COMPETITION AND MARKETS AUTHORITY
RETAIL BANKING MARKET INVESTIGATION

Notes of a Roundtable Hearing held at Competition and Markets Authority, Southampton Row, London on Tuesday, 1 December 2015

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

Alasdair Smith	- Chairman
Tom Hoehn	- Member
Jill May	- Member
Ed Smith	- Member

FOR THE STAFF

Julie Bon	- Economics Director
Colin Garland	- Director of Remedies, Business and Financial Analysis
Christine Kent	- Inquiry Director
Adam Land	- Senior Director, Remedies, Business and Financial Analysis
Anupam Sharma	- Remedies, Business and Financial Analysis,
Tom Smith	- Legal Director

FOR BANKS

Reza Attar-Zadeh	- Santander, Head of Customer Value Proposition
Richard Davies	- HSBC, Chief Operating Officer, UK Commercial Banking
Stephen Dury	- Santander, Managing Director SME Markets & Business Development
Greg Hingston	- HSBC, Regional Head of Retail Banking, Europe, Middle East and Africa
Martin Lord	- HSBC, Head of Implementation, UK Commercial Banking
Catherine McGrath	- Barclays, Managing Director, Personal Banking
Rebecca McNeil	- Barclays, Managing Director, Corporate Banking
Ross Dalzell	- Barclays, Managing Director, Corporate Banking
Graham Pilkington	- Nationwide, Divisional Director, Banking and Insurance
Javier San Felix	- Santander, Head of Retail Banking & CEO
Adam Schallamach	- Nationwide, Head of CMA Market Review

Digital Transcription by WordWave International Ltd trading as DTI
8th Floor 165 Fleet Street London EC4A 2DY
Tel No: 0207 404 1400 4043 Fax No: 0207 404 1424
Email: ukclient@dtiglobal.eu

THE CHAIRMAN: Since everybody seems to be here, we can start. Can I just start briefly by welcoming you all very warmly. Thank you very much for coming here today. I hope we are going to have a very productive exchange of views and let me also take the opportunity of thanking all of you for the responses that you have sent in, both on our Provisional Findings and our Remedies Report. We have had extremely interesting and thought provoking responses from all you, for which we are grateful.

Before I hand over to Colin, who is going to keep us all in order today, let us do introductions. I am Alasdair Smith. I am the chair of the Retail Banking Inquiry.

Q. (Mr Garland) Colin Garland, director of remedies business and financial analysis.

Q. (Ms Kent) Christine Kent, one of the inquiry directors.

A. (Mr San Felix) Javier San Felix, head of retail and business banking, Santander.

A. (Mr Attar-Zadeh) Reza Attar-Zadeh, head of retail products, Santander.

Q (Mr Smith) Ed Smith, inquiry member.

A. (Mr Schallamach) Adam Schallamach, I am running Nationwide's response to this investigation.

A. (Mr Pilkington) Graham Pilkington, divisional director, banking and insurance for Nationwide.

A. (Mr Dury) Stephen Dury, managing director SME markets & business development, for Santander.

A. (Mr Hingston) Greg Hingston, interim head of customer value management, HSBC.

A. (Mr Davies) Richard Davies, I am chief operating officer for commercial banking at HSBC.

Q. (<u>Mr Sharma</u>) Anupam Sharman, remedies, business and financial analysis, CMA.

Q. (<u>Ms May</u>) Jill May, inquiry member.

A. (<u>Ms McGrath</u>) Catherine McGrath, retail banking, Barclays.

A. (Mr Dalzell) Ross Dalzell, corporate banking, Barclays.

Q. (<u>Mr Smith</u>) Tom Smith, CMA, legal director.

A. (<u>Ms McNeil</u>) Rebecca McNeil, corporate banking, Barclays.

A.

A. (<u>Mr Lord</u>) Martin Lord, commercial banking HSBC.

Q. (<u>Ms Bon</u>) Julie Bon, director of economics at the CMA.

THE CHAIRMAN: One member of the inquiry group, Tom Hoehn, is flying in this morning and his flight has been -- I think he was put on a later flight than he had originally intended coming on. He will be joining us, I hope, fairly early on in the proceedings, but he sends his apologies for being late for the start. Colin?

Q. (<u>Mr Garland</u>) Yes, so as Alasdair says, welcome to the Roundtable. We provided you in advance a set of slides, where we set out the key areas that we would like to focus the discussion on today. Hopefully, you have had a chance to review those and that will help to facilitate the discussion we want to have.

Obviously, the contents of the slide are a sub-set of the whole of the issues in the Remedies Notice, so do not feel constrained to only discussing the issues in the slides. If you have other things to highlight to us, we would welcome your thoughts.

As way of update on where we are on the process, we set out on slide 3 a high-level timeline. We are currently, as you are aware, in the gathering responses phase of the inquiry. The next stage will be the issuing of our provisional decision on remedies in February and then we will be working towards the production of our final report to the statutory deadline, which is 5 May next year. In terms of today's objectives, we have set out a number of areas we would like to focus our discussion so the large part of this morning we would like to focus on the switching remedies, thinking about, in particular, focusing that around the customer journey around the switching process. So, we would like to spend quite a bit of time just interrogating our proposed remedies and also we would like to hear any additional ideas that you have or refinements that you have to our proposals.

Then we would like to move on to remedies around SME lending. We also recognise that we have set out our proposals. You might think about other areas, that outside the scope of our proposals, and we would like to hear your ideas about those as well. It is important to emphasise that we have put forward a package of remedies, a lot of them interact with each other and we think that the total effect would be greater than the sum of their parts. We would like to get your views on the package as a whole or the things that we could add to make the package more effective, or likewise, other amendments we can make to that package to increase its effectiveness and proportionality.

I would like to also emphasise process points. You are in a room with competitors, so we are working on the understanding that you will not be revealing confidential information and that you have the opportunity to put confidential responses in your written submissions. So, just please keep in mind that you are in a room with your competitors.

Finally, just to note that the session is being transcribed. You will have an opportunity to review the transcript for any errors or corrections prior to that being published.

THE CHAIRMAN: Thanks, Colin. I would like to start on the topic of awareness. In our remedies report we discussed a range of prompts that could be used to encourage customers to actively think about their banking arrangements and think about whether they should search around for a better deal.

Perhaps this is a good point to re-emphasise what Colin said in the introduction, that the remedies report is very much a discussion document. We have put in a set of ideas about possible prompts but we are open to hearing about others and by no means have we ruled out other remedies you might want us to consider that are not explicitly on the list in the remedies report.

I would like to hear general views that you have on what kinds of prompts might be effective in getting customers to review their banking arrangements and thinking about whether it is sensible for them to switch. I suppose one dimension of that is the contrast between event-based prompts and regular prompts. Is it going to be more effective to look at thinking of prompting people when something happens to them or is an annual statement or an annual piece of information or a monthly piece of information the way that we ought to be looking or indeed should we be looking at both. Perhaps we could kick off on that issue of what kinds of prompts might be most effective.

I am sure you are not all going to be reticent all day, so do not start off in a reticent mood.

A. (Ms McGrath) Our view is we agree with the principle of prompting. We think getting the right ones is particularly important and ensuring that they are not wallpaper. By wallpaper, I mean if you start sending me information all the time, I am just going to stop seeing it. Targeted and at key events, we think, is far more relevant than something that is more frequent. I think there was a suggestion in there that said a prompt should arise when you went into overdraft; our view is, customers have asked for an overdraft. Using it is not something that should prompt a reminder that they could switch banks, but if a customer is getting to a point where they have a significant expense through to overdraft usage or a branch is closing, those are reasons when suggesting a review of a relationship could be appropriate.

A. (Mr Hingston) Maybe I can just add to that. We actually conducted some consumer research around prompts as well. To the point that you made a little earlier, it depends on the type of prompt. Certainly, to the point that was just made, clearly, where it is a transactional prompt, we think it is not appropriate to be prompting a switch conversation. They do not expect us to be prompting them to consider changing their bank account, as the focus needs to be on the customer dealing with the underlying transactional requirements. There is an element of anxiety associated with that.

There was more appetite where it was a much more considered opportunity, whether it was a fundamental change in terms and conditions, potentially, or closure of a branch, that might be a more appropriate time to provide that opportunity. That was where it did resonate. It certainly did not resonate in terms of much more transactional type stuff. We would expect, as an organisation, and we already do with certain products -- we are already providing nudges and prompts to customers to influence their behaviour and rectify situations and that kind of thing.

The other thing that we did test and I think one of the proposals put forward as well, was about prompting and promoting another competitor product or accounts. That did not test at all well. In fact, consumers reacted quite adversely to that. They thought that we were getting rid of them, effectively. The quote "super weird" was used and I can provide you the research. That did not work and certainly from our perspective, that would mean us effectively providing informed choice to a customer and we do not think that that is appropriate and we would not be in a position to do that comfortably, at all. That did not test at all well.

Where it is very, very considered it is something that we could contemplate.

A. (Mr Pilkington) Our perspective is we accept everything that everybody has said, but there is a danger that if we are worried that there is a lack of engagement in the market, just resorting to trigger events is going to leave a large part of the market that you are not communicating with. We were very much in favour of periodic prompts but accept this point about is it just going to become wallpaper and then it becomes an issue of how do you make that an engaging prompt. We were just thinking that we were going to go through a testing process. We just need to work on this with consumers and work out what is going to actually trigger their engagement on a periodic basis.

A. (Mr Dalzell) Building on that point, the test and learn piece of all of your remedies, this one feels most well suited to a period of test and learn. You can have lots of subjective opinion in this room. Even research, very useful though it is, will always have a gap in terms of what customers say they will do versus what they will actually do inevitably. We all do that.

I think this is one way that test and learn is very viable and you can probably find ways to make the prompts more relevant, test different prompts and different contacts and see which ones work.

A. (Mr San Felix) There is not much to add from our side. We support the use of prompts. We support these prompts to be targeted, focused, and connected to the trigger events that they should refer to. We believe that banks should have the opportunity obviously to have their ability to construct or to send their own prompts and we have to be mindful of avoiding bombarding consumers with prompts that will ultimately lose the effectiveness of this.

A. (Ms McGrath) The bit we are not supportive of at all is the prompts coming from a third party. Customers have a high enough level of concern about whether their datas have been phished, hacked or anything else and the fraudsters are getting increasingly clever in how they use things to attempt to look like the bank and so we think something coming from a third party would drive a lot of adversity and customer concern.

Q. But then putting two comments together, if you do not like drawing your customers' attention to other providers' products, and I understand why customers might react negatively to that, and you do not like third parties providing prompts, who is going to provide the prompts that actually will encourage customers to look at it in a different way.

A. (Mr Hingston) What you are prompting there is the opportunity for the customer to consider. You are not recommending or prompting a particular account. There are a couple of the things on the prompting side that came out in the research, one was clearly customers want to be treated like an adult. That came out quite clearly -- so you do not need to spoon-feed me, I know when something is not working, I will make my own choices. Tell me how it works -- and we will probably come onto the point around awareness of CASS itself, because when we have spoken to customers we found that the relative virtual awareness of CASS and what it can do is still very, very low. When we have explained what it does, people are quite surprised positively. If we just say you have an option to use this service, people will use it. We do not need to make recommendations.

A. (Mr Schallamach) On that point as well, we agree with that. What the prompt could say is there is a CASS service; you can use that and maybe direct them to Midata or the price comparison websites. Again, treat them like an adult and they can make their own investigation at that point.

A. (Mr Attar-Zadeh) That is the key point for me, which is about where we started raising awareness in the market. That the services of CASS are available, the Midata service is available and therefore pushing that message out, on as frequent basis as we can, so that we are raising awareness collectively is an important component in improving the market and customer understanding of those services.

A. (Mr Pilkington) I think this is a scenario where you do have to be precise. One of the drivers or potential triggers is customer dissatisfaction. There will be certain circumstances where we simply would not know that the customer is dissatisfied so therefore we cannot use the trigger. I think we have to work through, quite precisely, what trigger event would cause it and what we would say. I would support the whole testing piece and what really drives customer reaction here rather than -- because there is a danger it does become wallpaper.

I do think there is a requirement for us all to communicate this at least once a year, where we do some communication about some of the services that are available. How we tone that and the way we position it is quite important.

Q. The wallpaper problem would seem to be particularly an issue if you are looking at, as Adam suggested, providing a regular statement type of prompt because the current evidence on those kinds of prompts in relation to annual credit card statements is that the FCA has found the effect added up to a round zero.

A. (Mr Schallamach) The danger is if we just stick with trigger events and ignore the rest of the market we are just missing a significant proportion of the market and we do have to drive engagement across the whole market not just specific segments.

Q. Any reaction from the rest of you to that view? About the need for regular prompts, as well as event driven prompts, and how you make them effective?

A. (Ms McGrath) I think it is a combination of factors. I understand and agree with the FCA research that says that annual statements are wallpaper and having no impact. The way to get impact for people that are not getting a trigger-based event is through broader awareness of the components of what is in CASS. I think it is the components that become really important because if I just have awareness that there is a switching service, but what I am really worried about is how long are my direct debits redirected and what happens if my direct debits go missing. It is actually getting reassurance on the components of the guarantee in CASS that becomes quite important.

If I am getting a service and I am very aware and comfortable that I could switch and that switching would be easy then please do not spoon-feed me and treat me like a child. What we need is engaged consumers who are aware that they can easily switch and that there is no pain in doing so. A combination of awareness of the components of the switching service and also specific messages to customers will achieve the outcome that we are looking to achieve.

A. (Mr Dalzell) Building on that, there is also an SME perspective to give here. SMEs are slightly different to personal customers. They will tend to be transacting more heavily. They will seem to be using a wider range of products and using them more consistently and continuously. In the SME space, the issue that Adam points to is probably less extreme. If I take the Barclays product set, we commit to reviewing our customers' tariff once every year and within that communication we could include a prompt and that talks about what you have done, why you have done it and what the best tariff for you would be. In the SME market, this issue might be less extreme than arguably it could be on the personal side where customers need a wider awareness campaign to probably solve the problem best.

A. (Mr San Felix) We believe that for SMEs we should be open to consider third party prompting. SMEs are harder to reach and therefore we believe there is a space for some of that. We have run some behavioural research and I would like at a given point that my colleague, Stephen Dury, who represents the SME segment, shares with the round table some of the insights that were coming out of that. I do not know if that is appropriate now or do you want to leave it for ...

Q. If it is focused on prompting ...

A. (Mr San Felix) Prompting for SMEs.

A. (Mr Dury) In particular with third party prompts, if you do not have a switching service --

Q. Sorry, I just want to be sure that you are being heard by the transcriber.

A. (Mr Dury) The switching service has a reach up to a certain size and we are looking at an SME market which is in excess of that particular service that is available. We know actually looking across the market the population of relationship managers locally that can support business customers, with the type of annual review or regular review of their current charges, is relatively limited in comparison to the reach of, for example, the accountancy firms. Accountants work very closely with SMEs and they are considered to be trusted advisors, yet some of the insight that came from the research in the early phases of the investigation indicated that accountants, at times, have suggested it is more difficult to switch than perhaps it actually is. A trusted advisor that can switch SMEs off from considering other providers. I firmly advocate that prompts from trusted third parties in the SME market are critical to urging businesses to consider their options and I think that can also extend to some of the things that go beyond that, for example, Companies House, statutory filings, that prompts have to be sent at that point. I would advocate certainly third party prompts.

A. (Mr Dalzell) My instinctive reaction at first was to disagree with that statement. Now it has been described, I do not. When we come to talk about CASS awareness and how you would drive it, we would strongly advocate also that you have to use those KBIs, you have to use accountants, you have to use solicitors, you have to use the big industry bodies etc. That is how you will reach the small business customer base. I would not perhaps use the word "prompt" in the same phrase but I think in the context you have just described, I completely agree.

A. (Mr Dury) The content is prompting them to look at the things that are available. To explain and raise awareness to make them aware of the tools that exist and how they can be used, but not to advise on what they should do. This is simply about increasing the awareness of how you could go about reconsidering your options and then it is down to the business owners to take the facts and figures that are available from that to decide where they go next. I think it is important when you look at awareness that you look at all the touch points, particularly in the SME market, that supports the increasing confidence or the advice.

A. (Mr Davies) From our point of view, we would agree that it is an important channel the trusted advisors, for sure. We would agree the current range of advice given by that sector is quite varied. Some will actively advise customers on banking options, some will not. It does come down to language. We would not want to see specific data sensitive prompts channel through that third parties due to the data concerns link that Barclays already mentioned.

If you are talking about awareness of CASS, for example, that is definitely a good channel and when we come onto that remedy we will be saying that there needs to be a lot more done to promote awareness of CASS for SMEs. It is about how you do that but we certainly agree that it is a good channel for awareness of the whole package of remedies we are talking about here.

A. (Mr Dury) Certainly with SMEs, there is a consideration much broader than just the business as well. If an SME is considering switching the entire banking relationship, which clearly includes debt, overdrafts, multiple products, that is quite a more sophisticated switch. And it is at that point, where a trusted advisor has the significant influence in the decision that is available. The correct prompt, but with an objective view of what is actually involved.

A. (Mr Davies) Just to be clear, from a point of view of trigger, we would not see that being employed via an accountant because that is a very large network of people you are deploying through with customer sensitive data and a lot of risks around that from our point of view. From the point of view of using it as a channel for the whole package of remedies, we would probably agree with it.

A. (Mr Dalzell) We are of the same view really. Prompting is the bit I am struggling with but I think using that channel to converse with these customers and really raise awareness of CASS, raise awareness of the ease of which they can switch and raise awareness of the different services available, is very, very sensible. Once you get into specific products or specific events in that customers' life, it becomes a lot more difficult. I would not advocate it at all. I think we are generally agreeing with the principle that says that for this market segment, there is a very different route to market and way to talk to our client base, which is very powerful.

Q. We can see the attractions of it. There seemed to be, however, two technical questions about how you make it work. Because if trusted advisors are going to be the source of encouraging SME customers to look at their banking arrangements, they need to be encouraged to do that somehow and there needs to be a process by which they then pass on their advice to the SMEs. If we, or the FCA, want banks to do something, we have the tools to make that happen. What are the actual tools that -- however much we want accountants to be aware of CASS and to preach the benefits of CASS to the customers, what are the tools that we have to make that happen.

A. (Mr Dury) It could be confirming that you have had that conversation with an SME when you are helping them to prepare their accounts. It could be that as part of preparing an application for lending with multiple providers, that as part of that there is a prompt to consider what other options you have as part of that lending application. It is putting it at the appropriate time for the SME to be considering their full banking arrangements, when they are seeking to do something. Whether that is a push factor because there has been a failure on behalf of the bank that they are with or it is a pull factor related to something they are seeking to do for their business, where they are considering what their banking options are. That is where they would consult multiple parties, including their bank and their advisors and it is how that conversation happens in an objective way that provides SMEs with the material to make an appropriate decision.

A. (Mr Dalzell) The way I would characterise the answer to it might be with regard to CASS awareness and SME, rather than requiring for a lot of money to be spent on advertising -- instead of that let us set ourselves a clear target and objectives to a level of awareness amongst SMEs. Once you have that objective what we will do as an industry because it is how we promote is we go and work with the ACCA, for example, and we would say, "We really want to raise awareness of this. How can we work with you to do so?" If you set the objective to be the level of awareness what this RoundTable is starting to confirm back to you is the route to that level of awareness will be through strategic partnerships with some of those chartered institutes, those industry bodies, rather than compelling them to do it. I do not think we need to. It will be a good quality dialogue but there will be a range of possible ways we can have that conversation because that is what happens today.

A. (Mr Dury) I agree with that. I agree the difference between a prompt and awareness. The awareness being raising awareness at an appropriate time rather than blanket awareness, which lands on a lot of their fears and is quite expensive. Differentiating between a television campaign solving the challenge of awareness with CASS and actually awareness of CASS at a point when we need to be aware of it because something has happened or we are about to do something, communicating that message clearly at that point. That is what will raise awareness.

A. (Mr Davies) The only thing to add to that would be that again it comes back to the package of the remedies because when we come onto price comparison websites I see that interacting quite well with what we are talking about here. Because clearly that provider or providers will have incentive to actually promote themselves to the intermediary channels such as accountants, brokers and lawyers who work with the SMEs locally as you say. They have a very strong incentive to try and get the intermediaries to be using themselves more and therefore promoting the awareness of the services and the relative competitive offerings out there and also trying to insert themselves at appropriate points in that SME life cycle. I think the whole package, when it comes together, does play into this discussion here.

Q. Sticking with the subject of CASS awareness, we have been talking about the use of intermediaries to increase CASS awareness among SMEs where awareness of CASS is particularly low. What about with professional customers where CASS has been a bit more successful but we still see quite a lot of scope for raising awareness of CASS with professional customers. Views about what could be done in that area?

A. (Mr Hingston) I think the awareness point came through quite strongly in terms of -- it surprised us actually in terms of the lack of awareness when we have spoken to customers. To the point made earlier, it is awareness of the fact that

CASS actually is an incredibly good service and does what it says on the tin and takes the anxiety out of a switch and I think that is probably where it still has not resonated with customers. I think there is still an inherent concern that things will not work effectively.

One of the things that we have been considering is at the moment we have tended to focus on traditional marketing activity in terms of CASS awareness, clearly there is probably more that we can do in terms of making sure it is more visible on our websites and that kind of thing. There needs to be another way of thinking about it. So it is making sure the experiential component of it comes through and whether that is through a PR campaign via Martin Lewis or whoever it is, people that can actually speak to the consumer that is not a bank, and give them the assurance and the surety that the service does what it says it does.

More independent third parties -- changing the marketing mix away from kind of a top line marketing mix to potentially more PR driven activity, might be more effective but there is definitely a need to address awareness, certainly, from what I have seen so far, anyway.

A. (Mr Pilkington) We would agree. It is a fundamental requirement. You would have to be conscious of the fact that part of the challenge in this market sometimes is -- the point we made regarding engaging customers and that CASS is still relatively a new service. So this is a long-term game and I think we should be conscious of the fact that rather than just say we need to do more, and without designing a marketing campaign in this room, I think taking away -- almost going back to the principle that you were talking about in the SME sector about saying we should have a target of a level of awareness across the customer base. Then all of us developing programmes to make sure that we increase that awareness. It is pretty fundamental to what we need to do. We need customers to (a) understand it, (b) be confident with it and I think we need to be a bit more inventive in terms of some of the things that we have done to date. Whereas I said, we just need to remind ourselves these things take a bit longer sometimes than we anticipate given the nature of the market.

A. (Ms McGrath) The only bit I would reiterate is awareness of CASS is one thing and it is probably not telling me anything I am that interested in as a consumer. But guaranteeing that my payments will not go missing, it is that level of detail that we need to drive the awareness of CASS, not the service itself but the benefits that you get from using the service. In the research that we have done with customers it is that, "I am worried that my payments will go missing", which is the thing that might prevent me from taking the step to look around so getting that message very clearly landed is key. The fact that it is called CASS is a subsequent point really.

Q. Going back to regular prompts, TSB are in the public domain on the use of monthly statements, which include information about foregone interest as a way of prompting customers to look at whether their personal current arrangements were optimal. Do any of you have any views on that?

A. (Ms McGrath) I can give you a personal view because I sat next to Paul at a function when he talked very articulately about that point. I thought about my own electricity statements that has information on it that I do not read, pick up and put in the bin. I think the idea absolutely runs the risk of being wallpaper. The research that the FCA has done on the effectiveness of statements as a way of communicating messages would not endorse the approach that Paul is discussing.

Q. That then begs the question: are there any kinds of regular prompts that avoid the wallpaper?

A. (Ms McGrath) Personally, I do not think there are. I think it is the relevant trigger base. I accept the point that it means that there is a cohort of customers that therefore will not get a prompt and if we feel better by putting it on, then that is great. I just do not think it will actually make a difference and I think it is trigger-based things that do engage the brain and drive action.

A. (Mr Schallamach) There is maybe an issue here as well in that we always tend to default to "let's put the statement out there". And it is the statement mechanism that could be improved. A way of doing that periodic prompt if you, within that regular prompt is for all customers, actually pick on the channel that customer is most engaged with and has indicated in their preferences to you and do the simple message in using that channel. That might have more effect. Again it is back to "let us test it", "let us see how customers react to it" before we come to conclusions about it.

A. (Mr Hingston) We have to be careful just jumping to the conclusion that as a statement, certainly most of our customers are telling us that they do not need to receive statements anymore as well. There is a trend that we are seeing that suggests that the traditional monthly paper statement is likely to be increasingly a thing of the past, so if we are going to look at that sort of thing it needs testing to determine how preferences would work.

A. (Mr Pilkington) What we have to be conscious of is that there is very little communication we produce that excites customers. Anything that we do has to be put into that context and, again, is there a quick answer? No, it has to be consistent and it takes time. I also think that we should be conscious of which segments have the most benefit and how they are targeted and therefore ensure that we target the right customers in the right way, not necessarily linked to prompts. Prompts are one thing but there are some customers who would not incur a prompt but actually would have the most to benefit. Thinking about how we would engage with those customers is something that I think needs to be thought through.

A. (MrDalzell) Building on that point slightly, one technical point and one addition to that. The technical point is, as I understand it, and particularly if you start to go down a route that makes those prompts very specific about particular products, then the Information Commissioner is saying that is marketing. That is going to take a third, something like that, of your customer bases out of those prompts anyway. So there is a technical conversation, to Graham's point, that we need to have about when is this marketing, when is it not.

Building on Graham's point, at different moments in time, different types of communications can be particularly relevant. Therefore, for example, SMS, traditionally, is something that we found customers are responsive to, so that could be something that you could use. However, to Catherine's point, that can also become wallpaper quite quickly once it becomes used a lot. It will cease to be as impactful so this is not going to be a one shot, one answer problem. This is going to be an evolving changing campaign in which you are constantly moving to the next channel, the place that customers go to most often, that is most relevant and most interesting. It is not going to be that you must prompt this way with this frequency through this channel - it will not work, because customers do not think that way. It is not how you run effective marketing campaigns. If the objective is awareness of prompts or of CASS, it is going to have to be a more evolved piece.

Q. I think it is worth emphasising at this point that I hope it is clear in the remedies report that we are very aware of the need to do very careful research across this part of the range of remedies or across the remedies in general, but especially in this area, because we all have ideas drawn from our own experience of what we might want and what we might not want. Sometimes that is a good guide and sometimes it is not such a good guide and we need to be serious about testing things properly.

We are very much committed to doing proper testing of whatever remedies package we come up with, because we do not want to produce a set of remedies that in five years' time gets reviewed and are found not have been effective.

We are also well aware and it has come up in the discussion that you, for marketing and other reasons, have a wide range of expertise on what kinds of messages to your customers work or the things that you want to make them aware of. We would be keen as the discussion of remedies proceeds that we hear from you. I do not expect you are going to be reticent about coming forward and telling us. We are aware that as a very rich source of information and expertise to us. We look forward to discussing these issues.

Q. (Mr Garland) Could I just pick up on a couple of points. In terms of the access to data and the use of third parties, can I just confirm that is not something you think about and for SMEs having financial advisors or brokers, somewhere in the game, might be beneficial? On that point, I am not entirely clear whether that requires those third parties to have access to data as such or whether it is more just being part of the process.

In the remedies notice identify third parties that might take part in the process. A couple of you mentioned a potential role for price comparison websites and we also talked about the FCA potentially playing a role here or another regulator. Do you have any views on those other third parties?

A. (Mr Davies) I mentioned price comparison websites. I think, just to clarify there, we would not advocate that price comparison website have automatic access to the customer data to drive the prompts. A lot of concerns around that. The point is with customer permission and hopefully with some of the other things we will come onto around, for example, APIs, sort of how easy data extracts, that provides quite a powerful customer driven capability to use the PCW to engage in the market and compare products.

For us, it is about a lot of that awareness we have talked about here. The prompts we are saying would be primarily bank driven. Perhaps Greg will share some of the research in a second on that. It is about the package of the measures all coming together which drives that increased awareness be it via customers themselves, be it by third parties that allows them for the prompts to then interact with the other channels to create an effective overall step up in the awareness and then the engagement from the market. Do you want to talk about the research?

A. (Mr Hingston) From a personal account perspective, as was mentioned earlier, the use of third parties to extract data and then provide recommendations is something that the research did not test at all well. In the research, obviously, customers very concerned about security. They were actually paranoid about the fact and they were concerned about us looking at their transactions let alone a third party potentially looking at their transactions and their data.

When they were pushed, the only way that they would get some element of comfort around it would be that if it would be a completely independent, potentially a regulatory, body that did it. Generally, not something that was well received. To Richard's point, what is more important -- we will come on to the discussion no doubt later around Midata and the evolution of the competitive market and APIs and everything else. I personally think if you look three years out what we are looking at is actually probably less price comparison website type models but more aggregated type models that will use data at the customer's consent and provide -- and this is what I get concerned about as a provider, is that they will provide value added advice to the customer as a substitute to the bank. That is where, personally, I think the market is going to evolve given what is happening on PSD2 and everything else.

In terms of the actual concept of what we are talking about here, the triggers-based third party -- no, not something we would support.

THE CHAIRMAN: Third parties -- the customer's own initiative has got to be the initiator of the third party --

A. (Mr Hingston) Without a doubt. If they want to do it, the customer has to give their explicit consent that that is the case.

A. (Ms McGrath) The work that we did with IPSOS/MORI was also very strongly anti, from a customer perspective, about their data being used to prompt them by someone that they did not necessarily know. When it comes to APIs and data usage, they absolutely think the regulators have a role to play. I think the step that says the regulator has got a role to play to look after the people that are playing with your data, versus the regulator sending you a prompt saying, "Do you want to consider your banking relationship" I think that is a very, very big leap.

A. (Mr Dalzell) Just building on that point, I am far from a marketer, but in my experience marketing campaigns tend -- which is effectively what this would be -- to effectively work very well in one or two settings. Either they are incredibly relevant and timely. You speak to the person in the moment when they have the need and you mention a product that creates real value for them. That is one way to go. Or they are incredibly emotionally engaging. I would never have guessed that a Meerkat was going to drive a lot of people to think about comparison sites, for example. It needs to be one or the other. I would struggle to believe the regulator is particularly well placed to do that. They are probably not going to come up with a highly emotionally engaging campaign and they are probably not going to be able to do very, very timely -- moment in time communication. That makes me wonder are they really the best place to achieve the outcome you are looking to achieve on that.

A. (Mr Hingston) There is a very good point made there which all goes back to need. We need to be careful on this particular remedy that what we do not do is jump to a conclusion that says we need to push out as many triggers as possible because there is obviously a need there. Well, customers are telling us that there is not necessarily, so to me it is much more about making sure that people are aware that they have that optionality, that you do not try and force an outcome. The moment you force an outcome, you are effectively giving advice in some form or another. Aggregators are going to see this when they become part of the market. I would be very concerned that what we are trying to do is constantly give customers advice when actually what they are telling us is I do not need that at this point in time. I need to be aware but you do not need to be giving me all this.

A. (Mr Attar-Zadeh) With CASS as well, we are in quite a unique place where we can offer a guarantee to get it absolutely right. What the research is showing is that customers believe that switching is a hassle, 50 per cent of them by your own survey. There is not that understanding that a guarantee to get it right is out there. And the price comparison websites talk a lot about the incentives, the products, but no so much about the guarantee that we can absolutely get it right for customers. Building that understanding of the guarantee and the component parts, as Catherine was mentioning, is key and the price comparison websites play a key part in that.

A. (Mr Hingston) This is exactly what customers told us. What we need to be able to do -- it was the point earlier, is guarantee that my payments will be dealt with. All of these things work. And when we explain that to them they were very pleasantly surprised and that is what surprised us, that they were not aware of that.

Q. That is a very clear message. Can I just go back one step to make sure that prompts go to customers when they are likely to be most effective and link that back to something that Graham said a little while ago about wanting to address the customers who have most to gain. A lot of the evidence that we have seen on who gains most or who has most to gain from current account switching indicates that it is customers with overdrafts especially unarranged overdrafts. Presumably, an obvious prompt remedy for them, the prompt that you are running into an unarranged overdraft or you are running into an unarranged overdraft for the fifth time this year.

A. (Mr Pilkington) You would argue the charges are prompts in themsevles, would you not? We pre-notify and the customer has to go through a process so there is an element -- we have a mechanism already to communicate. Whether you can extend that to say compare our prices via a comparison site or whatever, that is one option but the mechanisms are already in place. We have to pre-notify. It is an action that drives a customer behaviour and they will notice the fact that they are paying so that is one that has quite precise activity around the prompts.

Q. Are there customer classes where it is less clear that you have in line where there is not an obvious prompts that it is going to --

A. (Mr Pilkington) There will be back book products, closed products, that have not actually moved for several years. The danger is that they may not -- they are likely to be the least engaged. If you looked at different forms of segmentation, you would find different types of customer and it all depends which customers, when and some of the research that you produced highlighted some of that.

Q. I have been getting a sense of an appetite to move on to comparison tools, APIs, Midata and all of that, unless there are more on prompts.

Q. (Mr Smith) Can I just go back to -- because we talked about SMEs almost as if they were a homogenous group. One of the things that you have been telling us all the way through this inquiry is they are far from homogenous group. There is a whole vast raft of SMEs that actually behave much more like BCA customers. Your response to the earlier bit seemed to be talking about the use of intermediaries and things. That tended to indicate more of the sophisticated end of the SME.

Just before I move on, I would just like to disaggregate the SME.

A. (Mr Dalzell) Two quick points. One is Graham's points actually, so a quick one would be a lot of the suggestions you have made around prompts that would apply to personal customers would also apply in SME, particularly in that smaller end, the lower turnover business. Changes in terms and conditions, changes to pricing, changes to branch availability, would all still be relevant. I was taking as read that those things would be relevant. I do think there is this additional channel that exists in the SME market. One point to your point about where SME is different, the way customers will probably get the most benefit from switching, in the SME segment will be if you want to go with a bank who is really interested and passionate about your business.

Now that is one that can be quite hard to measure from hard data, so that is a good example. To Graham's point, where we are going to have to be quite thoughtful about is what are the triggers and behaviours that suggest the customer is not getting that level of engagement and support from their bank that we really want them to be getting? It is a bit like in personal current account, we have a very broad range of different behaviours. In SME, of course, you have at least the same if not more ...

It is so easy to say it is just about using third parties. It was to say that that was just an additional overlay. It did not apply in personal but it is very, very relevant in SME.

THE CHAIRMAN: Before we move on, can I just ask about something else that we have not covered in the area of prompting and encouragement. Are there things that could be done to encourage banks or to incentivise banks to encourage the customers to consider switching? We are looking not at prompts but at targets.

A. (Mr San Felix) As for ourselves, I do not think we need another incentive. We clearly want to increase our market share and we are very much aligned in terms of interests with the whole purpose of switching. Probably for others it is less clear but for us is very clear.

A. (Mr Davies) We would fully agree from the point of view of growing our top line revenue. Clearly attracting switchers is critical for that, as well for existing customers.

Q Attracting switches is clear. Everybody is keen to attract switchers but the question was about encouraging your existing customers to be active and engaged. Are there things that could be done to incentivise that?

A. (Ms McGrath) There is a difference between encouraging our existing customers to be active and engaged (which I think all banks would do), and positively encouraging your customers to consider leaving ... I would say we spend a lot of our time helping customers to be engaged. All the banks do prompts, we all want banks to encourage customers to engage more. We have PSD2 coming, we have a lot of payments providers who would quite like to disintermediate the banks and so there is probably more effort than there ever has been in ensuring that customers are engaged in their account and their bank as opposed to just passively sitting there. There is a lot of work in that space.

A. (Mr Pilkington) I would support that as well. There is no point trying to recruit a new customer if they are not engaged and they just sit there. So there is a whole active and engagement piece. It is quite a weird concept that you would promote moving to another business. We do not do that at the moment, we are far more about trying to address whatever issues customers have and why they would want to leave us rather than suggesting that they would go elsewhere, which I think was behind what we are saying.

Q. Let us move on. Ed?

Q. (Mr Smith) I said last week and this is not to lighten the seriousness of the debate that we have been talking the alarm clock going off and then you have to try and convince the kids to get out of bed. That sort of access and assess bit. What do we mean by price? What do we mean by comparison? What do we mean by quality and how do we do it? Those are really interesting issues. We talk about Midata, which people tell us is good and when you look at it, it is a bit clunky, but we talk about the future trajectory of this. I would be very interested to have a discussion around what do we mean by price when we talk about comparison. How do we go about it in terms of the future of API and stuff and cover the security aspects which you have already drawn to our attention. Then look at that in the context of SMEs and equivalents and then look at service quality compared to prices, are key driver of change. So those are the sort of themes and I would be really interested because we had quite an interesting discussion over the last few months about price and what is price.

A. (Ms McGrath) Do you want to start on price or do you want to start ... ?

Q. (Mr Smith) Start wherever you want because we put forward a suggestion on the Midata stuff but also the future driven by an API world to move this old whole Midata thing to a different level

A. (Ms McGrath) We think this is a very natural case for using APIs. That is the direction that Midata is going in and should go in. What I think is fundamentally important though is that this work dovetails in with all the other regulatory work to understand how to make that work. Our view would be that we dovetail it into the open API data, open bank working group and that it is used as a very early use case of that particular piece of work.

All the customer conversations that we have had about it and it was interesting there was something that came up in terms of the FCA saying today that they want to work with Which?. –However, only around 16 per cent of customers read terms and conditions. If you think how we are all getting trained, I have my iPhone, I want to get the new version, it says, "Do you accept the terms and conditions?" I say, "Yes", because I know none of the other apps will work if I will not upgrade it. I do not read it, neither does 80 per cent of the rest of the population and by the way, I have just inadvertently given away a whole lot of data rights that, if I knew about it, I would probably be furious about.

When you research that with customers they look at APIs and go, "This is great and it is exciting", click, and when you say to them, "Your data has just gone to someone who may be great or who may not be great", they have a moment and they think about it then. And what is interesting for customers is that one incident of Midata being breached or unsecure kills the whole thing. We think it is really important that we go into this in the right way and that we address the security piece ahead of customer use because customers are not going to think about the risks because it is cool, and it is exciting and they want to use it. The best way to do that is through the Open Banking working group and the use of APIs with switching.

A. (Mr Pilkington) I would 100 per cent agree with that, but I think there is a fundamental issue with price comparison websites and these products in that it takes a very, very one-dimensional perspective of the product which is [price] -

- I do not know the interest rate etc. Part of the development of price comparison websites, whether it is Midata or aggregators, whatever you want to call them, is they have to have some objective measurement of the service quality that you are delivering to customers. What it does well is some of the mechanistic pieces around the price, whether that is credit or debits or whatever but it misses a whole piece which is what is the service quality that I am getting. As a customer, I do not know when I am moving to Nationwide, what the service offering is. I might have a recommendation from a friend etc, but there is not an objective measure. Part of comparison website development has to be moving away from this, as I would describe, a slightly one dimensional ...

If you look where they came from, they came from things like loans and that was more relevant. This is a more complex product and a more emotional product for customers and I think it needs to be lot smarter than it has been today.

Q. (Mr Smith) We can carry on the conversation around service quality and come back to price if that is where you would like to go. Service quality has a number of dimensions. Do you think it is possible to get to a set of comparative service quality factors by segment of the market that you would be able to do proper comparisons with or is it such a broad subject you would never agree?

A. (Mr Schallamach) Well, the standard surveys that we, as the market, look to -- so there is the GFK survey, and Which put out a survey. You could use those, given that a lot of us use those as internal measurements. I know some people who have used net promoter scores or have suggested those in their submissions. That is another possibility.

Again, if you look at what customers think about in terms of service, I think complaints data is also an important element so maybe we could look to the data that the FCA publishes and that could go into a comparison tool. Part of the debate needs to be we need to disaggregate what we mean by service.

Q. (Mr Smith) How do you get to Catherine's point that you could actually end up with wallpaper service quality measures that there are so many that you put them out there and people go I cannot be bothered to read all this stuff.

A. (Mr Pilkington) You need to ask the customers the question as to what is important to them for service and then put them on the website. There are all sorts of things on there, which can be wallpaper so we have things like, have you got mobile banking? We all have mobile banking in the main so that is within the -- that is in the context of what we want. My point would be the danger is you just sort of give up, because it is difficult and then we all realise that we are missing what is a fundamental part of the proposition.

Q. (Mr Smith) Do you drive a menu driven approach to service quality which says you click through -- I do not know ...

A. (Ms McGrath) For as many of us as there are in the room, there are different things that are important to us. In order for it to be meaningful, I completely agree that the price comparison websites are inadequate really for making the decision today. You would kind of need to agree a series of measures. Some customers love digital, some customers love branches, some customers will be bothered by that and some will not. It does need to be somehow a menu driven approach. Again, I think customer testing and research is important as part of this.

Secondly, we need to agree once we have the things that customers are very concerned about. What are the independent measures that can be used that are consistent across organisations?

A. (Mr Dalzell) It is unhelpful to separate price and service. For me the judgment we are making is value. What you want is a value comparison site, which lets me determine what things I value and then make a trade-off against price for that and that is really the comparison we are looking for. Now, price or the cost of the banking is a multi-dimensional thing. It will depend on how you transact. Value is similarly multi-dimensional depending on what you think is important. Graham says it does not seem beyond the wit of man and it needs some thought and it might need the market to innovate to it too, to ask the customer what are the things you see as particularly valuable and here are the gold standard scores that relate back to those things that you perceive as valuable and here is how that compares to price. I think it is difficult, exactly as Graham says, it is not easy but customers are making a value judgment here. They are not making a judgement, unlike in more commoditised products, and that is going to mean you are going to need a more nuanced comparison service, which I think is hinted at in your proposal. I think it would be really useful, as we evolve it, to turn it into something that really does allow those value comparisons.

Q. (Mr Smith) Yes. Where do you think that should be driven from? Do you think that should be driven by the industry coming together and creating the buckets and the themes for comparison and then standards being developed? Or do you think it is a regulatory issue.

A. (Mr Dalzell) My personal view - this is a personal view - is I think we have boxed ourselves into how price comparison has traditionally been done. So, I go to a site, I tell it a bunch of things about me; it tells me what the best service is.

Certainly in the SME sector but, actually, I think just as true for personal. It is not going to evolve that way. I think we have already seen it happen in the US with products like Mint; things that can have a front layer to the back-end services. I think, in SME, you can imagine the comparison service getting embedded into workflows, so, when I am doing my bookkeeping and doing my payroll, it will give me options and choices on that journey.

I think to try and define the answer from within this room would probably miss the point. The right thing to do is to create a really exciting context through well-constructed APIs that are very secure, that you think are going to get a good outcome, make the data available, and then shape the direction of the output through something like a challenge price, as we have talked about; I think you have talked to Nesta and we have been involved. That kind of structure, seems to me, allows the market space to innovate, solve very difficult problems, but it allows us to push it in a particular direction that we think is going to be good for clients.

I do not think we should be too specific about saying it should be this comparison, this comparison with these five measures. I just think we will miss too much, and the market is evolving and changing too quickly for that to be sustainable in the long term.

A. (Mr San Felix) This is, obviously, as has been said, a very complex issue which probably would require a very complex solution and probably one that is not necessarily feasible.

Two comments; one of them, this is not a commodity industry. We are talking about financial services and, therefore, the concept of service is far more than just a single dimension, which is the challenge that we are trying to capture.

If we look at some other industries, however - if we look at airlines, for example - price comparison websites have been there and have been very successful business models for a long time. Those are very attractive for certain segments of customers but, as well, in airlines, service is behind. It is a concept that some customers would not trade off to the benefit of a lower price.

So, coming back to Catherine, what is relevant to one customer does not necessarily need to be relevant to another. Having said that, in the industries where we have probably seen more increased competition over the recent years, the truth is price has been one of the top drivers. So, I would not undermine the value of price comparison websites, with all the difficulties of taking into consideration the different elements of price but, at the same time, it is true that that would not solve the situation for all types of customers because value is more than just price.

Q. (Mr Smith) So, you are saying - and I think you are all saying - that this is not a homogeneous market?

A. (Mr San Felix) It is a service.

Q. (Mr Smith) So, for some, price will be really important and, for others, price will be less important and, at different stages of their life cycle, different. So, you want a dynamic mechanism.

A. (Mr Pilkington) Coming back to your point which I think was about should this be done by us or objectively. I think, objectively would be far better. I think anything that we do will be deemed to be biased and have vested interests. Any mechanism that gives it a degree of independence would be a positive.

A. (Mr Davies) I think, if you look at what is going on in the market more broadly with, for example, the lending referrals' designated platforms, some of them already have sites that are capable of multidimensional looks at different lenders and trying to match the customer to that lender. So, people are already thinking along these dimensions in the market.

I think, personally, what is missing is all of the infrastructure to support that from a data point of view. It sounds like, on the PCA side, we have not got a sufficiently recognised survey with sufficient data-share capability from that. On the SME side, we do have the BBI survey. It is probably not utilised enough. On the SME side, we do not have things that can allow extracting transactional data from customers without consent.

So, to me, people are already looking at trying to solve this problem in the market. What is missing is the infrastructure in the market to allow them to solve that problem properly.

Q. (Mr Smith) If you talk about the OBWG as a mechanism for driving it, one of the things that I guess is quite important is time frame; how quickly might this be prioritised; how quickly might you get the API sense; how quickly might you do the stuff to implement it; because that is quite an important piece of remedies and not having lag in getting something done. I would be very interested in views as to your levels of optimism and realism about the way in which that might be done.

A. (Ms McGrath) We think very good progress is being made through it. We think the right debates are being had there. We think that there is a really good balance of the opportunity that it creates. It is an opportunity for our industry; it is a very significant threat as well but I think it is being looked at as an opportunity. I think there is significant realism about this is one of the biggest changes in terms of what could happen to my data, and sensitive data that I am bothered about, that we have ever seen.

So, I think it is going at an appropriate pace. HMT have got a lot of excitement and heat behind it, so I would not say I would be concerned that it is kicking it into the long grass by any stretch of the imagination. It is going to happen. API's are going to happen; data sharing is going to happen. We just need to make sure it happens really well. I think that is the best mechanism to do that through.

A. (Mr Schallamach) Yes. I think, if you were minded to try to impose some kind of remedy to accelerate that, the danger is the personal security issue. In a customer's journey, APIs are great in terms of giving that great customer experience of the one click, but getting the security right is just essential. If we are put under any kind of acceleration, I think the thing that is in danger of lapsing would be that watertight security, and we just would not be comfortable with that. So, I would endorse keeping to the timetable that the government has got.

A. (Mr Davies) I think we would support that in terms of security has to be paramount. Clearly, there is output due from the group on this imminently.

Two points; one is there does need to be an appropriate timetable which does get us to an endgame; it cannot just be a talking shop. The second; there is work required within each bank to develop the appropriate infrastructure, both internally to bring the relevant information to a place where it can be staged for external sharing as well as developing the external boundary interface to whatever the external vehicle is for this. Has every bank started that currently, I think would be a question to ask, because I think those two things can proceed in parallel.

A. (Mr Dalzell) Just building on that, I like the point about road map. I think that is really important. I think that, when the Open Bank Working Group findings are announced, I am assuming we are going to see some sort of road maps. I think that is a way for you to get confidence of progress.

For example, a fully working API with all the data being shared seamlessly across the world, that is probably a little way away. That is going to take a bit of time to get secure and built, for all the reasons that have been described. A sandbox version of that which has not got real data in it but it has got real scale to it and works in exactly the same way, is formatted in exactly the same way, could be done a lot quicker. That would allow us to get a lot of confidence over what products are going to be built on top of it and what the market is going to innovate and to shape some of that.

Parallel tracking can mean that, at the point the APIs go live, actually there is a bunch of services already well built, well tested, that have been in consumers' hands that are ready to launch off the back of it.

I think it is that sort of thinking about how do you build the right solution, which I think we firmly believe APIs are, and give you and everyone confidence that there is going to be progress at a pace. That is going to be a tough balancing act but I think there are ways through it.

Q. (Mr Smith) If we move to SMEs; similar types of approach with SMEs?

A. (Mr Dalzell) Yes, I think so. I think the difference I would cite with SME is definitely I think the user cases might be different. We can already see evidence of people embedding comparison into existing services. I think the bookkeeping providers, particularly the likes of Xero who are a rapidly growing business, will take a different model to what we have seen traditionally applying in the personal space. I think we will see more of that sort of thing.

I, to some degree, do not want to second-guess all the ways that is going to go. There is a very rapid growth in enterprise applications; simple tools you can buy to do key things for your business, from the very smallest business to the very biggest business. That is a step that is going to grow rapidly over the next two to five years.

I think comparison of banking products and use of banking data imaginatively within those services to create a value for customers is going to be a big story over the next five years.

So, I think that is probably the difference that it will take; it will be a more rapid, more transformational change that will happen in SME, perhaps, than we will even see in personal, and that probably makes it even less able to predict exactly how it will all play out. But, broadly speaking, I essentially agree with that.

Q. (Mr Hoehn) Would that extend also to lending decisions? What we are talking about, that fits quite neatly; is this neat?

A. (Mr Dalzell) Yes.

Q. (Mr Hoehn) It is finance and then, at that moment, would start to look at alternatives?

A. (Mr Dalzell) Yes, I think so. It would be, in my view.

A. (Mr Davies) I agree. You mentioned Xero. They have a number of partners that already offer finance on the back of the Xero platform which already imports back from national data. So, a lot the stuff is not just talk; real players in the market are actively developing it.

To go back to the point, it is currently niche rather than widespread because there is not the infrastructure to support the widespread application of it. So, I think developing any structure is critical. A lot of people are already building and testing in a live environment for customers what we are talking about here today.

A. (<u>Mr Dalzell</u>) I think one important difference and probably an open question maybe to have the debate on now is Midata. Is Midata the right thing to do for SME? My view would be that Midata has taken a lot of effort and cost a lot of money to build in the personal market and has been successful in some senses but is a pretty clunky customer journey at times still. If APIs were five years away, I think I would be saying Midata is a worthwhile investment. With APIs a lot less than that away - let us say 18 months, something like that, maybe less - it seems to me that spending a lot of time and a lot of money building a solution which is probably not going to be that widely used and is probably going to take you a year to get out of the door, maybe, from where we sit here now, at least -- that seems to me like it would be a wasted effort.

Richard made the point about building this technology. There is only a finite number of people who understand bank databases and SME data within bank databases in the UK. So, if those resources are spent building Midata, they are going to struggle to build APIs in parallel. So, I think there is a real question to ask about has the market overtaken Midata now? Would you want to spend a lot of time deploying it into a segment that does not exist? I would question that, to be honest.

Q. (<u>Mr Smith</u>) That goes back to the earlier conversation in a way, does it not? You talk about 18 months; what is the confidence level that 18 months is not 3 years?

A. (<u>Mr Dalzell</u>) I cannot give any dates. I think we will just let the Open Bank Working Group have their say. I think the road map point that Richard made is the right one. Maybe the Midata conversation needs to happen in the context of that road map. As I sit here now, I think it will be a lot of effort for a client experience which is not that seamless versus doubling that effort on a client experience that can be much more seamless that seems to me, to be a better bet to make.

A. (<u>Ms McGrath</u>) The Open Bank Working Group are targeting 12 months. As I said, there is a lot of fair wind behind them. Given the government is quite keen that the UK is world class in payments, you cannot do that if you have not resolved data sharing in API. So, I think there is plenty of regulatory and governmental will behind it and a lot of support from the industry.

A. (<u>Mr Davies</u>) I think the key there is just that it is not a sequential step where 12 months for finalisation of standards then each bank spends 2 years building for its launch; the two can run in parallel. We would totally echo the position of invest the money in building that infrastructure now rather than doing Midata which would use exactly the same internal IT resource and, therefore, it is a binary choice.

Q. (<u>Mr Smith</u>) One needs to have a fairly high degree of confidence about the road map, the pace, the implementation, the fact that security concerns will need to be built into systems in individual banks. So, the OBWG may well get an agreement and a road map. That is quite a long way between there and actual.

A. (<u>Ms McGrath</u>) If you think about the alternative, though, the alternative is we have CMA saying, "We want you to do something with APIs"; we have the Open

Bank Working Group creating different ones, doing different stuff; and, actually, there is PSD2 coming down which is all playing in a similar space. Then, I think you run a real risk of nothing landing particularly well at all because we have fragmented all the resource rather than getting a very cohesive strategy that says, "How do we do this, execute it well and give consumers real confidence in it?"

A. (Mr Dalzell) I think, and it is not talked about that much either, is this is one of those times where both the consumer and a bunch of other stakeholders come together and there is a lot of market pressure to do this. It is not just a Treasury or regulatory initiative. I meet lots and lots of very exciting start-ups; very well-backed start-ups with serious founders and serious funding who are trying to build products in this space. All of the big tech giants desperately want banking APIs to exist and are putting pressure on us and everyone else for that to happen. The bookkeepers want to have real-time feeds into their bookkeeping packages, which clients, in turn, want themselves and are putting pressure on the bookkeepers to do. So, there is a real impetus from customers themselves and a bunch of other players in that market that is creating a lot of pressure for this to happen.

So, I think I cannot sit here and give you a date. What I can say is, with that level of pressure from all parties in the industry - us wanting to play, the regulator wanting it to happen, customers needing it in value of services at the back end, and a bunch of really exciting businesses wanting to do things - it would seem odd that that is not going to result in a consequence. I think there is a lot of pressure there from all sides.

Q. (Mr Smith) Can we just come back to Javier's point? For quite a lot of people, price is quite an important determinant. We will come back to quality again. There has been quite a lot of debate about what price is. Is it real cost? Is it the fact that a significant amount of your revenues is driven from foregone interest? Is that price? Is that relevant in the discussion? What would you compare? What are the components of comparison? I would be very interested to have your perspectives on that. Of course, real cost is easier than opportunity cost.

A. (Mr Attar-Zadeh) I think, if we look at it from a customer's perspective, it is, effectively, what they earn or what they pay. That is highly predicated on the behaviour that they have adopted through the account. That is why the Midata initiative is quite an important one in the sense that it allows you to take the transactional data and get a cost or earnings from the various products here in the market. From a customer perspective, that comparison is probably the fairest comparison that you can have relative to just looking at the interest rate or looking at an upfront incentive or the component parts individually. It is the transaction behaviour combined with the price structure of a product that I think is relevant from a customer perspective.

Q. (Mr Smith) So, you need actual data?

A. (Mr Attar-Zadeh) You do, yes.

A. (Mr Dalzell) Yes, I do agree with that. I certainly think, on something as multifaceted as a current account, if you do not use real data, do a real comparison, there is a danger customers have to pick one aspect of price that they are particularly sensitive to, to use as a proxy for that, be that interest rate or be that the charges or whatever it might be. Whereas what a customer actually wants to be able to do is make a fully informed decision of that price, taking into account the rewards they are getting, the interest they are being paid, or not as the case may be, the charges they are going to incur based on their real behaviour. The more we can construct and can drive the market towards being able to make that full comparison, the better choices clients or customers will make. I think that is the key point. I agree to have the first one, though.

A. (Mr Hingston) It has to be based on the actual data and the behaviours, because it is very difficult to make a comparison between somebody who is a heavy overdraft user, for example, and somebody who is using FX services and cross-border transactions. The costs and the account use is going to be fundamentally different. So, you have got to be able to pull off the right data and then make the right decisions based on that data. If we do not go that route, we will have a problem, getting into that generic, "All customers are the same", it is impossible to compare.

Q. (Mr Smith) So you have to component-size each element of the pricing to enable that.

A. (Mr Hingston) I think the only other thing you just need to be conscious of in the current environment as well, though, where interest rates are, is that -- and this is where, when we get onto interest foregone, I think it is very difficult to, again, just jump straight to a conclusion. A transactional banking account is a transactional banking account. We have savings accounts that provide customers savings options as well. I cannot predict the strategic asset allocation requirements of every one of those customers. Just saying, "It is that compared to that" is not always the answer. So, I think we just need to be quite careful around this particular area.

A. (Mr Davies) I think the other point on interest foregone would just be that, clearly, it varies a lot by bank. So, the cost of funds of a bank varies a lot with credit rating and so, in some currencies today, clearly, there is, actually, negative interest rates -- many of our northern European cousins. So, I think, for example, challenger banks versus established banks, typically the cost of funds is a lot higher for a challenger bank. So, I think, if you were to make any moves in regard of that, you could have some pretty strong unintentional effects on the competitiveness of challenger banks as you would probably push up the cost of funds for those entrants.

A. (Mr San Felix) I was just going to say that a proxy, probably, for using real data for a true comparison is the use of simulators. Our experience with them is it provides a reasonable, good picture of what is the value that the customer could receive out of the purchasing decision. That is probably something that, if it were used more, probably would have some developmental impact.

A. (Mr Dalzell) I think there are a couple of SME points there. Standard customer profiles are very, very difficult to use in the SME market and I think very, very challenging because the diversity of behaviour is so wide.

The only other point I would make on SMEs in this space is I think there is a scope question for the remedy and, indeed, to some extent, the investigation in that all the research we have done - I think Nesta came to the same conclusion - says that price comparison websites are very useful to the probably £1 million turnover, maybe a little bit higher than that, segment. Once you get much further up the turnover bands than that, it really stops being that relevant a product because they are having a negotiation; they are having a conversation; they are probably buying different products from different banks.

So, I think there is a scope question with regard to a price comparison website for SME which I am unconvinced it would be that valuable in the higher turnover brackets.

Q. (Mr Smith) That is the nature of SMEs, they are not homogeneous?

A. (Mr Dalzell) Yes, they are just too diverse --

Q. (Mr Smith) So, it might work with one component but not for all.

A. (Mr Dalzell) Not for others. Yes.

Q. (Mr Smith) Can I just move back to quality? You talk about there are some existing quality indicators and you do use some scores. How do you suggest we externalise that? Is that something that should be done by you? Should it be done by a regulator? Should it be done by another third party? How would you push hard on the publication of quality and data in a standardised way?

A. (Ms McGrath) I think the first thing that is important is using some of the time and consumer testing that you have talked about to get a good depth of understanding about what customers would value to be measured. Then I think it is a straightforward discussion that says, "Who do we think is best qualified to do it?" There is a range right from you can get survey companies to do it; you have got Fair Banking that do things in a very different and customer in-depth way -- and identifying which of those is going to get the best read for customers. I think there is an absolute need to spend some customer time on it, because we will all have different views based on the different vested interests.

Q. (Mr Smith) We do.

A. (Ms McGrath) So, that is why I think that is the right way to do it.

(Male Speaker) The fairest, yes.

A. (Mr Attar-Zadeh) The only thing I would add to that is the price comparison websites and the likes of Which? are doing a reasonable job of identifying service quality measures as voted by their consumers. Making more of those surveys and just enabling customers to be aware that they exist would be quite a relevant thing.

Q. (Mr Smith) Do the Which? surveys coincide with your own measures of what is important to customers in your own research and study? Is there a strong overlap between them?

A. (Mr Pilkington) If you take any of the surveys, when you get into them in a level of detail, there are relevant areas where you can say, "Yes, I can understand why". However, I do think, if you go down this route, then you will have to draw the line and start again and do it properly.

As I said, I do not think it is that difficult, if I am honest. I think it is just the will to do it that says, "Look, we would like some objective measure of service. It is never going to be perfect. We accept all the various [caveats] --" I will go back to Catherine's point; establish some key views from a customer perspective and measure them objectively across the industry and report on it and use it in third-party sites to be able to compare. It is stuff we would do now ourselves anyway, on certain things. The problem is with every one of the surveys - FRS talks of service but it is actually satisfaction and has price built in there. You look at different ones. I see there is an opportunity to do it differently and objectively.

A. (Mr Dalzell) There might also be something to do in the way the APIs are controlled. As Catherine said, our research says customers expect a level of regulation and governance of those APIs; indeed, it makes them feel a lot better about them. So, I think the Open Bank Working Group is going to have to make some recommendations in that space and that conversation is happening now. We have seen it very strongly come out in the research we have shared with you.

For example, you could say, not only do you have to show a level of security and capability to have access to the API, but we are also going to make some rules about how you display comparisons; the fact that data must be available, for example, so that, through that comparison website market that, no doubt, will exist one day soon we get as much as we can get out of that.

So, I think there are some choices you can make about granting access to the APIs, which is a very valuable thing, and putting some rules around how we expect them to be used.

A. (Ms McGrath) In response to your question, do the external surveys always resonate with what we would see; not always. It will depend on how it has been done and a whole lot of other things.

The other thing that still amuses me somewhat, sometimes, is you can take two different products from the same bank, one that may have more value or one that may be under a different brand; we know that the servicing is the same but there are very different perceptions. Now, that is part of the broader point that says my perception about value and service can actually be quite significantly impacted by price or by how I feel about the brand. So, even though the service experience is actually identical, how I receive it is quite different.

Q. (Mr Smith) But it is not the product, it is the ...

A. (Ms McGrath) Yes.

A. (Mr Attar-Zadeh) I will just add a bit of colour to that. There is a difference between someone that has a primary transactional relationship with you relative to someone that has a secondary relationship with you, even if it is in the same product, because the service experience for someone that has a primary transactional relationship is actually enhanced because they are using the mobile banking capability, they are using all dimensions of the servicing capability that the bank has to offer, relative to someone that is maybe a secondary user that occasionally comes in and uses the facility and forgets their pass code to get into the account and then they have the hassle of trying to get that reminded to them and so forth. So, there is a natural bias, on survey results, of the type of customer that is in the account. So, you cannot just broad-brush it by one account type.

A. (Mr San Felix) Which, in our experience, is true across entities, markets; it is there and it is proven on its research.

A. (Mr Dalzell) I think one challenge for some of the survey-type ideas that have come up - Business Banking Insight is a good example - it can be difficult for the challenger banks. For the very small providers, the sample sizes become very, very small which means they tend to be at the very top of the table and at the very bottom of the table, because you just get a lot of volatility in their numbers. So, I think, whatever solution we come up with, we are going to have to be very thoughtful about making sure it gives a proper representation of the service quality right across the market as opposed to just where there is enough scale.

Q. (Mr Smith) Your spread is more divergent with smaller samples.

A. (Mr Dalzell) Yes, exactly. So, it is something that requires a bit of thought. I think, again, it is resolvable. It is just, where it has been deployed in the past -

Business Banking Insight is a very good example - you tend to have lots of providers with very, very small sample sizes which just makes the results require a lot of interpretation, which is worth thinking about as we construct it.
Q. (Mr Smith) I think I will hand it on to ...
THE CHAIRMAN: I have got a couple of unconnected questions arising from this discussion I would like to put. One is that one banking provider has advocated to us the development of a kind of traffic light tool which, I suppose, I think of as a comparison tool for customers who, for whatever reason, do not want to use more sophisticated comparison tools. Do you have any views around the table about that? Do you have enough familiarity with the proposal to have views on it?
A. (Mr Hingston) I have some views. To go back to the debate we have just had, to be honest, if that provider has some results from what they have proposed, it would, obviously, be very interesting to understand what those are. I think we have just got to be careful that what we are not talking about here is a tin of baked beans. This is not a commoditised traffic light that you would expect to see in a supermarket, for example. There is more to it than that. I think this does need to be road tested appropriately and I think we do need to go away and look at testing it and having an independent view on this.
I personally think the traffic light system could become incredibly complex and not relevant for a vast majority of people, but we are open-minded on this topic, and are interested in whetehr this has been tested with real customners.
A. (Mr Pilkington) There is a contradiction between the multidimensional nature of this product and then dumbing it down.
A. (Mr Pilkington) The way that it has been dumbed down historically has been

great interest rate, et cetera -- or switching incentive, because it is too difficult. I guess, if you want engagement and you want customers to truly understand what they are buying, you have to put in a bit of effort. How you make that a better user experience in terms of the outputs is a different debate, whether it comes up red, green or amber or whatever on the end. But, actually, if you want a proper rounded output, you need to put in some real effort otherwise, you end up with something that is superficial.

A. (Ms McGrath) My view is some of it is too --

A. (Mr Hingston) You could game it. If you know what turns green then people will focus on that and everybody will be green - shock horror.

A. (Ms McGrath) It is pretty one-dimensional in terms of primarily assessing price and would also run the risk that a customer would take out a perfectly wrong product based on their usage and actually be worse off.

THE CHAIRMAN: Because they might not perceive what their own usage actually ...?

A. (Ms McGrath) Yes. That is why I think, with this one, because of how different the outcome can be based on how you use the account, trying to make it too straightforward could end up with the customer being worse off which is a poor outcome.

Q. A completely different question, back to APIs; Ross, if I understood you right, you were talking about APIs in a way as a substitute for Midata; other people sometimes have talked about APIs as the thing that is going to make Midata work. When I hear these two perceptions on the relationship between APIs and Midata, I fear there must be something technically that I am not completely understanding about the relationship between the two. Are APIs the thing that is going to make Midata work and other things work as well? Or is it really a substitute for Midata?

A. (Mr Dalzell) I think it is a problem of semantics. I think it depends if you are talking about a process -- I think, sometimes, when people talk about Midata, they talk about a process by which I can extract my transactional data on demand from a bank and make comparisons or do other things with it. If you are talking about it in those general terms, then I think one is the replacement for the other; they are substitutes for one another.

The problem is the underlying technology stack is different. They are not the same thing. They do not work in the same way. Some of it might be reusable. Some of the ordering of the data and normalising the data might be similar and might be reusable, but they are not the same technology. They do not work in exactly the same ways. They do not have all the same constraints.

Hence my point earlier that, if you spend a lot of time building Midata for SME, for example, you are definitely going to use some of the same resources that would be building the much more slick, behind the scenes integration of data which an API enables.

Maybe we want a more detailed technical conversation, we do not want to have today, I do not think. Fundamentally, the tech stacks are different but the user case is similar, and I think that is what causes the confusion.

Q. (Ms May) Can I just follow that? I have tried to use Midata but I got stuck on my iPad so I gave up, but I understand how I do it; download it, pop it in the comparison website. When the APIs are up and running, what will I do exactly?

A. (Mr Dalzell) The client experience could be - one for another day perhaps - you go in there, you give your credentials to it, you prove you are who you say you are, and then you do not need to do anything else. All the rest of it happens behind the scenes. The data gets pulled out. The comparison site can then do the comparison. The data then disappears in --

Q. (Ms May) So, I go into the comparison website, validate I am Jill May and it will throw up anything I want?

A. (Mr Dalzell) Exactly. It is all one seamless experience rather than you having to do something yourself, take some data, then put it into the system, which, of course, makes the experience more clunky for you. It also makes it much easier for you to muck it up with blah, blah, blah.

Q. (Ms May) It is just one click through?

A. (Mr Dalzell) So, it will all be behind the scenes.

Q. (Ms May) I understand.

A. (Mr Dalzell) The technology will be integrated where you cannot see it. It is very like if you think about the way London has opened its travel APIs up. So, when you are on a website, you are not having to go into a different website to see what the traffic cameras are doing. They can present that data straight through that website in real time. That is what APIs enable. Transport for London have done it very, very well. That is why you have got such wonderful, innovative apps all over London that allow you to navigate London. This is the same thing for banking.

A. (Ms McGrath) I think, where the concern comes in is, if you think about it with Citymapper, the information that I am giving that is personal is where am I standing right now and where do I want to go? All the information that is getting sucked in is about trains and stuff that is --

Q. (Ms May) Which bus will come, yes.

A. (Ms McGrath) -- who cares and is useful.

With this, it is my transactional data that, if the wrong person got it, they could have a lot of fun impersonating me, defrauding and stealing my money. So, ensuring that the right security is around that when we are spiriting in and out into the right places is really important.

Q. (Ms May) Where am I now?

A. (Ms McGrath) When you talk to customers and they say, "If it goes wrong once, never again", that is why our view is it is so important to get that right ahead of customers, because we all, if there is a fantastic use case for it, just to go, "That is brilliant. One click, done" and not even think about it.

THE CHAIRMAN: Is there an issue that Midata has at least the ambition to be a multi-market tool? Is there a risk then that APIs and banking are going to take comparisons in banking away from the technology that has been used to do comparisons into the other areas which Midata was being developed for?

A. (Mr Davies) I think Midata as a concept -- API is a way of delivering Midata for any industry. The specific mechanism by which Midata is currently used in banking would be replaced by APIs in time, once APIs are developed and secure. But, the concept of allowing a customer to be in control of their data and use that data to benefit themselves, APIs totally facilitates.

Q. The nuance of difference in the wording that you and Ross have used which we will, no doubt, think further about, but just to be clear about that.

A. (Mr Dalzell) Richard has described rather better what I was trying to say.

Q. That is a very generous way of describing the nuance of difference.

Perhaps that is a good point to stop for a moment. Are you going to allow us a comfort break?

Q. (Mr Garland) I think a comfort break sounds good.

THE CHAIRMAN: Good. Okay.
Q. (<u>Mr Garland</u>) Five minutes, everyone?
(<u>Male Speaker</u>) Five minutes.

(A brief adjournment)

Q. (<u>Mr Garland</u>) If we could all take our seats again, please.
So, the next part of the agenda is to move on to action. Before we do that, we have got on the agenda that we break for lunch at about 12.30 pm. Obviously, if the conversation is well prepared and extends beyond that, we will be flexible around that.
A second point, Tom raised in the break the question of whether we are all talking about the same thing when we talk about APIs. Some people are talking about open APIs. It was just to clarify or be clear, are we talking about the same thing? I think the assumption on this side of the table is we are talking about open APIs when we are talking about APIs. Is that the case all the way round the table?
(<u>Male Speaker</u>) Yes.
Q. (<u>Mr Garland</u>) Yes. Thank you. Jill?
Q. (<u>Ms May</u>) Okay. I would like to come on to remedies 6 - 12 which are specific ideas to make it easier for customers to remove some of the obstacles that are associated with either perceived or actual problems with switching. I would like to look at and hear your thoughts as to how account-opening procedures for BCAs might be simplified and standardised to make it easier.
Secondly, looking at this cohort of overdraft users who perceive - and maybe

there are - are obstacles to their switching in terms of a risk that their overdraft will not be either available or they might actually lose it in the switching process. Thirdly, a series of specific ways in which aspects of CASS might be changed to improve confidence in the nuts and bolts of that service.

Then I also wanted to tack on at some point in here your thoughts on account number portability and whether that should be seriously considered as a proportionate remedy, maybe, as one or two of the things we have specifically talked about.

So, firstly, coming onto ways in which making BCA opening might be easier; thoughts as to how pieces of that might be standardised without losing the incentive and the initiative for individual banks to seek to innovate and improve and, thus, differentiate yourselves. Where could we make things easier for the customer and short-circuit some of the more tedious aspects?

I would also like to just, obviously, look at different sizes of SMEs. I appreciate that, for the more complex, international, larger organisations, there may be a different set of considerations.

Can I throw the conversation open on that, to start with?

A. (Mr Davies) Happy to go first. We think this is a really key piece to get right. Clearly, you have CASS on the actual switching side, but I think there is quite a perceived barrier around the account-opening process and, particularly, the know-your-customer information that needs to be supplied, which varies quite a bit by bank, both in terms of the quantity, the format and the actual questions and the nuances in that being asked.

I think there is a piece around customer experience here. And there is a piece around financial crime standards in the industry which are evolving quite significantly and have evolved quite significantly with, for example, common reporting standards coming in from January, clearly, factors coming in historically, things like the Immigration Act and so on.

So, the landscape has evolved very fast in the last few years. Different banks have had very different responses to that. I can see a lot of benefit for, particularly, smaller SMEs, as you say, standardising that set of questions that banks ask.

Clearly, banks have to take their own risk-based judgements on the back of that around financial crime but, having a far more harmonised approach at the front end around the customer information that is required to be supplied, from our point of view, would have significant benefits.

The thing I would add is that the work has started on this under the Business Data Initiative quite recently. There was a roundtable in October which agreed that this should be the first use case of that initiative. Oliver Wyman are now facilitating cross-bank dialogue to seek to try to achieve a simplified and harmonised account-opening form, starting with sole traders. I think we saw last week a first draft of that, which we are all quite positive on.

A. (Mr Dalzell) I would broadly agree with everything that has just been said. I think we think there is opportunity for harmonisation. We think BDI is a route to do that.

The only area of challenge is, I think, where it is easiest to make significant progress is going to be sole traders, maybe single-director limited companies where, actually, the process probably is problematic today. So, there is a tension there between the ability to make progress and, actually, the more complex entity.

I think the only other slight piece I would pick up on is it is wrong to assume that it is just big multinationals where these things get hard. You will get some start-ups; I am not saying it is a huge proportion of the customer base but they will probably be very valuable businesses that will go on to become quite successful, where they might have VC funding from day one, for example, with a reasonably complex ownership structure, different equity holders, some of which will be offshore. So, it is just worth bearing in mind that it is not as black and white as big means complicated, small means simple; it is a little bit more nuanced than that. But, with those two pretty small caveats, really, I agree with everything that has been said.

A. (Mr Davies) I totally agree on the nuances there you have just echoed. In particular what we would say is that, across the industry, there is a growing recognition, but it is not universal, around source of funds, source of wealth, which, I think, is what you are alluding to there, which does need to be harmonised if you want to have that good client experience, particularly on the larger and, or more complex clients.

A. (Mr San Felix) I invite my colleague.

A. (Mr Dury) I think what is important on BDI -- it is good to hear that there is a positive dialogue going on now beyond this room but how can you create some test cases across the industry to utilise some of the common information for open and business banking? I think the important shift that this notes is it is moving responsibility and ownership of data to the SME.

In an environment where more data is available from accounting packages, from bank data fees and transaction data, from credit data providers and also the information that an SME can populate themselves, the broader use of BDI effectively creates a fluidity in the market. So, if an SME wants to have a conversation with any funding provider or any finance provider, bank, business security bank, then the conversation will happen quickly by simply providing a BDI number and pulling back that data.

So, what it does do is it takes away some of the resistance with the ability to get that conversation moving. So, the conversation will then turn to the more important factors around KYC and AML where some of those challenges exist in more complex scenarios where you have got multiple directors across multiple locations.

So, I think there is an important shift here that is moving ownership of data to the responsibility of the SME. I think the breadth of BDI can have an impact much greater than just simply the BCA process.

Q. (Ms May) Are there other smart ways we could look at streamlining the account-opening process; making it easier for companies to open a new bank account? Is there anything that we have not thought of?

A. (Mr Dalzell) I think the point is well made around data integration is going to be key. It is not just about banking APIs; it is about other things, open APIs, wealth, his house, et cetera. I think the more we can do to make that data available digitally so that it is not having to be bits of paper moving around the UK, it can be done digitally, that will slicken the whole process up substantially. But I think it is a digital journey.

I would also be slightly reticent about rushing, this is quite chaotic and there is a lot of transformation about to happen here. So, I think it should be more about defining what we want the outcome to be to make it better for clients than picking a particular technology. I think BDI, the conversation has been excellent so far, for what it is worth, but I do not think we need to pick a particular technology at this point; we should just describe the experience we want. Whether it is within your gift to do is perhaps more for debate, but I think the very rapidly shifting sands of the regulatory environment make things very difficult and they create risk of different banks interpreting things differently in different moments in time, and that will create potential challenges. The client experience is bound to be impacted by that very rapidly changing regulatory environment.

Q. (Ms May) And increasing regulation.

A. (Mr Dalzell) Yes, exactly.

Q. (Ms May) Just layering on.

A. (Mr Dalzell) Exactly. More harmonisation and, or sense there, I think, would definitely help, but I think all of that can be overcome if the data is available.

A. (Mr Dury) I think there is an important difference as well between speed and quality. So, actually, there is a case where the ease and the confidence that you can get an account open or you can provide data quickly and easily to somebody who can make an assessment, especially in the SME market when many SMEs who may be looking to switch are looking to another provider because they have had a challenge with raising funding that maybe they only realised last week or yesterday or today, in which case, a decision has to be one that needs to move more quickly. Often, that is about being prepared with the information you need to share with more than one provider. If that information is available in a system such as BDI and then can be pulled back by multiple providers, then many people can step in to help that situation. Confidence is often what SMEs are looking for. I can get what I want and it will happen in two or three days rather than the period where I may not know whether the outcome can be right because I have to fill out a series of forms; it has got to be placed where it is going to be really key; it needs to be tested by multiple partners. You can bypass a lot of that by integrating the data.

Also, we have got, in the SME market, to understand the quality of the conversation as you climb up the size of the turnover band, is really important. What is it the SME is trying to achieve? Why is it they are looking to another provider to help them? It could be that they are looking to a new international market, purchase new premises, to expand their team. Now, that is a conversation that needs to be much richer and deeper than simply, "Here is the information you need to complete the application process for a new BCA or a lending application."

So, I think, a key thing for me would be to differentiate between speed being good. Ease and confidence I think is good; speed can often lead to maybe the wrong outcome.

(Male Speaker) Yes, by -- all the time.

Q. (Ms May) Okay. Can we come on to switching by overdraft users which has been presented to us as particularly problematic? Setting aside the difficulty in comparing some of the terms of overdrafts, the actual switching process itself in terms of concerns as to, when they are looking around, whether they will be eligible for an overdraft with a new provider; and secondly, concerns that have been expressed that there is a chance that the timing is such that they may not have certainty as to whether they have got an overdraft with their new provider before the old account is closed.

We have heard different views on this. In our remedies, we have proposed a couple of ideas. One is having providers on their websites provide having an overdraft eligibility tool which would not be binding but would give people a better understanding of whether they might be eligible. And secondly is ensuring that the application process is constructed in such a way that customers have a firm commitment to an overdraft with a new provider before the account is closed.

More generally, we would be interested in your thoughts on how we improve the perception and the reality for switchers with overdrafts, and whether an overdraft eligibility tool - I think Lloyds has one on its website - is something that is useful, and how we can get certainty into the process.

A. (Ms McGrath) Our view is the right outcome is that customers know for certainty before they hit the switch button what overdraft they are going to get, and customers can get that today. So, I think it is a perception issue as opposed to a fact issue. I am not particularly supportive of indicative tools because, if I was bothered about the overdraft and that was part of the switching decision, actually having certainty is more important than an indication.

So, we would work on the perception piece that comes back to, slightly, some of the messaging that says, historically, we have talked about there is a switching service; what we now need to talk about is you can find out with complete certainty about your overdraft before you decide to switch, and it will all be taken care of for you; really important message.

Q. (Ms May) There is no way that a switcher can be left in the lurch not knowing before they hit the shut button? So, it is purely perception that there is a risk of it sliding through the gap?

A. (Ms McGrath) I cannot speak for all other banks. I am not a deep expert in

CASS, either. Certainly, with us, you can know with 100 per cent certainty before you say, "I want to switch to Barclays" that you have an overdraft. I think most of the industry is exactly the same.

A. (Mr Pilkington) Yes, we give certainty as well. I guess we always talk about it as though everyone goes through the CASS process, but there is a whole range of customers who switch themselves. Part of the reason they switch themselves is to work out, "First of all, am I going to get the services that I thought I was?" Then, when they are happy and they are happy with the process up and running, they will manage that switch, almost for that reason. So, it is not just the CASS process.

I guess, if I reflect on CASS in particular, when we first went in, we had a number of teething problems which we worked our way through. I now get very little noise about the process. That does not mean that customers who have not experienced it are confident about it. That is a different debate. But, once they get into the process, a lot of the issues that we saw early on, we have gradually worked our way through and it becomes less of an issue. Some of the remedies here I have no particular problem with but I am not sure they are major issues in the market space.

A. (Mr Attar-Zadeh) We are of the same view. We do confirm definitively, before the customer makes a switch, the overdraft facility that will be made available to them. So, it feels more a perception issue than a reality.

Q. (Ms May) And the lower levels of switching by overdraft users might, therefore, by the same argument, be because they would not necessarily get the same overdraft; namely, the heavy overdraft users are less able to switch because they probably will not be given the benefit of the doubt by a new provider?

A. (Mr Pilkington) I think there would be some circumstances exactly like that which they may have been with a provider for a certain period of time; they have got level of confidence, but they may have had some issues in the shorter term. When they come to switch, there will be some situations where we would not offer the same proposition, for example, as your existing provider. So, there must be some percentage.
Q. (Ms May) Yes, absolutely.
A. (Ms McGrath) I think you will get a mix; for a proportion it will be a perception and they will have been able to get exactly the same limit, if they had tried. I think, if a customer has got themselves into financial difficulty, they are unlikely to get the borrowing at the same level. So then, there will be an in-substance problem if they are reliant on that overdraft.
Q. (Ms May) I understand. Any more thoughts on this idea of an overdraft eligibility tool which could, perhaps, be on price comparison websites; how useful that might be?
(Male Speaker) I am not sure it really --
A. (Mr Pilkington) Sorry. I was just going to say, I guess, understandably, you want precision, do you not? If you were that worried about it and it says £5,000 then you get £3,000, it has not done its job. Then, if you need to go over the detail for precision and we already provide it in the process, I am not sure where the added value is, in that case.
A. (Mr Schallamach) You are just running the risk of a bad customer experience which one does not want to provide.
Q. (Mr Sharma) Poor management. The only difference though is, for an eligibility tool, you only need soft searching whereas, for a firm decision, a customer will

have to go through the whole process and, if they want to speak to three banks, they will have to go through three processes of credit search. So, that differentiates between having a tool like this then trying to get a firm decision.

A. (<u>Mr Davies</u>) The comparison, there is some sense there in that, as you say, that ability to soft search and to potentially have an indicative price as well as eligibility. If the customer needs to know £5,000 overdraft before they switch, they clearly need to move to a firm decision prior to making that call. I guess it comes onto remedy 15 under SME lending and that, clearly, does interact with the PCW remedy as well. I think you have got to separate the two pieces out; one is over certainty of having an overdraft limit in order to switch and the other is over comparing best offer in the market. So, one should be done before the other, almost.

A. (<u>Mr Hingston</u>) I echo everything that has been said. We will not switch somebody until they have been scored and they have got a confirmed overdraft offer with us. So, there is no risk to the consumer that they have closed an account and then switched.

Just going back to the point about comparison, I think the key is just saying how confident can you be with a tool that expectations can be managed? So, if the gap -- because there will be a gap, almost inevitably, when you credit score the customer properly. Are you going to be able to manage those customer expectations? What you do not want to have is a situation where the customer may have done a comparison but, when they actually get given the overdraft offer, they are ultimately disappointed.

Q. (<u>Ms May</u>) You are disappointed.

A. (<u>Mr Hingston</u>) So, I can see the benefit in the comparison element but it is one you have got to be very careful around, I think.

Q. (Ms May) I understand. Nothing more on overdrafts and how we might make it easier; no?

Q. (Mr Garland) Just a clarificatory question; I think NatWest said you may not get the same overdraft from the new bank as you have got with your current bank. One way to manage that risk is to do the switching outside of the CASS process. And one of the things that we talked about in the (Inaudible) notice was allowing partial switching which is currently outside the CASS process but having the CASS guarantees apply to that type of switching. So if your payments go awry then it provides the customer confidence in the switching process. So that potentially help these customers.

A. (Mr Pilkington) Well we allow partial switching.

Q. (Mr Garland) Sorry?

A. (Mr Pilkington) So we allow partial switching.

Q. (Mr Garland) Yes.

A. (Mr Pilkington) So for that reason, so that is one mechanism. My point was that a whole range of customers who as I said do not switch via CASS - we probably get more customers who switch themselves. And they will do it not necessarily specifically for that reason but they want to manage the experience. And before they switch off their old account make sure that they are happy with their provider. It is a quite common behaviour of which part might be the overdraft, it might be did your cards turn up on time? Was the experience what I thought it was going to be given the conversation we had earlier, they had no capability to determine service before they walk through the door. So they want to experience that process before they do the switch over.

A. (<u>Ms McGrath</u>) I think it is difficult to … I think it is difficult to say and it will be based on individual customer circumstances about what overdraft limit they might get. So if we took an extreme example. If I had a £5000 overdraft with Nationwide and was using it to the hilt and wanted at the same time to open an overdraft with First Direct, it may be that when they look at it Catherine McGrath having £10,000 worth of unsecured debts floating around is not a good idea. So in order to have that capacity for that amount of borrowing I might need to reduce one to increase the other one. So there is so many different reasons about why you would get whatever limit which may be helped through partial switching. But they may also not be helped through partial switching and it is all to do with can you afford the debt that you are asking for. And I think if that borrowing is important complete certainty prior to making the switch or a partial switch is the only thing that can give confidence about it.

Q. (<u>Mr Garland</u>) And is there a benefit from extending the CASS guarantees to the partial switching process?

A. (<u>Mr Attar-Zadeh</u>) So on the partial switching I think one important component of CASS is the guarantee element and on the partial switch situation I think it is quite difficult to offer a guarantee that you are going to get it right in the sense that if a customer decides to move a certain payments we can move those payments but if they accidently picked the wrong payments or if they have mismanaged the funding of the account that it was going to, then they could end up in a situation where they are incurring charges. Where as in the case of the full switch process you are guaranteeing the process will not lead to bank charges that, which can arise in a partial switch scenario. So we favoured the full switch process with the guarantee and what we also offer is if a customer does a self-switch i.e. they move some of their payments themselves and they test us out, and then they want to do a full switch we can do that. So we will do the full switch at that point. So we call it internally an upgrade switch. So that therefore negates the need for the partial service in our view.

Q. (Ms May) I was going to come onto areas where customers were trying to make it easier for customers to have the utmost confidence in the switching process and there are a number of ideas here which a longer period of payment redirection beyond the 36 months, transfer of continuous payment authorities, retain customer transaction data for up to 5 years. Look at a partial switching guarantee, and changes to CASS governance. I think as Colin started off on the partial switching has anybody else got any thought as to whether a CASS guarantee for partial switchers is something that would be achievable, proportionate and make a difference? Any other thoughts?

A. (Mr Schallamach) Well I think we were of the view that again from our experience we have a number of switchers into us who use the partial switch service. Subject to working through the technical implications, providing a guarantee for that service seems entirely proportionate and appropriate for the service.

A. (Ms McGrath) We also support the partial switch today.

Q. (Ms May) No thoughts? Okay.

THE CHAIRMAN: Any views on different form of potential switching simply allowing a full switch without the original account closing so that the customer has the confidence that the original account is still there, would that be a sensible thing to offer?

A. (Mr Pilkington) My point would be I guess customers do that already, that is regular behaviour of customers, we do not force them. If they do want to go through the switching process to close their account rather than leave their account there.

A. (Mr Davies) Yeah, and I think if you are leaving partial switchers with another account with payments still active on it, the point that Santander realised is very fair that you how do you guard against the customer in the old account getting into an informal overdraft position and incurring lots of charges there which clearly would happen in some cases without safeguards on that. So I think we are supporting the concept but there is some fairly careful design on this, and we think it is already fairly well offered in the industry today.

A. (Mr Hingston) I mean it happens as you say, and I think you would be bit cautious about just translating a guarantee straight over to partial switch given that we cannot control all the elements of that.

Q. (Ms May) Okay, thank you. Could we come onto whether to address the risk that payments might go astray and thus put people off switching that if we extended the payment redirection period beyond the 36 months whether that might be appropriate and if so what sort of period That might the unintended consequences be some thoughts on that and then we might come onto what has been suggested by one or two parties that we should consider instead account number portability. Who would like to start?

A. (Ms McGrath) So we support the Bacs emerging proposal, we think that is a smart way to continue to do it and mitigates the risk of having a permanent and forever increasing database of things moving around. As a starter for 10 in terms of re-direction we think the Bacs process is the right suggestion.

Q. (Ms May) And that is for regular payments to continue to be guaranteed but for one offs, three years is the cut off. I cannot remember the detail.

A. (Ms McGrath) I would not be able to tell you all the detail either. But I think that these are the best brains in the industry who understand the pipes and payments system. They are very aware of the issue and also the risks and so I think it is a good emerging proposal. I think in terms of account number portability we spent quite a bit of time with customers talking about this. What is quite interesting when you talk to customers about it is two things come out really clearly. One, the things that are concerning them are already addressed through switching service they are just not aware of them. So this is back to we need to do a lot more to ensure that customers understand the detail of the switching service. The other thing that was quite interesting is that actually for quite a reasonable cohort of customers account portability puts them off and for two reasons. One, is some customers when they are moving banks are actually wanting to leave it behind which includes their sort code and account number. They want a complete cut off. But the second thing is there is a real perception that it would put more risk in the process because customers know that sort code is to do with the bank and branch. And so it actually puts more concern into the process that says actually that must make it really complicated.

Q. (Ms May) Yeah, because I am going to Barclays yet I have got the Lloyds sort code.

A. (Ms McGrath) Yeah, and how does that work and it just makes it too hard to contemplate. So we are supportive of using the Bacs process to make sure that guaranteeing the confidence about payments not getting lost is maintained. We are not supportive of account number portability for two reasons one is I do not think it would make a difference with consumers based on the research that we have done and two we think it is disproportionate.

Q. (<u>Ms May</u>) Any other thoughts on both subjects?

A. (<u>Mr San Felix</u>) We would agree with colleagues' views and it would be certainly disproportionate: estimates on the cost for the industry in this country or in other European markets are very big numbers and definitely the impact would not be worth the risk and the cost that the industry, and ultimately consumers, would need to bear.

A. (<u>Mr Pilkington</u>) So I would agree but I think and there is a danger again that CASS is relatively new and we give up on it and I think spending more time in it and communicating it, describing the customer benefits rather than saying well we will move on and then go back to this conversation at the start about disengagement and you can have the greatest process in the world but unless you have got customers engaged and aware and doing the comparison and seeing the need that process is a bit secondary so I think more effort at the front end and make the most of CASS has got to be something that we, as I said, we have started in a sense we just need to keep going.

A. (<u>Mr Davies</u>) I think we would agree with that fully. Just one thing to add regarding payment redirecting where we started from. Clearly definite extension of one off payments we think could create quite a risk in payment redirection databases. And the layering in that over time if someone switched bank accounts two or three times in 10 years must create systemic risk in the payment industry which I think is not in anyone's interest. So for us we very much support Barclay position around the current Bacs proposal.

Q. (<u>Ms May</u>) Okay, thank you. Moving onto the idea that the banks should retain customer transaction information for 5 years after the closing of an account and have that freely available for customers. Thoughts on that? Is that something that you have judged to be important for customers? Might that make a difference? Is it practicable? What are the constraints? Any thoughts?

A. (Ms McGrath) Okay. So customers can get paper copies at any point and they can get it for up to 7 years after the account has closed.

Q. (Ms May) Do you charge a fee for that?

A. (Ms McGrath) Yes, £5. So not much. Secondly we advise existing customers to download their statement prior to leaving so I think that is the best way to do it. Very easy to do. We have not seen any evidence that this is a barrier to switching and so we do not think that there is a fact base that supports it and we think that there are mechanisms available in the market today that mean that customers can get access to their information if they want to.

Q. (Ms May) So it is available in any event.

A. (Mr Schallamach) It is.

Q. (Ms May) By all of you. And therefore by definition for your customers is not a constraint.

A. (Mr Schallamach) Yes for us it is 5 years, £5.

Q. (Ms May) 5 years, £5.

Q. (Ms May) Okay, thank you. Transfer of continuous payment authorities to CASS, again any thoughts on this. I think some of you have suggested it is such a small proportion it may not be material in influencing behaviour and improving the ability to switch. But any thoughts on that is anyone in favour of that extension?

A. (Mr Schallamach) Well we will go first for once, how about that. We in principle think that it is not a bad idea but I think the issue is that it involves working with

Visa permanently and to a lesser extent MasterCard, who I suppose, are outside the scope of this investigation.
Q. (Ms May) Yes.
A. (Mr Schallamach) But I think with a reasonable will on the --
A. (Mr Pilkington) I think we should raise this with Visa. There is a lot of work going on in that whole space of recurring transactions with Visa. So it feels a logical thing to do. I do not understand the technicalities of it. I will be quite honest with you. But I cannot see why logically we cannot raise this with Visa and see what they can do.
A. (Mr Attar-Zadeh) I think, like the others, I do not think it is a material issue in the sense that I have not heard it from customer feedback and so forth. And therefore my main concern with investing a lot of time about thinking about a remedy like this is that it may distract us from other factors and remedies that have been offered that are more likely to have a material impact on addressing the concerns that have been raised.
A. (Mr Schallamach) Well I think the point is that if you look at the evidence around switching it is not seen as a big factor in driving the decision to switch or not. But if you just look at it as a generic "Is it good for the customer experience, to have CPAs transfer?" then yes it is. Maybe it is not so relevant to the investigation but as an overall aiming for the industry it is not a bad thing.
Q. (Ms May) Okay.
A. (Ms McGrath) My view would be similar. I understand it is 0.2 per cent of transactions so it is very small, and again it is a disproportionate point in terms of is it actually going to make any difference to switching and I do not think it will.

A. (Mr Hingston) I agree and I think it also involves card schemes and banks, not something we can implement on our own. Not a primary consideration from our perspective.

A. (Ms McGrath) Our understanding is it is very complex because of the way it works with the schemes and that all merchants would need to effectively sign, so I think it is a very difficult thing to try and achieve which is why it was left out in the first place.

Q. (Ms May) Okay, coming onto CASS governance, we have spent a lot of time today talking about how one might better promote CASS and look at ensuring in particular that the detailed effectiveness of CASS is well articulated to build confidence. Is there a case for changing the governance of CASS to bring in other stakeholders, make sure that the objectives of CASS are completely aligned and could not in any way be distorted by the interests of those that are currently at the table there? I think I have heard different views in some of the submissions. But any thoughts as to whether some sort of oversior a different governance structure might ensure that objectives and delivery are aligned with consumer interest?

A. (Mr Davies) From our side we had a few thoughts on this so … I guess the nature of the attendees perhaps could be changed so more strategic focused rather than operationally focused. The point about representation.

Q. (Ms May) Who, just out of interest does not show up? So who is not invited to show up?

A. (Mr Davies) So I think some of the attendees sometimes will be perhaps more operational in nature around the scheme administration rather than how do we recreate step changes in the awareness and the scheme in the markets.

Q. (Ms May) An effective, okay.

A. (Mr Davies) The actual attendance, the smaller banks do not tend to always show up which I guess is a function of time and staff they have.

A. (Mr Davies) But that does detract from their own input into the process which clearly is key for their own interests. There are 26 members and 26 votes. So I do not think there is any danger of the major banks having a capability of blocking veto. But the big five banks even them together cannot veto the other members. So that is not an issue. We do think though that there could be some more outside influence brought into that. Independent directors and or possibly the inclusion of if there was a price comparison website their involvement in that forum to help drive that awareness in the interest of it. And if we were to have that independent oversight clearly I think what we are talking about is more marketing and strategic insight represented in the CASS membership, and that would be helpful. Rather than about the technical knowhow do you make the scheme work aspect.

Q. (Ms May) Yes, absolutely. I think that is interesting. Any thoughts pro or against that?

A. (Ms McGrath) Could it be improved? It could, it always could. And I think thinking about consumer groups on it is sensible and they would have a valid voice. I would agree with the comments there have been a number of things over the last short period of time where there are things that have gone through that other members would have wanted and that meant it worked particularly effectively which I think was good. So we think it is reasonably effective but it could be enhanced. I think putting some more voices around the table could help.

A. (Mr Attar-Zadeh) I would concur with that.

Q. (Ms May) So extending the voices but not radically changing the structure. Okay, have I missed anything in this category of making, just technically making it easier to switch? Is there anything we have not looked at before we have lunch or move on?

Q. (Mr Smith) A further pebble on the pond to consider, we have reflected over the last few months of submissions and this morning's debate about CASS and how it was started and how it was originated and the governance and the fact that nobody really knows about it and the factors in away under your control. And now we are talking about it is the great white knight and it is a solution. And it is absolutely fundamental and we have spent a lot of time this morning talking about it. That could be because it really is or it could be because it is less intrusive than some of the other remedies that we are recommending. That is a gentle paddle before we break for lunch.

A. (Ms McGrath) I think there are a couple of perspectives on that. One, I completely agree with the view that says that CASS is not the be all and end all and lots of customers make choices about being multi banked and effectively switching that is nothing to do with CASS and so I think we lose a bit if we think it is all about CASS. What I do know is that customers who do want to switch (and we have been a net loser as part of this), a combination of compelling propositions from other banks that pay more value than we do and secondly a switching process that the people that have used value highly and would recommend, has seen a change in this industry and how it works. I think the coming of APIs is going to make all of it happen on speed. So yes, it may well seem like a millpond on top but if you are sitting at a bank where you have got tech giants with way more tech money to spend and more market cap than we have who are quite interested in the space it does not feel like a market that is constrained and nobody else can get into and actually the data and the mechanisms that we have got today and will have in the next 18 months to 2 years will really accelerate what is happening. And I think the way that you have looked at it to say take a combination of 3 or 4 remedies, which by themselves do not look that interesting, but put them together with the data and technology we have got today I think it drives a step change in the market.

A. (Mr Pilkington) So we are a net gainer from it and we had our own switching service which we guarantee customers £100 if they think the process did not work for them, it was working particularly effectively. We went through quite a long process to deliver the CASS service at quite a lot of cost. Preventing us doing other stuff. We have got the thing up and running and we have only just got the thing up and running, we have now got it working effectively. I think there is now not unsurprisingly communications challenge to get customers to understand it, give them confidence etc. Therefore before we move on which is what it feels like and really we have to have a clear view in our minds as to what added value we think we would get from that, I am unconvinced that I can see any added value from moving on. I think I would rather work far harder at what we already have to get the best from it.

Q. (Mr Smith) Would a harder launch of it have had a different impact? The fact that the launch was close to invisible to the market?

A. (Mr Davies) I think that is what we are saying actually here unanimously is that awareness of CASS is critical. I think what we are saying is that is about the sophistication of the tools and channels that have been use to promote CASS which does come back perhaps to also our point the expertise on that CASS governance body to drive that. Whereas to date perhaps it has been more focused on making it work to deliver the promise. As opposed to people that have the expertise to promote it in the market.

Q. (Mr Smith) It is a natural evolution, is that what you are saying?

A. (Ms McGrath) I think at the time that CASS went live in the UK there was a lot of concern about; if millions of people all tipped in on day one will the whole thing fall over and would we all be in big trouble? It is the same as the APIs if you promise something and then it does not deliver people are not going to try it a second time. And so I think it is part of a natural evolution that says invest the money, check that all the payments go where they are supposed to do and that it works and that you can have confidence in it. And then actually start to promote it and talk about it.

Q. (Mr Smith) So we are at the tipping point is what you are saying?

A. (Mr Attar-Zadeh) There is another dimension which is one of the key observations in the CMA analysis is there is just very low engagement of customers in their financial services. And in particular a current account. It is not something that they are reviewing daily and are that worried about in the sense that they feel like that there is not that much value to be gained by switching. Switching is a hassle and it is a cumbersome process to go through. So they are just not thinking about it so I think it is more as the better offers have come out and we are starting to innovate in the current account space. As the tech giants start getting involved in the financial services sector, having CASS there as a process which offers a guarantee which in the past, before we did the developments, it had no such guarantee and actually the customer perception was pretty accurate in the sense that it could be quite difficult to go through the process. I think the factors are that a) we have the problem but b) now there are lots of things coming in as has been rightly pointed out, that are changing the dynamic in the market. So it is about building on what we have got.

Q. (Mr Smith) I think that is helpful. I mean in a way where we are going is a combination of four or five things that make it work and part of CASS not necessarily working could be the newness of it but also the fact there has been a lack of awareness of the cost of different offers, the value of different offers and different service propositions. And once you make that a greater level of awareness of that then CASS becomes a more important.

A. (Ms McGrath) What is interesting about the dynamic is you have got two net gainers and two net losers sitting around a room and actually there is quite a cohesive thought about what that should do and I think that is telling you that it is the right solution as opposed to you missing a trick because otherwise the net gainers would be shouting in a very different way.

Q. (Mr Smith) The ripples have therefore ended at the edge of the pond.

Q. (Mr Garland) Just the other thing on that you are agreed that relatively minor changes to the CASS governance arrangements might be beneficial. What about something more radical so rather than just adding more customer represented to the management committee potentially divorce it from the banks themselves and have a more commercial setup and setup an independent objector for that body. Would something like that bring any obstacles to a more radical approach to the change in governance?

A. (Ms McGrath) I think one of the thing that you need to think about is that CASS is at its heart about making sure that payments are moving around the Eco system well and that they do not get lost. And so if you said we will sack anybody that is to do with the banks and we put on consumer groups I would not use the CASS switching service at that point because I want to have confidence in it. I think it currently works very effectively; the advocacy ratings of customers that use it are brilliant. And so I think if you do something more radical you are almost trying to solve a problem that is not there. But I think getting a very clear view that says this is how we are going to get that customer confidence in the details of the components of the switching service because it is that awareness that is missing. I think that is a critical outcome from this.

A. (Mr Pilkington) I am not close enough to the governance but what you see is a business described earlier is an emphasis on process and now I think the whole conversation has come out of this is about saying we need to strengthen the whole awareness marketing capability and describing the customer benefits with a degree of confidence that we have not got to date. So it is almost changing emphasis and focus. But I do not know individuals who are on there and what their objectives are well enough but I think starting looking at that and maybe looking in a different way rather than just ensuring we have a process that works.

Q. (Mr Garland) Well I think that is a good place to pause for lunch. If we could return at 1.30 pm. And then we can start on SME lending and then we will spend quite a bit of time thinking about remedies we are not pursuing.

(Luncheon adjournment)

Q. (Mr Garland) As I said before we broke for lunch, we are going to start with a discussion on SME lending and then we are going to have a discussion around other ideas about remedies we are not intending not to pursue. Tom is going to lead the discussion on SME lending.

Q. (Mr Hoehn) Thank you Colin. Yes, in this morning's session you already made a number of comments regarding SME banking including SME lending. This session allows us to go a little bit deeper and maybe into some specific remedy proposals we have put forward in our remedies notice. They include some initiatives that government has been proposing, one with respect to the sharing of bank and HMRC data and the other looking at the open data initiative. So I would like to know maybe before we go into this I would like to make a comment and then start with the questions. The first comment is that unlike in the other discussion were there was very much emphasis on engagement, this is also a discussion around incumbency advantages. SMEs tend to go for the bank loans to their BCA provider. As our investigation showed over 60 per cent never sought an alternative. So the remedies here are designed to encourage competition and also increase engagement. So the question I have is around what is it an alternative provider would need in terms of information, what kind if history? Is it a transaction history? Is it a bank account statement that they need? What information do you need?

A. (Mr Davies) I will go first. I think that this varies by size of SME, so the size of the borrowing, the complexity of the need is quite relevant so … you also go up to £25 million in turnover and a £20 million turnover customer borrowing £4 million looks very different to a very small business borrowing £20,000. And the information requirement that supports that is very different. I personally think the discussion should focus most on the smaller clients where the approach is perhaps more homogeneous and the range of information leads is less bespoke. And essentially looks a lot more like a retail type credit approach to the client base. So I think in regards to that it comes down to particularly credit reference agency data sharing, and I think you already alluded to the fact that there is legislation in train from the government that will widen the range of data sharing with CRAs so a number of extra data fields are being required and the product range on which data is required to be shared is being expanded and the Autumn Statement last week confirmed the three designated CRAs that would be in scope for that which is quite a move forward in terms of CRA data availability particularly because it will be available to non-current account providers so that hitherto closed loop will be opened up, which for people who only lend, they do not provide BCA as well, is quite a material change. I think wider than that we have come back perhaps to API base and we would support moves to make a fuller range of data sharable by API, strategically over the next few years. But we do believe that the work is already going on via the SBEE (Small Business, Enterprise & Employment) legislation is quite significant in extending that scope of credit data sharing. As I say the bulk of the SMEs are smaller in terms of both their own size and their borrowing size.

A. (<u>Ms McNeil</u>) I think two points I would add to that to supplement on the scope those customers who are at the smaller end and have a smaller borrow, sorry, the customers who are at the smaller end and have a smaller borrowing need are less likely to have some sort of advisor within the business less likely to have a financial director, use an accountant for example, so that is perhaps where there is more use within a service like that to see comparisons, to understand what is going on with the options that they have. I think the supplementary point on data sharing does come back to customer awareness of what is being shared and how that data is being shared so there needs to be a lot of transparency within that as well because that is one of the things we see come afterwards, the referrals decline portal, part of the CRA information is how and where is my information being used and what have I given permission to be shared onwards.

Q. (Mr Hoehn) Do I understand correctly that for smaller SMEs it is the bank statements that are critical, whereas for the larger SMEs you also have accounts, and lot of additional information about the business. Is that how I should understand it as?

A. (Mr Davies) I think that is fair not just statements per se but a range of information for example the new legislation is requiring sharing of excess positions, declined payments, these sort of measures as well as purely transactional history of minimum balance, maximum balance, these sort of pieces. So yes, it is centred around that. This is needed because of particularly the paucity of public data given there is no requirement for small business to publish external accounts beyond a very, very superficial level.

Q. (Mr Hoehn) How long a period does the information have to cover? 12 months? 18 months? 2 years? What do you think?

A. (Ms McNeil) So I think ideally beyond the 12 month point, yeah, so you would want to have an ongoing performance history to the business. Obviously for a start-up business you just will not have access to that sort of data but going back in history if you have performance over a couple of years that is more useful.

A. (Mr Dury) It may depend on the purpose and the lenders of terms for the business loan. And so actually a smaller loan actually with a business that is not a start-up where there is established relationships a clear plan, that may be an easier decision to make than one where there is a start-up position and no information.

A. (Mr Pilkington) We do not have an SME business.

Q. (Mr Hoehn) What about obstacles for SME consenting to the sharing of such data? Do you think they are reluctant or will be reluctant to agree?

A. (Ms McNeil) I think it depends on what data you are asking for, if it is data that they would be willing to share themselves, data about the need, the purpose of the finance, the business plan, things like that that is probably widely accepted that they would share that. Things such as unauthorised unpaid transactions and adverse credit history that is something which I think the customer will be more reluctant to share and also they would want to see what information was going out as well. So I do not know quite how you create that link so that a customer could see what information is being shared about them at that point in time.

A. (Mr Davies) I understand that the majority of the banks' terms and conditions already allow data sharing with CRAs. So this is not a new thing that is being created. I think if you were to move to a far more extensive full data share via API, that would require to my view explicit customer consent prior to that share. But the CRA data share is being the industry practise embedded in the terms and conditions already.

A. (Ms McNeil) And I think widely accepted by the customer, they know that that information will go in one direction and be used on an aggregate level. I think it is to do with the broadening of how that data will be used and where that data will be shared where you will get customers concerned.

A. (<u>Mr Dury</u>) And equally how you put the SME in control of who they share it with. So if the assumption is that you are with a bank at the moment and you want to borrow with the bank that you are with, the conversation is quite different to the one that says I am interested in having a conversation with another bank. At that point the SME is in control of who they share that data with. But I think it is important then from an API perspective and the terms and conditions and the permissions angled to ensure that the SME is clear for how long that data is being shared; is it a one off purpose? Is it indefinitely? And these are the types of things that need to be worked through in quite extensive detail, to ensure that you do not end up in that situation where you are ticking the upgrade my apple software without reading the terms and conditions, you are absolutely clear for how long and what has been shared and with whom.

Q. (<u>Mr Hoehn</u>) So would these initiatives that are under discussion not be enough? Will they be effective in order to promote more competition and level the playing field between an incumbent current bank account and its rivals.

A. (<u>Ms McNeil</u>) So I think the decline referral portal does do that because it will act to raise awareness and also raise traffic through comparison sites naturally because there will be more business going through and that is on a consent basis and at the moment to the earlier point we only share need customer contact details we do not share any data history on that individual. The customer then will volunteer what they want to do give to be able to go through the lending process. But that will have the net effect of raising awareness of alternative sources of finance and I think it will also do it in a very secure environment because I think one of the things that people have been concerned about is well who is Funding Circle? Who is ZOPA? What is going to happen to my data? If that has a government seal of approval on it through the British Business Bank and it is going through a single platform and a single portal where that information will be aggregated and sent out I think that will help people feel that that is more of a standard approach to finance than perhaps it is at the moment. At the moment there is a plethora of options out there it is a little bit difficult to see what all the alternative finance options are and I think crowd funding can feel quite exciting but quite nerve racking because you do not know what you are getting into. I think that will create the link to the customer that will make it more of a standard approach to finance.

Q. (Mr Hoehn) Any other comments?

A. (Mr Dury) I think there is probably two things that I will bring to the table on this one. At the point when I have been declined and I am looking to alternative funders, actual availability of richer data to make a better decision for alternative funders will undoubtedly help them to make a better decision because at the moment the information available to them is limited. I think if you were to look at that point as an SME I would have to give consent for that transmission of that data to the alternative providers. Now what does that say about me as a business if I am in the shoes of a business owner? I have just been to my bank or another bank and I have been declined and now I have given consent to be marketed to a platform that I have been declined for borrowing so other people can come and have a go. I still remain to be convinced when this rolls out as to how SMEs will respond to that, and the only way we will learn is by ensuring that when it is launched and it is communicated clearly that SMEs understand what is happening, how the data is securely held, how it is communicated and what response they can expect back from those alternative lenders that have approached them. I think the other position to be in is how, in the earlier stage, before I am about to apply with my bank or an alternative funder, how do you ensure they are better prepared with the data they need to apply to more than one at the point of application. And that is where in fact on the discussions we had earlier around something like BDI. Now if BDI can provide a platform on which the SME owns their data therefore I can share that data with multiple providers to look at an application and potentially give you a view on confidence or an indicative decision. Then you move the “what are my options” from being an option that I explore at the end of the process when I have been declined to one that I actively consider up front. So they both have a role to play but I think the availability of a greater amount of data and clarity on how it is shared and who it is shared with will help to improve the position.

Q. (Mr Hoehn) Does that mean that loan eligibility indicators become much more important if you start earlier in the process?

A. (Mr Davies) So I think we would fully support how they, both eligibility and price indicators are available for comparison. The linkage with the price comparisons websites remedy is pretty strong and the caveat that we put on that is that back to my earlier comment, really a simple for the high volume SMEs that have small borrowing requirements. So we propose that they be aligned to for example Consumer Credit Act threshold for £25,000 borrowing and where you have a lot more standardisation of the documents and actual methodology given the BCCA rules around that whereas as soon as you go into larger size loans you will find a lot of variance around the products, the documentation, the terms, the govenance, and the pricing which make it much harder to have a comparison tool. But you are at least then addressing the volumes and the markets with a common comparison tool both eligibility and price.

A. (Ms McNeil) I would agree entirely - I think for that smaller end you are covering 80 to 90 per cent of the market in terms of lending so actually that is where the need is and that is where you service if you go to the smaller end of the loan. Things like the complexity of the security if it is land or something else make the larger end of the business much more of a face to face or a one to one conversation basis and people will tend to shop around there because they will visit multiple banks because they have a finance director or because they use a broker. Just going back to the point around eligibility actually if you look at the likes of companies that exist such as Funding Options who are those businesses that are springing up naturally, partly to do with customer demand and partly to fill that need for referrals platform. They will do exactly that sort of process so as you enter in your own data and say what it is you are looking for they will start to rank then your likelihood of acceptance and the match with the right type of finance as well which I think is critical because this is not just about whether or not you can get a loan it is about whether or not cash flow finance might be better for you so is invoice discounting, or whether asset finance might be better for you. So I think that needs to be part of it. And how do you create a site where people can look at the different types of options not just can I get a loan or not, standard loan.

A. (Mr Dury) And to that point as more businesses use the site the greater the degree of confidence around the solution is suitable and the likelihood of achieving the outcome you are looking for. And if that is combined with more data being available, that again increases confidence. So they perpetually get better.

Q. (Mr Hoehn) These platform websites at the moment is this something with new, it is very niche at the moment, it is not being widely used. What does it take to promote them?

A. (Mr Davies) Yes, I think they are niche currently in terms of usage in the market. I think the capability is being developed. Legal and structural developments if the APIs will help develop capability. But in terms of the actual usage I think two things; one is the furthering of the price comparison websites for SMEs can help that usage to a much greater degree and secondly the lender referrals legislation which will push business towards these sites they will also be a big boost to these sites. So there are some pieces that will help drive more traffic that way, to a degree a critical mass thing whereby word of mouth will after a period of time start to allow you to take off exponentially, and it needs to hit that tipping point and I think some of the current legislation will help move towards that tipping point.

Q. (Mr Hoehn) Any more, any comments of what it will take to promote these new platforms?

A. (Ms McNeil) So the British Business Bank has done a lot of work to try and raise awareness both of all the different types of finance that are out there - everything from equity through to lending because lending again is not always the solution. They are also looking to raise the awareness of those platforms as part of the time referral process so I think that the work that they have done with the ICAEW to promote alternative sources of finance and access to finance if there were a way to move that guide which at the moment is a flat PDF guide or a booklet onto an online solution where you could search for the right type of finance for you that would be a very neat way to have an independent view on what kind of finance was available and perhaps have links out to those who will become the referral portal partners once they are decided.

A. (Mr Dury) I would agree the ICAW guide is something that we have distributed out through our relationship teams they share it with alliance, it is impartial, it is objective and focuses on life stage as well. So it addresses the challenge of "how do I tackle my funding requirements at start up?" versus "I am a £20 million turn over business about to venture into 2 or 3 new markets?" which are quite different conversations. And I think back to the point made earlier; a smaller business often comes in and asks for something it is very clear that what they ask for is often what they get, I need some asset finance, some invoice finance, I need a loan, I need an overdraft. Often when you talk to an SME, who may be turning over £10 million they say they have an amount that they need or an objective they are trying to achieve, and the solution is made up of multiple products and that becomes something much more difficult to do in a standardised application process - albeit a lot of the data you require to make the decisions is common.

Q. (Mr Hoehn) A successful platform matches different users with suppliers. Is it borrowers and lenders which use that platform that needs to be more incentivised? What is holding the development back? Is it that not enough SMEs are using it? Or not enough product being put on offer by lenders? Which side is the critical one?

A. (Ms McNeil) I think at the moment it is usage. I would say that if you go onto the websites and have a look at the plethora of companies they have got on there, the different types of company, the different types of products, it is actually very broad - it is across mainstream banks, alternative financiers, smaller niche players with niche products, so I think there are a lot of people who are sitting on those sites ready to provide I think there is something about making sure that people know that those comparison sites are out there.

A. (Mr Davies) I would fully agree with that. The usage is key, and the only other thing I would add is the information coming back from those providers could be enhanced which perhaps talks to this point of price indication and so on, so the more useful what comes back, the more usage will be there. But I do think it is primarily a usage problem rather than a supply problem.

A. (Ms McNeil) And I would say that that when you look at what an SME is asking for, typically their focus is on can I get the finance and how quickly can I get the finance? Less so about what is the price for that finance. They will go to an equity provider, they will go to someone who charges more than a traditional lender because they can get the finance more quickly or if they can access instant funds through a bank then they will go for that. So that need for finance, the average SME thinks about funding about 48 hours before they actually need it. So they are not thinking ahead about this, the need for money whether it is for good, for stock or an opportunity or whether it is for bad because of fire or flood, is quite important with those customers when they need that money.

A. (Mr Dury) I think that is how to differentiate between BDI which gives you a tool to have all the data you need when you need to apply whether that is a week before, two days before, a day before or the day after. You can immediately put it into a price comparison site or provide it to a potential funder who can give you an answer. So the pricing comparison site is a tool by which and the funders you approach use the information that you collect because you have got it to hand. And that is how to seamlessly accelerate the process of getting the information you are seeking. I think interesting point I know some of the research that Pinsent Mason did picked up that 60 per cent of SMEs, I believe, said they would not use an API. So if that happened overlaid with the 60 per cent of SMEs that would not consider a newer alternative funding provider then therein lies the challenge - that a population would not use it and are not considering. There is not still a mechanism for reaching out and I think that will come back to some of the challenges earlier today around prompts. This is why you need a multi-layered approach to prompting people to think about their solutions or their bank through other mechanisms.

Q. (Mr Hoehn) So what I hear is that again, it is customer engagement which is critical.

Q. (Mr Land) I was just picking up the point about speed I guess, I am Adam Land by the way, so one thing that sort of comes out as a perception issue is this mismatch between the limited time which small firms need the money as opposed to the time it takes to make the lending decisions. And I suppose I am interested in how things stand now with the major banks in terms of being able to meet that demand for immediacy so say we have got this platform working are banks going to be in a position to respond quickly and give firm commitments or what would it take to be able to turn around those lending decisions to other people's customers within the sorts of timescales that would make a difference.

A. (Mr Davies) So I think I totally agree that speed should be a priority for you having a comparison websites and on - for example Funding Options that is already one of the criteria they put on there is how quickly do you need the money? So then you have got essentially a competitive market with a choice what is a customer priority in terms of speed versus other factors. I think there is a difference between the £10 million firm borrowing £2 million and the firm borrowing £20,000 quite significantly. The £2 million given the very likely need to take security and potential multiple forms of security almost certainly is not going to be a two day process to lend the money out. The £20,000 should be a same day or couple of day process to deal with that money and actually what a lot of banks in the market currently deliver.

Q. (Mr Hoehn) Any other comments from my colleagues?

A. (Mr Dury) Unless you are switching between a bank. So if you have got an existing customer the decision can be one that is a lot swifter. If you are looking to switch between a bank then you move into the BCA conversation we had earlier, the CASS process of switching from one to the other and so on and so forth. It is the decision in principle, the ability to take the information you need and to provide an indication should be a much simpler and more straightforward process for the smaller business.

A. (Mr Davies) Anyway it interacts heavily through the … this is much more information required for KYC, as there is for the credit decision and so they interact but again I think it is a matter of days rather than weeks for the vast volumes of customers that are small borrowing clients even if they are switching. But you are right there existing banks typically can deploy lending via internet banking. You want £10,000 - you can get that via internet banking which does give almost instantaneous speed of decision and also draw down if there is no security involved.

A. (Ms McNeil) And coming back to the British Business Bank ICAEW guide informing a customer about what they will need to provide in order to get a fast decision so if they need to provide data, if they need to provide paperwork etc., whether that is virtually or real time. That is quite critical because quite often a business does not know what it needs to provide and actually if we are going back to a customer a couple of times the thing will be going back to is for more information. So one of the things I think all of the banks have done is try and be much more transparent on the website, their own websites about these are the sorts of things we will ask you for, so that we can make a decision if we can leverage that sort of advice and guidance within British bank guidance that will help, I think, because a lot of business just will not know what they need to bring along to help expedite those decisions.

Q. (Mr Land) So what you are saying is that you will be able to expand the sort of amount of commodity business credit so you would be able to have more small scale credit to business which could be something which is more competitively provided. And then you would be able to supply it more quickly, but there is some sort of ceiling after which it gets complicated and you are back into a bilateral discussion in relationships and know more about businesses.

A. (Ms McNeil) So I think the first point is the more information you have the faster you can give a decision. The second point is yes, there comes a point at which you need to trip into a one to one conversation with the customer because it would be a complex transaction and a complex need.

A. (Mr Davies) So if you wanted to look at customers who go to the market for a price in the same way they go for insurance quote, I strongly argue yes, that is very doable at the smaller end and for the more bespoke end that is a lot harder.

I think the standardisation of the materials that banks are asking for is definitely something that is already in training, but probably can go even further for loans up to a certain size. But there does become a point whereby the size and complexity of facility mean that this cannot be done. For example, for asset finance, invoice finance, and say trade finance, then you are never going to be able to was that to a degree. But you are into a very small proportion of the market at that point so I think it is not the primary focus of the inquiry.

Q. (Mr Smith) So if I understand this a large part of the lower end of the market makes pretty last minute decisions on borrowing decisions and if they have already got a BCA with you you can almost give them an instantaneous loan, but if they have to switch banks it will take a few days, is that not quite a disadvantage?

A. (Ms McNeil) So if you look at a lot of the alternative funders now, I mean when you to your point about bonding options, the question they will say is when do you need the money? Do you need it today? Do you need it in a week? Or do you need it in a month? And as you do that it will filter within that a lot of the alternative funders and will come up with ones that can actually do the decision within a day so that market does exist out there as it stands now, I think it is just raising awareness that there are alternative funders out there. And different providers of both loans, asset finance, invoice financing, whatever it is you need.

Q. (Mr Smith) Richard was saying it can happen almost instantaneously if you are a customer, and then when Stephen said if you have got to switch banks it is a bit different and then you said it will be a few days not a few weeks. Well the difference between a day and a few days is a few days. So there is a difference is there not?

A. (<u>Mr Davies</u>) There clearly is, what we are saying is that there is quite a strong customer benefit currently in terms of putting that need of very quick certainty of decision and the speed of draw down which you can provide today. I think we are all saying the indicative decisions provide that same day financing already but the future infrastructure around collecting information and data through APIs would allow any bank that same capability to have exactly the same data that the incumbent banks have to make that credit decision very quickly. You still need to solve the KIC issue at the same time though.

A. (<u>Mr Dury</u>) We would question whether from our perspective whether we would be willing to then lend on a lending only relationship without trying to build a relationship with the business across a range of products. I think this is where you are seeing a fragmentation of the market because as more alternative lenders are coming in you have got a niche play just to take one particular part of the market and they can turn it around in 24 hours or 2 hours or 10 minutes. And the more data that is available the faster they will become at deciding. (inaudible) who wants to play in what part of the market. So I would be interested in a situation where a business came and said I need some money, I need it tomorrow. And we are interested in trying to understand the business and what they are trying to do before I decide whether in 10 minutes I can give them money.

A. (<u>Ms McNeil</u>) I think that is the fundamental point because I think what is in train underneath the Small Business, Enterprise and Employment Act at the moment will level that, will give more information therefore those decisions can be made more quickly. Your point around then do I want to make a decision on, do I want this lending relationship or do I want a wider relationship that will come down to the individual business strategy.

A. (Mr Davies) That is quite an important point because most of the larger banks want to have the primary relationship of the customer rather than a lending only relationship- it is fair to say. So I think that whole consideration of what goes with it, the lending decision in some ways is relatively easy actually, it is the other pieces that are quite key. Particularly important is current account opening and does a customer want to bring a whole relationship and who is the customers, why is the customer coming to you, what is their intention in the whole thing? What is the strategy of that business? How is that going to fit with your own relationship ethos?

A. (Mr Dury) Picking up the push factor if a business is declined for borrowing that is one of the push factors to go and consider another banking provider. I think the challenge you have put there is have they given sufficient time to realise that they need funding to enable that conversation about this is my trigger to have a conversation about whether I stay banking where I am or is it a short term challenge where you go out to a market invoice for example, were you could perhaps fill a gap in your cash flow for a short period of time buys you the space to then go well, there is --

Q. (Mr Smith) There is a difference between transaction and relationship.

A. (Ms McNeil) The other thing that is just worthwhile being aware of that can somewhat confuse that process is the appeals work. The customer has the right to appeal if there is a lending decline, most of those lending declines are because of the need for further information and if they are overturned it is because further information is supplied by the customer which was not in the original application. So there is a little bit of I guess an antagonism between if you are doing a decline referral process or going out to an alternative funder and you also chose to go through an appeals process what is the customer journey as you follow your appeal with the lender you originally went to and you pursue an alternative source of finance at the same time. I do not think we have quite understood yet how those two will play out together which is going to be quite important.

Q. (Ms May) A general question having met some of your relationship managers, I think probably across the board, pursuing lending relationships with substantial smaller firms, as and when they succeed, is the primary objective to fulfil the lending requirements and then to prise away everything else as well. They get the relationship manager but is it ideally they then get everything else. Or are you content with lending only relationships?

A. (Ms McNeil) I think it depends on the customer to be honest.

Q. (Ms May) Your implication was I am not sure I would want lending only.

A. (Mr Dury) It depends on the, it would depend on the size of the customer potentially and how ready they are to move. So a much larger part of the market you might find that actually you start to build the relationship through the lending in and actually they have got a much more complex relationship if they look to switch. In the smaller part of the market, if they are approach because they have been declined for borrowing elsewhere, that is often an indication they are actually seeking another bank. So the conversation tends to open up into that conversation about a wider relationship.

Q. (Ms May) Do you have a significant portfolio of lending only clients?

A. (Ms McNeil) And there are some products where a customer will very much like to be in that position where they spread their ability to draw down some asset finance is an absolute classic relationship where people will want to have a number of relationships and a number of lines that they can draw on at multiple times in that case if that is that customers strategy and they want to be multi banked then that is their strategy. Absolutely.

A. (Mr Dury) Because you tend to find that in the smaller part of the market they initiate the conversation about borrowing from the relationship they have got from the BCA.

A. (Ms McNeil) Yes.

A. (Mr Dury) And if they started up and took their BCA with their existing personal provider that tends to be the indication of where they go to first if they are declined that tends to be the prompt to then think about --

A. (Ms McNeil) Other providers.

A. (Mr Dury) Was the decision to go with my personal provider, my personal bank, the right one at that point when I wanted a BCA and then they look at switching. As you get further up the scale and I am looking to do something that is more sophisticated the reasons for considering another bank may be their geographical coverage: I am looking for a new market. It may be that equally I have been declined, service I had been receiving has not been where I expected it to be. They do not understand what I am seeking to do. And at that point relationships, because they are much more sophisticated, can start with a partial switch. So volume wise we will find that our relationships are more BCA led. But in terms of asset wise --

A. (Ms McNeil) Value wise you have got some lending.

A. (Mr Dury) Because that is often the initiation of a relationship which may then run for a much longer period than 24 hours, 10 days or 2 months. Because it is actually not about the speed of the decision it is about what I am trying to do for my business.

Q. (Ms May) I understand.

Q. (Mr Garland) Okay, thank you. So the next of the discussion is to look at alternative remedies.

THE CHAIRMAN: Okay, because I want to talk about remedies that we are not pursuing under two heads, the, the remedies that we have explicitly considered and decided not to pursue and if there are any unknown remedies i.e. things that you think we ought to have considered but have not. So if I can start off with the remedies notice where we discussed remedies we were not pursuing, and the reasons we have given why we have decided provisionally not to pursue. It would be interesting if any of you feel that we have got things wrong in those areas and the first area is what labelled in the notice as measures to control outcomes which the more searing example is some people thought we should control the prices of unarranged overdrafts which is apparently one of the more profitable areas of BCA business. An area that has been quite a lot of has a concern about it. I would imagine most competition agencies have a presumption against getting involved in intrusive remedies between suppliers and the customers unless there are fairly compelling reasons that we must do so. Here we felt that, first of all, we know there are some things going on in relation to overdraft charges, already some of which you have touched on: the fact that you are obliged to give people notice of overdraft charges and the measures that we are proposing here to increase competition, especially for current account customers with overdrafts, and our current judgement is that

that is a more productive line to pursue than pursuing a price capping remedy for overdraft charges, which, among other things, might have the effect of discouraging supply, and might find customers in financial distress or find that an arranged overdraft has stopped being available to them. I am not putting forward arguments to persuade you, but does anyone want to suggest that we are going down the wrong path here, and that we should have been bolder in more interventions?

A. (Ms McGrath) I think you were going down the right path. I was having a conversation with a Member of Parliament who was saying, "Why do you not go into the payday lending space? We are quite concerned about this," and I think it is important not to have a price cap, so that you get a range of supply on offer in the market, and individual organisations can take their own risk episodes. I think the prompts that have been put in place, or the innovations that the market has chosen to put in allow customers to get notified beforehand, so they can avoid it all together if they want to, but transparency and choice, and being very clear about the amount, I think those are the things that are most important in the overdraft space, and having a variety of models actually I think is useful, because it means that for different customers they can work out the one that is best for them.

The things that you are suggesting in terms of whether we do it with Midata to make that easier? What can APIs do with it? How do we make sure that people are confident that they can move their overdrafts? I think those are far more compelling and will actually make a difference, as opposed to price capping, which I think could restrict supply.

Q. Any dissenting views on that?

A. (Mr Hingston) No. I think the analogy or drawing a comparison between - I think you made the point about the payday - and I think it is the wrong comparison anyway, because an unarranged overdraft is unarranged, and payday lending is arranged. What we are providing is something that is a short term stopgap, if you like, for the customer. It is unarranged, and what we do, as I think was said, it is about changing the behaviour, so that the customer does not go into that unarranged overdraft, and we have been very successful with that, and we have provided you all the evidence to prove that prompting in those situations actually does make a huge difference in terms of customer behaviour.
Q. Moving on then, I am going to come back to another potential remedy to control outcomes, but let me first raise the general issue of free-if-in-credit banking, which some people have argued to us is in itself a barrier to competition, because it dulls consumers' awareness of the real costs of banking, makes them unengaged, therefore, in itself makes the market less competitive. I should perhaps preface what I am saying by emphasising that in deciding not to pursue remedies aimed at ending free-if-in-credit banking, we are not aiming to defend free-if-in-credit banking; that is the way a large chunk of the market is at the moment. If the competition led to free-if-in-credit banking disappearing, our initial position would be, well that is what is happening in the market. We are not defending it as a model, but we have not been convinced by any evidence that free-if-in-credit banking itself is a competition problem which we ought to address, and I suppose that view is being reinforced when we have considered what remedies might be applied in relation to free-if-in-credit banking. I think some of the things that we are considering might actually have

an effect on free-if-in-credit banking -- unarranged overdraft customers became much more price sensitive and much more mobile, your business models for card accounts might change, if competition for customers with large credit balances became even more intense than it is at the moment. That might change the business model.

There might be some changes happening already, but in relation to remedies targeted at free-if-in-credit banking, the idea of imposing a minimum monthly charge does not feel to us as the obvious thing for a Competition Authority to do to increase competition. One proposal that has been floated would be to mandate a minimum level of interest rate on credit balances, which is perhaps a little bit less intrusive, but it is still an intrusive price remedy, and not obvious to us that that would actually increase competition, given that the market place offers these days plenty of professional current accounts that pay interest on credit balances, so would anyone like to argue that we have got it all wrong there?

You are all comfortable with free-if-in-credit banking? How could you let the market do it whatever the market will do to it in the future?

Q. (Mr Land) I guess a different question on this would be how you see the balance shifting over the next three to four years between a traditional type banking product and a reward account, either in the direction things are going anyway, or if we are successful in changing that dynamic with these remedies, and how do you see that balance looking in five years' time?

A. (Mr Hingston) We talked about it a little bit earlier, about the whole development around APIs and everything else. The form of competition is going to change. I am personally of the view that the competition will be around the customer relationship, and you do not need to be a bank, necessarily, to be able to continue to a customer relationship, you have got to leverage the banking product that sits behind, and that makes me think about things that we wanted to do differently, and the way that we wanted to evolve. That is what we are constantly thinking about: how do I continue to make sure that we are relevant from a customer relationship perspective? I think pricing - we talked a lot about pricing is one element, and it is relevant to certain people, but it is certainly not relevant to our entire customer base in every instance. So I think there is a whole number of factors, and I think just to bring it back to a monthly fee or something like that is not going to make any bit of difference to the competitive situation in the market. That is going to be technology, data, and the way that the data is used, that is going to start a much bigger difference.

A. (Ms McGrath) The market now has, if you are a large bank, three quite distinct personal current accounts: there is the new basic bank account, that is completely free; there aren't any charges associated with it, for financial inclusion customers. There is the one where you do not pay a monthly fee but you could have charges of variable level, and then there is a paid for account, where generally you get more value because of the paid for account. What is happening is customers are choosing the one that they think suits them best and is right for them, and so because there is that breadth on offer in the market - and actually far more breadth and range than you get in other markets - again, providing customers have got the information so they can see, based on their behaviour and what they value, what is right for them, I think that is the right way to continue to ensure thriving competition in the market.

THE CHAIRMAN: Adam's question was inviting you to predict that the reward account -- paid for account -- is that going to take a larger share of market? Could the middle of free-if-in-credit accounts get squeezed out of the competition?

A. (<u>Ms McGrath</u>) I genuinely think it depends on what customers value. I do not come from Britain, so I think the NHS being free is quite interesting, and I do not think it is a right that I have, but I do not pay a monthly fee on my current account either, but if you speak to some customers they will absolutely say, "I never want to pay a monthly fee for my account", because that has been such an endemic part of the UK market for a long time, and so I think there will be customers that value the fact that they get more value, are very happy to pay a monthly fee, there is a group of customers that will not do that, and it is hard to tell where they are going to end up, but providing they have that choice, and there is thriving choice in the market, where it ends up does not really matter, providing consumers are engaged and have that choice.

A. (<u>Mr Pilkington</u>) I will be very surprised if, in the next five years, fee-paying customers overtake free customers.

Q. If they do or they do not?

A. (<u>Mr Pilkington</u>) I will be very surprised if fee-paying customers overtake. I think there is a reasonable market. Depending on the quality of the proposition, it should continue to grow, while we keep putting value into it, but it has got a long way to go to beat the free customers.

A. (<u>Mr Dalzell</u>) I think it probably goes back to some of Ed's questioning this morning on price versus value, and if you can build a toolkit that really lets customers more accurately assess the value they are getting, and then to do that really easily and make those good assessments, then I am sure the pendulum will move, but I do not think it is going to move that suddenly and that far, but it will depend; customers' attitudes will change. They have changed a lot in the last five years, they will change a lot in the next five, I am sure.

Q. The last remedy on my list of remedies that we decided not to put on our list of recommendations, was what we call "structural remedies" - in everyday terms, breaking up the banks by breaking up the bigger banks. As we argued, first of all, in our provisional findings, we did not find very strong evidence, that the current level of concentration is having very adverse effects on competition. There is some evidence, but it is not compelling.

In relation to remedies, the separate problem that we identified was customer stickiness. There is a lack of engaging in searching and switching. We did not see that breaking up banks was necessarily going to have a big impact on problems arising from customer stickiness. The big banks do not have to compete to hold onto a large chunk of their customer base - and you do not need to agree or disagree with that - and that is the fundamental problem. Then, having a larger number of medium sized banks that do not have to compete hard to hold onto their existing customer base has not really tackled the central issues. We did not see a compelling argument for looking for structural solutions, plus we are aware of the pretty high cost of divestments, that have taken place, or are currently in play. The TSB divestment, and Williams and Glyn divestment have very high reported plus-tags attached to them. The evidence seems to suggest that divestments are particularly difficult to undertake in banking, because of the way that customers interact with them. Any views on that?

A. (<u>Mr Schallamach</u>) We will make a couple of observations. How about that?

We found it interesting that you found that there were incumbency advantages, and then came to the conclusions you have just said, that actually engagement remedies are actually going to deal with that problem. Making customers more engaged deals with the stickiness, and actually will erode the incumbency advantage, and that was a main reason that you felt for moving away from the structural solutions. I think where we sit is, we buy into the remedies package, and the question for us is: how quickly is that going to have an impact on the market? I think we all sit here and we are not a hundred per cent sure. I am not sure, necessarily, we are going to say, therefore, "break-up" is the answer, but if you do observe what has shifted market shares the most radically over the past ten years, it has either been mergers or divestments. I think the next observation I would make is, when our advisors went into the data room, and what they were allowed to bring out and share with us, I think what was clear to us - and again, probably further analysis is required on this - but that back book customers in particular stand to make larger gains from switching than other customers. Actually those back book customers can be a significant element of the incumbent advantage, as we perceive it, so there therefore may be a remedy that you have not considered - which you could argue is quasi-structural, but ties in with the engagement philosophy - is a targeted remedy for those people on no longer for sale products, who we perceived from our analysis are the ones that are potentially the most impacted.

A. (Ms McGrath) The only observation I would make, is I think we are sitting at the cusp of quite an interesting time in the banking industry, and if I look forward five years, it is not impossible to say that, actually someone who is using the pipes and rails of a bank perceives that the relationship is not with that bank at all, and that their bank is with Apple or anybody else, and it is because as some of the tech companies come in, they are sitting just to the side where they can get the customer engagement point, but not have to deal with the complexity of either the pipes or the regulation. And so I think a structural change, given the changes that are going to hit them, any perceived advantages of incumbency actually will be whittled away quite fast, if you are not really driving reasons for customers to choose that the bank sees the data rather than the tech company. I think it means that almost, these days a structural change is solving yesterday's problem, and actually it is trying to work out how we solve tomorrow's problem, which is very different. In tomorrow's landscape, I think the structural changes thing almost becomes a yesterday's solution.

A. (Mr Dalzell) The only other observation on the structural piece would be, to your point, the evidence is pretty scant for it to be necessary, I think --

Q. Those were not the words I used.

A. (Mr Dalzell) -- but the customer disruption effect can be quite significant too, so actually if the customers want it, and I think that is an important point to the TSB divestment or Williams and Glyn's divestment. That is a huge amount of disruption to a customer often, which they are not always that happy with. That means the need for that evidence, to me, really does have to be pretty great, because it is not just the people in this room who will feel any consequence if that hits; real people going about their days, running their businesses, trying to live their lives - that is a big decision to make to disrupt that, I think, and you would need very solid evidence to back it.

Q. Yes, well Adam and I sometimes reflected a little bit on the difference between this and airports, because of course the divestment of what was then BAE is one of the jewels in the crown of the Competition Commission and Adam was involved with, and at one level it is a huge business, but airline customers, if the ownership of Gatwick changes, it is a matter of very limited interest to you as a customer, whereas if you are a Lloyds TSB customer and Lloyds and TSB separate, that is a much bigger issue.

A. (Mr Dury) It seems me that customers care a lot about …

A. (Mr Attar-Zadeh) I was just going to say, from our perspective, I think all of the ones that you have discounted, we agree are probably not the priority focus in terms of the current situation we are in at the moment, from an industry perspective. I think increasing engagement levels and talking about the CASS guarantee, the Midata solutions, the remedies that are being proposed, are better suited, at this moment in time, to help us move forward from where we are today relative to the three that you have discounted, so I think we are aligned to your perspective on this.

Q. Can I just say, in relation to back book customers, I think our general view is that we put more emphasis on the general advantages of retail depositing institutions, that having a healthy book of current account and savings account customers gives retail banks a relatively cheap and pretty secure source of funding. That seems a bigger advantage, that the incumbent banks then land at the back of discrimination between customers on products currently in the market and customers on products that are not currently in the market, but as on everything, we are open to further responses. Having seen what your advisors have said about the analysis in the data room, you wish to make some further points to us, we would be very happy to look at that?

A. (Mr Schallamach) From our perspective, it is quite a marked difference. It is

70-odd per cent, depending on the customer profile, in terms of difference, so that is a marked gain from switching. Then going back to: what can we do about it, which are the proportionate remedies? This is actually an element of the portfolio that you can isolate and say, "This is something that we can target a remedy at".

A. (Mr Hingston) Is that a remedy that is related to just raising awareness?

A. (Mr Schallamach) Yes, you bring it back into the engagement space.

A. (Mr Hingston) Going back to the point around whether they are primary banked or secondary banked, you find a large part gets less engaged and dormant over time, they may maintain accounts with you but they have actually got accounts with potentially a number of other providers as well, so it is really about making sure that -- it is a financial education kind of element in the UK, and making sure that there is a sufficient amount of awareness that they can take decisions on products they have probably even forgotten about.

Q. (Mr Land) There will be people who have their current account for more than five years, so would that be an attractive sort of thing to market into it, if you knew that, if you knew who those people were?

A. (Mr Hingston) I think you have got to look at how they are using the account, so there is a difference between having a current account and then how much transactional activity is going through it, so we have all probably got slightly different definitions of dormancy, I am sure, but the ones that have become dormant but have maintained a balance in the account that you want to stimulate some activity around. Internally we would try and reactivate clients, but quite often it is quite difficult, particularly if you cannot market to them. It depends on what their marketing preferences are and everything else.

A. (Mr Pilkington) Just following up, we do have remedies, but there is no doubt, from where we are sat, there is a benefit in being a larger business, as you have got of course a large customer base, than you have if you are starting, and the amount of effort you have to put in to grow into this business. Accepting that, I can see the challenges with divestment, but I think it does mean that we should be working really hard on the awareness piece, and the back book is an example of a potential opportunity. As I said, we are a challenger, we have grown, we have seen how much effort it has taken us to go from here to here, so if you want to look in the market and see a broader range of double digit market share, to give customers more choice, it is a long haul, and quite an expensive haul, so all we are saying is, yes, we get it, with the remedies; that is what we probably think is right, but we need to work at them and work at them hard.

THE CHAIRMAN: Quite right. I think we argued quite strongly in our report that we saw the most significant barrier to entry in the market is the advantage that incumbents have in all they are to their customers, because that makes it harder for challengers, and challengers are not just new banks. It makes it harder for challengers to build market share as fast as they would be able to do in a more engaged market.

Q. (Mr Hoehn) Another type of remedy we may have not discussed it - only implicitly - that there are remedies under our control that we are considering, others were not. There now are remedies within remedies outside of our control, and that is technology. We have talked a lot about technology, making things different. You have talked about aggregators coming in, using available technology, may be new technology. Where is the biggest disruptive technology coming from that could affect the remedies that we are considering, or could introduce changes in the market?

A. (Mr Davies) I think from our side of it, I would echo what Greg said, around that point of aggregators and that change of the relationship to a different provider. Currently, the banks hold a relationship with the customer and supply virtually all of the products to that customer. There is a quite significant possibility that over the next few years, they will simply come in and take the front end relationship away from the banks, with the banks being left as providers of services to that front end provider who controls the customer relationship, and therefore the value in that whole equation, and you have seen that in other industries already with technology evolution. You see people like Amazon, who clearly, for e-commerce SMEs are already a very dominant force, starting to lend those SMEs, people like PayPal, who already now provide payments to a lot of e-commerce SMEs, moving into lending. People like Xero, the accounting platform, providing quite a wide range of services to their customers that they provide accounting software to. There are a lot of people around the edges, very interested in that space at the moment. I think as the infrastructure evolves, that is a massive potential change in the market.

A. (Mr Dalzell) I completely agree. I think it is true for personal too actually, but the availability of data and the availability of the technology lets you put the financial service product in the moment the customer needs it, whether that is making my payroll payment, I am buying a car, I am buying a house, whatever it might be, that availability of data means that rather than it having to be a separate process where you do the thing you want to do and then you go off and you have a conversation with the bank or whoever else, in separate or in parallel, and it is just the chore you go through to get the outcome, actually you seamlessly integrate it into the experience. That is what is coming. That is what APIs are going to do. That is what data is going to do. It will happen pretty quickly, I think, in certain spaces, not in others, but I think it will be pretty transformative.

A. (Mr Pilkington) You will get such a random set of answers to that question, depending on your personal opinion. The average product holding is 2.2 products, so we do not sell all the products. Mortgages 65 to 70. 70 is already intermediated by intermediaries, so we are already there. If you look at what's happening in general on insurance and the impact of the aggregators. Motor insurance, the same. The market has already changed, and changed quite a lot. What will happen - we have had quite a lot of conversations - to be honest, I do not think any of us truly know whether, because of the nature of this relationship from a customer perspective, i.e. this is my bank and I have got a particular view of that bank now, whether the fact they can pass data around to aggregators will fundamentally change that, I genuinely do not know. As I said, if you asked us all, we would all have a very different view on it.

A. (Mr Dury) The very concept of a bank, I think comes back to what Catherine said earlier, that that is what is shifting at the minute - the view that I have a bank and that is the place that I go to for everything I ever need in terms of my funding and anything relating to my finance, is diminishing rapidly, and that diminishing is only going to accelerate of APIs. For me there are three things: one is the ability to aggregate the data, and where I go to do that, and how that can be done consistently from multiple places. I may have information about me personally or as a business. Secondly, it is about how you can bring context to that, on the basis that I am with one or two providers at the moment, what other things are available to me in the market, and how can I compare them? Is how you move into the price comparison websites, in that space, and finally it is about visualising and triggering the action, and if you can aggregate information, you can put context to any information that is available, and then you could put it in a form that makes it easy for you to make decisions. You then take action.

I think that is a shift that is going to happen in the next three to five years, and in each one of those areas, there are developments that are happening rapidly, whether that is the open banking data working group activities under way at the moment, whether it is related to some of the security decisions about what information I share, with whom and when. It is around the behaviour of customers to be familiar using services that provide information in a very visual way to help you make a decision. It might be related to existing price comparison websites. It is related to how I buy my insurance. I am very comfortable with that type of user experience, and the things are coming together; that is what is going to accelerate the change.

A. (Ms McGrath) The only other bit I would add, I was sitting up in Newcastle, and we were talking with some customers, a 20 year old and a 92 year old actually. The 20 year old is not at all digitally savvy, wanted to use the branches, did not want to go anywhere near mobile banking apps, interestingly, and the 92 year old banked on a mobile banking app. What it reinforced to me, is that we are seeing a very considerable - and more than I have seen before -fragmentation in terms of how customers want to use technology in banking. At the same time whole lot of other experiences that we have in completely unrelated industries, are either transforming beyond recognition or actually staying the same, based on "I want it to stay the same". I think we are seeing that even more so in banking, and then that question about: how do I feel about it being my money? Am I completely agnostic, because I am just going to be driven by a beautiful customer experience? Or actually am I really bothered in terms of who has my money, and so, anybody new and sexy I am not going anywhere near? Really, really hard to tell. So I think different bits of technology are going to drive different step changes, but for different groups of customers. I think that is what makes it particularly interesting and difficult at this point in time, because any thought of one solution will resolve all problems, is long past.

A. (Mr Dury) That could be driven from different angles. The Xero example for an SME - the driver there may be more things becoming available in Xero that helps to take an SME on a journey to utilise data. For the mobile banking user, who is a personal customer, the situation of it may be how it is delivered through the mobile interface. So it will be different for different segments, and that is how you drive that, certainly the SME market, for example, to start up in a larger establishment …

A. (Mr Schallamach) Again, I would endorse what Catherine has just said, about the fact that we all sit here and we are very very excited about digital technology, and what is the next disruption, what is that going to do for us? But there are significant elements who are not interested in that digital enablement, and we do need to consider their needs in what we decide to do.

Q. (Mr Hoehn) I realise this is a bit of a crystal ball thing. Finally, what I do hear is that if these technological changes, these business model changes and innovations, have become relevant, then the remedies that speak to that, which support it, are around willingness to share data, and the ability to share and collect data, which speaks to the APIs, so those are the remedies that probably support if such a development is happening or will happen. Is that correct?

A. (Mr Davies) Yes, for sure, but I think actually most of the package supports that direction of travel. The furtherance of a price comparison website will again help force some development of some of the supporting elements we have just discussed, so for us the whole package is - barring a few we talked about mid-session - really jells together quite well, and is pretty key, and the one driving that step change. Bits on their own, not necessarily that transformative, but the package is …

THE CHAIRMAN: Well that has certainly been our view that the remedies need to be seen as a package, indeed, as Colin said, but is there anything missing from the package? Have we missed any remedies that we ought to have considered but we have not? Nobody is speaking now. There is not an obvious answer to that.

Okay, then let me finish off with a couple of issues that are still on our agenda. If we are of the view that breaking up incumbent banks is not the way to go, then competition is either going to come from competition among the existing incumbents, or from entry incumbents, and you see potential entry as a very important source of competitive pressure in this market, so as you would expect, we need to make sure there are not unnecessary barriers to entry, and we have had a discussion on what the barriers to entry might be. One, as yet uncompleted discussion is about the role of Prudential Regulation as a barrier to entry. A number of challenger banks have said to us that the way that incumbents on IRB risk models are key, compared with banks that are on standard approach to risk models, is a barrier to entry. That is a very complex discussion, and the area on which we have focused was particularly in relation to domestic mortgage revenue, including buy-to-let lending, where the difference in the treatment of IRB banks and standard approach banks is particularly wide. Mortgage lending is not part of our terms of reference, so we are interested in this from the perspective of whether these differences in regulation are sufficiently large to affect entry into the market. The prudential regulations create a significant and unnecessary barrier to entrance, particularly entrants who wish to get involved in domestic mortgage lending as part of their overall activity as a retail bank. It is something on which - as we have said in our report - we intend to do some further work, and we would of course be happy to receive any views in writing that you wish to offer on this issue.

Are there any views that anyone wants to express around the table on that issue?

A. (Mr Pilkington) It is quite a strange one. I understand from a small business or a new entrant, the challenge that they would have, given some of that, but you either believe that we need that capital support to run a business, and becoming a bank, otherwise Customer A is arguably going into a bank that is less secure than Customer B. So I am just struggling with that concept. I think the second bit, as we have said, several times, it is hard work growing this market. That is just one of a number of examples in terms of the challenges in growing in this business. The fifth point is, if you are looking for competition, and as we have been talking about before, the competition might look different, in that there may be a separation before the core functions of a credit account, and the payment elements of it, and actually you are looking at some businesses and they do not want to be banks, because of the regulatory requirements, the capital requirements, and all the things that go with it, and I actually think that if they are the rules for being a bank, they are the rules for being a bank.

A. (Mr Dalzell) The first priority of the regulatory regime has to be to keep its system safe, and it is for the PRA to comment on whether they have set those hurdles in the right places or not, but I think having a system which the businesses already in it are confident it is safe, the customers who use it are confident it is safe, and the regulators and the country it operates within know that it is safe, that has to be the absolute first priority, and that is really what the PRA regime over the last five to eight years has done. That feels like something you would want to be exceptionally careful with before you played with it. The law of unintended consequences is very, very large there, so I think as long as we keep dragging it back to that context of safety - and to Graham's point - it is the rules of the game to be able to compete in this market, then I think questioning it with that mind-set is legitimate, but reducing the barrier to engender competition, or in the hope it might engender competition, at the expense of safety, would seem like a very very high price to pay.

Q. I suppose the question is: is there a prudential safety reason why an established bank should have to carry a quarter of the prudential capital against its buy-to-let mortgage book?

A. (Mr Dalzell) I think that has to be a conversation for the PRA. There are reasons why they accept those differentials in capital, and they expect them, that seem to me fairly legitimate, but it is for the PRA to find that, and also for them to comment on it, I think.

A. (<u>Mr Schallamach</u>) I suppose it is difficult to see what remedy is within your control, given regulation that originates in the Basel Committee, then goes down to European legislation, and is largely imposed on us in the UK, and the PRA is just an implementing body, but also we do know that there is work going on, the PRA, Basel, Europe, are aware that there are differences. From my perspective, I would say it is the smaller, non-IRB institutions who pick up on things to support their argument, and there are other counter-factors which we would point to, which would say that differential is not there.

A. (<u>Mr Hingston</u>) There are other capital requirements that they don't have that we certainly do, so I think you have to look at capital as more holistic, rather than just mortgage risk points …

Q. But the argument is not within our control, as you say, not really within the control of the PRA. It is not necessarily a compelling argument against saying what we think …

A. (<u>Mr Schallamach</u>) I suppose you can say it, but the question is …

Q. If it is an important competition issue in the retail banking market, we would probably - certainly speaking for myself - be inclined to say it as we think it is, but it is an issue that we have not concluded, but it is a quite complex issue. We want to do some further work on it.

The last issue in the same area of barriers to entry to new and challenger banks is the new bank tax, or the change in the bank tax. Again, that is an issue that we are going to look at in our final report, and the Treasury Committee, among others, have said how much they are looking forward to whatever we have to say about the bank tax. [✄]

Any views around this table on the change in taxation of banks?

A. (Mr Pilkington) It is always in the press every week. It is building societies versus banks perspective, so we have a very articulate view. It was in our submission - and all over the papers …

A. (Mr Attar-Zadeh) I think there is no doubt, from a challenger perspective, the more costs into the business means the less value we can give back to the customer, and therefore we have to somehow work out how we can absorb it and sustain the profitability of the portfolio. It is a relevant change.

A. (Mr Dalzell) I would not make a comment on the bank tax particularly, but I think the point was made earlier about just being clear on who the competitors are, because I think there are a lot of very good reasons in taxation or in capital rules or whatever else, where you might put a set of rules against what would offer a full banking capability, payments capability, lending capability, deposit capability, for example, but a lot of the services the customer actually wants when they take a business current account, for example, as we talked about before, there are other providers who are actively competing for that, and are facing those barriers. PayPal maybe are an example. There are others. So I think it is just worth, whilst those things are well worth conversation and investigation, it is worth bearing in mind there are other sources of competition for these opportunities to create value for clients, and that is why we are getting a huge amount of competition from those other sectors, which should be borne in mind I think, and we get very stuck in the technical detail, about capitalise or tax or anything else …

A. (Ms McGrath) The only other observation I would make is I think it is important to look at the cost advantages and disadvantages in the round, because I think there are swings and roundabouts, and looking at it as a totality, is there too much of a burden, is an important way of looking at it.

Q. I think we … Ed, did you want to say something?

Q. (Mr Smith) We spent a lot of time almost describing a sort of -- which is the API, and I know it is a component of an overall, but you have sort of described it, all of you, as a great thing, and it will unlock, and it will do this, and it will do that, and yet industry and history is on the side of it takes a lot longer, it is a lot more difficult. The implementation after development is also fraught with difficulty. There is enough of history behind, not just this industry, but other industries, to show that, and it is in the face of an increasing dynamic of public worry about security of data. If you were standing in our shoes, would you not want a pretty high degree of confidence of the timely, comprehensive delivery and implementation of an API?

A. (Mr Dalzell) I think API - today at least - has become a bit of a proxy for something else, and the something else is the client experience that is going to get engineered through the layering of the remedies. That is the bit that we think - I think - is interesting about your proposal.

When you combine a prompt with the ability to take action off that prompt through a comparison website, supported by an API or not, with a very simple and efficient switching service off the back of it, it is that combination of things that I think we have been trying to describe. An API is definitely a key component of one aspect of that experience.

Q. (Mr Smith) But you have said to us, "Don’t worry too much about Midata.

A. (Mr Dalzell) I think the comparison face of that journey --

Q. (Mr Smith) You have got to make sure we are all focused on APIs, because otherwise we have not got the technology resources to do Midata and API.

A. (Ms McGrath) Let me try and frame it slightly differently? I think we will get quite a bit of momentum. So if you just pretend API is never going to happen, I think there will be momentum that will be gained through focusing and targeting on giving consumers; confidence on the right things. I think it accelerates and it makes the process a lot simpler and easier when APIs are in place and are in place well, and if I were in your shoes, I would want to understand what that looks like. I think the thing that is really complicated about this, which is why, from our perspective, it is a debate we are very heavily engaged in, is it has got great opportunities and really significant risks, and you have actually got to progress both of those at the same time, because you cannot afford to get it wrong. I would not say "do it in 12 months because we need to get it out, and let us get it out quickly", I would make sure that the pressure is there, that the industry is not dragging its feet, but ensuring that it is done well is more important than whether it is in 12 months or 18 months.

A. (Mr Pilkington) No one is engaged, no one is aware and no one is interested, it does not matter what processor -- but it is back to all of those things. We have got to engage customers, we have got to make them aware of what is available, give them a reason to do it, and then make the process - when they come to do the process – work -- so I have seen it as part of a range of things that you need to do to make this work.

A. (Mr Attar-Zadeh) And Graham, just building on the point you made earlier as well, it is very difficult, even with all those things in place, as a challenger in the market, it is still very tough to try and grow your market share, even with compelling propositions and so forth. So I do not think there is a silver bullet in any of these remedies, it is a combination of a package of things that will drive

incremental improvement for those that are trying to grow their market share …
A. (Mr Pilkington) It is not as important as I thought it was, is what you are saying.
A. (Mr Dury) APIs -- if it was brand new technology, they would have been done nowhere else, then maybe the downside risks that you are articulating could be greater, but the fact is the UK is not market leading in this. There is existing technology, other people have done this.
It supports and enriches and accelerates the process. I think the single biggest thing is to be identified before the roadmap is set out is the governance, the framework and the control, because if you are going to have people that can utilise the data that is available, how are they vetted? If you are going to set a standard, who governs the standard? If we need to ensure that consumers are educated on what happens when you share your data, there needs to be some consistency across the market. That is the very bit at the moment that is still being defined.
Q. (Mr Smith) So that sort of plays to the point that I was making, and Catherine reinforced, which is it will take time to get this right, and therefore, do not just expect speed at the expense of getting it right, which is a really critical component of your suite of responses.
A. (Ms McGrath) So what do I think would be a bad outcome? CMA saying something to do with APIs here, Open Data Working Group saying something about it here, European Regulations saying something about it here. That will slow it down and it will take a really long period of time. If you get the weight behind "here is one path of doing it", it is going to have these use cases: "do it once and do it well", I think that is going to be a very successful outcome, but back to your point, if it does not happen for three years, do I think nothing is

going to change because of the package of remedies? Absolutely not. I think the total package will actually drive change, but I think getting the API bit right, will then enable a speed --

Q. (Mr Smith) An acceleration --

A. (Ms McGrath) Yes.

A. (Mr Pilkington) That is the theme of this market. It takes longer, and it grows slower, and if you want quick, and you want speed, that is where you get divestment, but we have been growing and it is slow and it is hard work, and it is the law of attrition, and you just keep going … I am afraid that is almost the nature of the beast.

THE CHAIRMAN: I am not sure if the evidence for speed in divestment going well is all that compelling.

A. (Mr Pilkington) I can promise you, to get to 5 per cent organically, it was not quick.

Q. Well, I think that brings us to the end of today's business. For us, I know it has been a very productive day indeed. We have learned a lot from your comments on individual remedies. I have been particularly encouraged by the remarks that several of you have made about seeing the remedies package as a whole being the key, and seeing it as having strong potential, because that is certainly the view that we take of it. I find it very interesting the way that, in various parts of the discussion, you have related remedies for things that are already happening, and that, we think, is a very important part of the overall package too.

It has also been interesting, especially in the afternoon, to hear what is emerging about the other ways that the banking market might evolve in the future, because that is also an important part of the conflict for us to think about. I know, for me and my colleagues, it has been a very interesting, productive day, and I hope that you feel it has been a useful day for you too, and if I can just say one word about the format: this is now the third roundtable that we have had with several parties, and we have found all three of them extremely interesting and productive. We did not embark on this format without giving it careful thought, because there are various risks in doing this kind of meeting that might make it unhelpful, or worse, and we are very pleased that it has worked out well for us, and looking at the advisors round the back of the room, I hope you feel too that this format has worked well on this occasion, and that is one that the CMA may talk about using in other formats. You might have encouraging words for your colleagues about the balance of risk and reward. Thank you all very much indeed for all that you have done today and for all the cooperation that we have had in the overall inquiry. Thank you.

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 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?