planned fee, but in an imperfect world where not everyone is organised, if we do that, typically, utility providers, if you have two bounced direct debits in a 12-month cycle you are taken off the direct debit scheme. You will then pay £100 more a year. I think customers have some understanding of this, so I think that would be a very, very bad thing to do.

I am with you, Alasdair, I think if you get competition working, if you get more competition for customers on price amongst overdraft customers then business models change. You are already starting to see this unravel. TSB talks about free in credit banking. The single most successful switched to account, and I am not going to talk up a competitor but you all know who I am talking about, has an account with a £2 fee that they have just put up to £5. We should not pretend that free in credit is ubiquitous any more. I think people are making these choices and anyone who thinks there is a better and fairer way to charge, it is absolutely open for them whether they are a new entrant or an incumbent to say, “Here is the deal, customers. Here is a different way of charging. It is fairer”. In a world where it is easier to switch and there is transparency, there are comparison sites, if that is genuinely a better way that should thrive. But the way to get there would be to use the competitive process because any intervention you do will have large unintended consequences that you will be blamed for.

A. (<u>Mr Pester</u>) I agree that you have to have transparency and customers understanding what they are paying. We should not remove unauthorised overdrafts, just to be clear. I agree completely with what Steve is saying. If you are a customer on the M1 late at night trying to put petrol in a car to get home the extra £20 is important to you, and to ban that service will cause an enormous customer detriment. What I think we are talking about is the transparency of customers understanding when they get the bill later that week, "Oh, that actually cost me £10, so next time I am going to arrange an overdraft rather than go into an unauthorised overdraft." It would change consumer behaviour, but the way to do it is through competition and not through banning the point.

Q. So, Moray, if could I go back to you and say there are a number of things on our agenda that might have an effect on free if in credit banking, including the TSB proposal to have what one might think is a kind of prompt remedy, but focused on foregone interest terms. Are there more specific things that you think should be on a remedy agenda - let us not talk about whether we are for or against free if in credit banking - but that might change the competitive dynamics around free if in credit banking?

A. (<u>Mr McDonald</u>) I agree with what has been said. Directionally, the more competition we have the more diversity and choice, the more that is going to help hasten the end. My argument would be a customer would not wait until they had been hit twice by the utility company with a charge (for an unpaid bill) to go and get an overdraft with their bank, hopefully. That would be one of the signals that would make the market change, if people would go and say, "Okay, give me an overdraft". [✂]

A. (<u>Mr S Smith</u>) Obviously we do not want to cross the lines of conversation, so let me try and put this a different way because I am not going to reveal our views on all of those things. One of the things you could do, and we did say this in our submission, I think part of the critique of free in credit is still based on a number of myths about what and where the cross-subsidies lie. You are in a unique position because, unlike even me, you have everyone's data. You have full transparency through the responses to the Market and Financial Questionnaires. You know exactly where everyone is making their money, and it will vary because we have a different customer mix, different profiles, you have talked about the high balance customers. You could at least try and shine some more sunlight because I know you tried first time, but do a little bit more to help explain [✂] just how the model actually works, because I think some of the starting propositions about whether there are cross-subsidies, how big those cross-subsidies are and where they go from and to are not quite right. That would, at least, allow us to establish a baseline. None of us might like this, but is it as bad as we think, and therefore it moves away from the need to do something other than just rely on competition to find better outcomes.

You could also point out, because if we are right about where competition is going to drive this, we are going to find there are some distributional consequences of that from a societal point of view because actually there are a lot of very disciplined customers on tight budgets who run themselves very well and are significant beneficiaries of free in credit because it means they get their banking for nothing. It is the case that there are millions of customers who do not use direct debit so that they can do that, so I think you could, without opining or offering a view, shine a light a bit more on what free in credit means for different income groups and whether it is as problematic as some politicians and commentators think.

A. (Mr Gaysford) What [✂] seem to get confused by, and it has been discussed a little bit today, is the causation of one charge to another. If you think that banks can charge high prices for overdrafts and that funds free in credit banking then it is clear that the answer to that is to deal with overdrafts. If you change free in credit banking they will still charge high for overdrafts because you have not changed anything and it is perfectly analogous to front back book pricing in savings, mortgages. You have to hit the back not the front because otherwise you will end up with both. So, the direction, whether it be with transparency, competition, choice, more competition round your overdraft charging -- then let the market sort out the front book, which in this case is in credit banking.

Q. Well, it is a general principle of economic policy that if you identify a market problem that you tackle the market problem directly.

A. (Mr Gaysford) Yes. [✂]

Q. [✂]

A [✂]

Q. [✂]

[✂] one set of remedies that we did not pursue was structural remedies, particularly divestments, so this is your opportunity to tell us that we got that completely wrong and that the banking sector would have an enormous appetite for a round of divestments and that this would improve the market.

A. (Mr S Smith) I expect there are least two people around this table who do not want to enter into that debate and think you should stay where you are.

A. (Mr Pester) From our perspective, we do not think further divestments is the way to fix the market. It may well bring more choice but we do not think it will bring more competition. What will bring more competition is more transparency, in enabling customers to choose between the banks that already operate in the UK. I think if you took the current lack of transparency in the market, if you took the current operating model and you just carved off another chunk of one of the big banks it will give one more bank but it would not change competition. So I do not think it would aid competition in that sense. So we think you have got it right.

Q. Anyone wish to dissent from that?

A. (Mr S Smith) Not dissent, but what you would expect, because it is what we said to you. I think we have learned, and Paul can talk to this as well and Darren can too, this is costly to do. There are a whole bunch of reasons why, that people may or may not find credible, but that is an established fact and therefore you have to have extraordinary views of its impact to justify it. It is not you got to the right reason and that is self-serving, we think you got to the right decision for the right reasons because that is an observable fact that was not out there five years ago before we started this process. I do not think anyone knew that it was going to be that expensive and that complex. It is messy for customers and therefore it just feels there are a lot better ways to go after this than to pursue that, but that is something we learned. We would have been having a different conversation if we had had this conversation five years ago. I am not sure we actually all did know that. Maybe Darren did.

A. (Mr Pegge) Steve, your point, messy for customers. You are telling customers, "You are being forced to move bank" and clearly many people were not happy with that.

A. (Mr Pester) That, in itself, I would not say, is an argument not to do it but I agree with the principle that it is not a good remedy. It is not proportionate if you were to spend £1.5 billion or so which is in the public domain, which is what it costs to do these things, there are much better ways you could spend it, but I think, as I say, it is back to more transparency.

A. (Mr McDonald) Can I just make a comment? As an organisation that is right in the middle, we are taking a different route and you mentioned that you are able to do what Lloyds can do for you. We are taking the route of standing up a bank that is independent from us technologically and functionally on day one. [✄]

A. (Mr S Smith) I suspect you will get perhaps some different views

Q. Just stepping aside from the conversation, in relation to the comments that have been made on our preliminary findings, a lot of the commentary, driven not just by the Treasury Select Committee but by journalists is we have been very cowardly in not taking on the big issues that we should have done, but actually very little of that has been about structural divestments. One or two journalists have said, "Oh, we thought you were going to break up the banks and then backed off it", but actually I have not seen any serious criticism in contrast with free if in credit banking.

A. (Mr S Smith) The only other observation I would add is there is a danger because we have been so supportive about what you have discussed this morning. Let us not pretend that some of the things we have discussed are cheap or easy for us to do. I have sat here telling you how firmly supportive we are of APIs and doing that quickly and you have challenged me on timing. I think part of that narrative is we have been let off lightly because these remedies will look cheap and easy to do. Well, many of them are not, and particularly when you do them at speed. So we can help you with that but do not think the fact that we are saying “yes” is cheap.

Q. Are there any remedies that we have not considered that you think we should have done? You, Steve, already talked about the prompts that might be orientated towards what you might call more self-interested behaviour by consumers, but is there anything else that we should have had on our remedies list that we do not?

A. (Mr Pester) Only the enhancements that we talked about in our submission and I think we have talked about it extensively today, round the monthly bill, around the credit passport, around increased awareness of CASS. But that is addition and enhancement of your remedies.

Q. And as I hope is clear in the discussion, these are very much within the spirit of the remedies that we were more explicit about and will be fully considered.

Just back to free if in credit banking, because there was one thing I meant to ask. At least one party has suggested that we should require compulsory payment of interest on current account balances. Does that appeal to any of you as an intervention?

A. (Mr McDonald) Maybe I can start on that. We take an incredibly simple view of banking which is current accounts are transaction accounts. Savings accounts are terrific, they pay interest, you can sweep money into them either at will, digitally, using your phone or because you have asked us to set up a sweep. To us, paying interest on current accounts is confusing. The benefit to a customer of parking £20,000 in their current account is not clear to us at all. So, we do not see that this is functionally really great news for customers because we offer great savings accounts which are very easy to use and link. So we do not really see that there is a big question to answer here.

A. (Mr S Smith) I think your predecessor organisation has had some history with that as a remedy in one of the markets under investigation, so I think that was a remedy, however many years ago it was, of trying to force credit interest into SME banking. It did not work. It had unintended consequences.

A. (Mr Pegge) I think, yes, many of the smaller, newer and challenger - for want of a better word - banks objected to it in that they regarded it as something which narrowed their opportunity for differentiation and I think there are a whole variety of different current account packages around at the moment, and by introducing this statutory requirement the inevitable tendency will be for that range of difference to narrow and therefore would that encourage competition? I think not.

Q. I suppose that is one of the generic reasons why agencies like us require a lot of persuasion to get into the business of intervening between the customer and the supplier with restricting the range of offers because you then restrict product innovation and you lead firms to spend time thinking about whether what they want to do fits within the regulations, rather than this is what their customers want.

A. (Mr Pegge) And I think it sent a message to customers as well that banks are all the same because they are mandated to be same.

A. (Male Speaker) I agree, it is not a good solution.

Q. Okay, I think we are done on remedies, but there are just a couple of related issues that I would like to raise, and also to remind you that if there are any issues about the PFs that you wish to raise here, that you feel would be useful to air in this forum, then do not hesitate to do so.

In our PS report we indicated that there were a couple of issues on which we are doing further work. One of them is the effect of prudential regulation; the differentiation between banks with IRB status and banks who do the risk weighting on a standard model. Our current view on that is that while there are differentials in credit weighting in a number of areas of lending, it is in domestic mortgage lending that the differential is clearest and we are therefore going to do more work on it, focussed on the differentials in domestic mortgage lending. But the domestic mortgage market is not within our terms of reference so what we are interested in is whether this differential is sufficiently large and has sufficient effect on the economics of retail banking that this is a barrier to entry and expansion for small banks. Any reflections that you have on this? We are obviously going to be inviting further evidence on this, but if you have any reflections on these issues here that you wish to air we would be happy to hear them now.

A. (<u>Mr S Smith</u>) On the second one, I think the way you have articulated it is exactly what I would expect from an organisation like the CMA. That is exactly the right way to go after it. That is exactly the way you should look at it. I think, honestly, for most of us, it is hard to tell, and we have had this discussion with you that we understand what our capital requirements are, based on our own discussions with the PRA, we can observe what others are. Understanding why ours are different from others - [✂] - is rather difficult to do. So I think it is an entirely legitimate question to ask. I think the way you have asked it is the right way about its reference back to this reference market and I cannot really add much for precisely that reason. I know what Paul’s requirement is, I know what our requirement is. I know in detail why our requirement is as it is. I have no idea what his is, and so that is again something that you are in a unique position to look at because you can open that box at the centre.

Q. And one of the complications that we have faced in trying to get to the heart of this issue is that it is not just that you do not know how other banks are affected because, quite rightly, some of the PRA regulation is institution by institution. If an institution's credit weighting is changed then the PRA's view of what other forms of prudential regulation they need may change to partly counterbalance what has happened to the risk rating. That is why we are focusing on the domestic mortgage area because that is where the risk weighting differential is widest and where we have the best chance of understanding whether there is a problem.

A. (Mr Pegge) Just to understand then, the context of this is looking at whether that is a barrier to growth or lending?

Q. It is both entry and expansion, but if you were contemplating coming into UK retail banking and you heard people say that their domestic mortgage lending is one of the most profitable areas of lending for a UK retail bank, which I have heard some people say, and it is going to take you something between five and ten years before you acquire IRB status in this area of lending, and therefore you need to have five times more capital than the incumbents to get into this business. If you are going to have to earn three times the return on equity of the incumbents is this a business that you are going to put equity into?

A. (Mr Pegge) Yes, and you would look at the return on equity of the institutions that are in this market as well, obviously.

Q. Similarly, there is a parallel question about expansion.

A. (Mr Pester) We do not think that has a meaningful effect on competition in retail banking, to be honest. We have heard some of the other smaller challenger banks make this argument several times in the forums we are in. Our point is that the real way to compete in retail banking is through product innovation and it is through customer service, it is through brand. By the time we get down to the second or third or fourth in order of impact of having to carry a bit more capital against some of your mortgages, and that is affecting your ability to compete in retail banking, we think there are many other things we could fix before we get to that. So we do not see it as a major barrier.

A. (Mr McDonald) I think our view is it is a completely legitimate question to ask, but that lack of transparency to know who is holding what capital against which parts of that business makes it hard for us to know how level that playing field is.

A. (Mr S Smith): Could we take you up on your PF point, and if we are getting towards the end I do not want to end on a negative.

Q. Well, before we get to that, a related issue is the change in the taxation of bank profits which some people have said is going to be a disincentive to entry and expansion by newcomers into this market. The Treasury Select Committee are concerned about this and have expressed the hope that we will have some things to say about it. [✄]

Any views on whether the change in the bank tax is a problem for entry and expansion?

A. (Mr Pester) Well, I can say what we have said publicly. Fundamentally, we do not disagree with the tax. However, it is unusual in the way that taxes work for it to be a cliff edge, and it is not the only cliff edge. If you were to be growing a bank with a balance sheet going from £15 billion to £30 billion in that mid-tier range, there are a number of cliff edges you come over, almost at the same time around ring-fencing legislation, around tax. There is a series of others, and they all seem to hit at approximately the same time, so our request to the Treasury is they just consider some smoothing and they consider the cumulative effect of all of these factors which do affect growing banks.

So we are not against it. We do not have a view specifically on the tax, other than the fact that it would be useful if it was more graduated rather than for the £1 you suddenly step over the profit target and you suddenly pay 8 per cent more tax.

Q. But when you say you do not have a view, you are not implying that you are as happy to pay tax as not to pay tax?

A. (Mr Pester) We are happy to make our contribution to UK society, as all businesses do.

Q. (Ms Benison) Good answer.

A. (Mr Pester) [✄]

A. (Mr S Smith) I think the economics of taxation are relatively clear even if the politics are not. There is no obvious reason why a profits tax distorts competition if it is designed and levied properly. So, I think we just need to dust down the theory, look at the practical application of whether this is done and whether there is anything in it that creates wrinkles in the way that Paul suggests. Also, there is always a danger with taxes, as we know, that you can look at one in a narrow sense, but you do have to look holistically. So there is nothing obvious to us in that argument, given the way it is constructed, but I think it is a legitimate question to ask and look at the cumulative impact.

THE CHAIRMAN: Okay. Thank you. Steve, you said you wanted to say something about the PFs?

A. (Mr S Smith) Yes, this is dangerous now because I do not want to end on a negative note, but here we go. So let me explain why this matters to us. The one thing we do object to really significantly is the pricing analysis. I cannot put it nicely; it is complex, it is hard for all the reasons we talked about in terms of transparency. We think you have got it wrong both in terms of level of prices because you are excluding significant sources of revenue, predominantly net credit interest, but also in the relativities of pricing. We do not think it potentially has any impact on remedies at all, so I think the adverse effects on competition still stand, we think the remedies still stand, but we know how journalists and how narratives get built around these reports. So, we would just ask that if we can persuade you that you have got it wrong, that we could get a more accurate set of pricing comparisons because we already have everyone saying, “The CMA has told us that company X charges three times what company Y does”. It does not matter for remedies, it does not matter for AECs, it matters to all of us because it creates the narratives, then journalists under time pressure will automatically go straight to a simple number.

So, as I said, I did not want to end on a negative note and hopefully somebody will say something positive after that, but I just thought it was important to say that.

Q. Well, I will say something positive which is you have submitted a long and carefully reasoned take of the pricing work and we will look at this very carefully, and I understand perfectly well why. The work as you know was done mainly to look at the issue of the way that concentration affected competition, but we do understand that even if it does not affect the AEC judgements we are now making it nevertheless is an important piece of work for you because of the way it might be used and we want to get it right. So, thank you very much indeed for the detailed comments that you have made on it.

A. (<u>Mr Pegge</u>) I will make a positive point which is back to your introduction at the beginning that these remedies are a package and many of them, if they are properly implemented and successful, will be self-reinforcing. I think where people have looked at individual ones and picked them out without really understanding the impact of them, they are probably underestimating -given our strong commitment to make these work - the impact that this will have on the marketplace. I am sure other banks as well are absolutely committed to make sure that this works and has an impact and improves things for customers.

A. (Mr McDonald) I was just going to comment, directionally, we are very pro-comparison and if I have a worry about the commentary that is running alongside the CMA it is that there is this big block of lazy incumbent banks who are all the same. We are very actively trying to put distance between ourselves and other large banks, and so the more successful we are in differentiating from others, the better comparison will work for us. So, I think that is why we support the package as a whole. That greater awareness and more comparison, we think, will benefit us, which I think is going to be a good thing.

A. (Mr Pester) I feel I should say something. It probably has to be positive. We support your preliminary findings; certainly, in the sense of our customers are not really able to make informed choices in their banking, and we would love to see a world where customers can make informed choices. Just to give it one more airing, we would love to send customers a monthly bill. We would love to give them a credit passport to enable them to switch and we would love them all to have a much better banking experience as a consequence.

Q. I think we are almost done for the day. Let me finish off with two remarks, both of them I hope positive. One, the CMA is very jealous of its position as an independent body, and independence manifests itself in a variety of ways, including when extremely bold action is called for we have the tools to do it. The classic example that is often cited is what happened to airports as a result of the market investigation. But independence also gives us the ability to do things that are subject to criticism and if we are convinced that we are doing the right thing - and the right thing is not necessarily as popular as something else would be - part of our strength is, at the end of the day, we shrug our shoulders and say, “We are doing the right thing and that is what we are in the business of doing”. Not being subject to political pressure is part of the strength of the organisation. This has been salutary in that respect. I do not mean today’s events, but the wider process.

The last thing I would say is about today’s event. We had quite a lot of discussion about what is the best format for this round of discussions and we decided that we would have this round table format and it is something of an innovation and we were not sure that it would work properly, and we had some feedback, some apprehensive feedback, about whether it would work well. I feel that today has worked extremely well, from our perspective. I hope it has been at least interesting from your perspective. It has been very, very productive for us and while we have thoroughly enjoyed the full days that we have spent with you in single party hearings, on the whole, I think today has been particularly productive and interesting and thank you very much for participating in it. I hope it has been interesting for you too.

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Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?