COMPETITION AND MARKETS AUTHORITY
RETAIL BANKING MARKET INVESTIGATION

Notes of a Roundtable hearing with Northern Ireland banks
held at Clayton Hotel, Belfast, Northern Ireland
on Friday, 4 December 2015

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

Alasdair Smith	- Chairman
Jill May	- Member
Tim Hoehn	- Member

FOR THE STAFF

Colin Garland	- Director of Remedies
Christiane Kent	- Inquiry Director
Tim Ker	- Legal Adviser

FOR BANK OF IRELAND

Alan Bridle	- UK Economist and Market Analyst, Bank of Ireland
Jim Coleman	- Head of Planning and Governance, Bank of Ireland
Ian MacDonnell	- Business Banking NI, Bank of Ireland
Carol Hall	- Group Technology and Change, Bank of Ireland
Anne MacMillan	- NI Legal, Bank of Ireland
Catherine McCaughey	- Senior Commercial Manager Personal Current Accounts, Bank of Ireland

FOR ULSTER BANK

Mark Crimmins	- Regional Director, Business Bank NI, Ulster Bank
Richard Donnan	- Regional Managing Director, Corporate and Commercial Banking NI and Head of Ulster Bank NI
Richard Warnock	- Customer Outcomes Lead, Ulster Bank
Rob Rees	- Legal Counsel, RBS
Bruce Kilpatrick	- Partner, Addleshaw Goddard

FOR FIRST TRUST BANK

Richard Ennis	- Director of Business and Corporate Banking, First Trust Bank
Aisling Press	- Head of Strategic Transformation, First Trust Bank

Michelle Emerson	- First Trust Bank
David Peacock	- Head of Business Governance, First Trust Bank
Alice Wallace-Wright	- Associate, Hogan Lovells

FOR DANSKE BANK

Andy McComb	- Senior Manager, Transaction Services, Danske Bank
Danny Stinton	- Head of Business Development, Business Banking, Danske Bank
Tim Turner	- Head of Personal Products, Danske Bank
Fiona Sturgess	- Corporate Lawyer & Assistant Company Secretary, Danske Bank
Dorit McCann	- Partner, Carson McDowell

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: It is a great pleasure for us to be visiting Northern Ireland again. We are meeting some of you again. I am going to hand over to Christiane in a minute who is going to try to keep us in order for the morning.

Can we start, for the record, with introductions? I am Alasdair Smith; I am the chair of the CMA Banking Inquiry.

Q. (<u>Ms Kent</u>) I am Christiane Kent. I am one of the inquiry directors.

A. (<u>Mr Crimmins</u>) I am Mark Crimmins. I am a Regional Director with Ulster Bank, Business Banking.

A. (<u>Mr Donnan</u>) Richard Donnan. I am the head of Ulster Bank in Northern Ireland.

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

Q. (<u>Mr Garland</u>) Colin Garland, director of remedies at CMA.

A. (<u>Mr Stinton</u>) Danny Stinton, Head of Business Development, Business Banking, Danske Bank.

A. (<u>Mr McComb</u>) Andy McComb. Senior Manager, Transaction Services, Danske Bank.

THE CHAIRMAN: While we are on Danske Bank, can we have introductions from the back row as well, please?

A. (Mr Turner) Tim Turner, Danske Bank

A (Ms Sturgess) Fiona Sturgess, Danske Bank

A. (Ms McCann) Dorit McCann, Carson McDowell

A. (Mr Turkington) John Turkington, Ulster Bank

A. (Mr Warnock) Richard Warnock, Ulster Bank

A. (Mr Rees) Rob Rees, RBS

A. (Mr Kilpatrick) Bruce Kilpatrick, Addleshaw Goddard

A. (Mr Bridle) Alan Bridle, UK econonist and market analyst, Bank of Ireland.
A. (Mr Coleman) Jim Coleman, head of planning and governance for Bank of Ireland, Northern Ireland.
Q. (Mr Hoehn) Tom Hoehn, inquiry member.
Q. (Mr Ker) Tim Ker. I am a lawyer in the CMA.
A. (Mr Ennis) Richard Ennis, First Trust Bank.
A. (Ms Press) Aisling Press, head of strategic transformation, First Trust Bank.
A. (Ms Emerson) Michelle Emerson, First Trust Bank
A. (Mr Peacock) David Peacock, First Trust Bank
A. (Ms Wallace-Wright) Alice Wallace-Wright, Hogan Lovells
A. (Mr MacDonnell) Ian MacDonnell, Bank of Ireland
A. (Ms Hall) Carol Hall, Bank of Ireland
A. (Ms MacMillan) Anne MacMillan, Bank of Ireland
A. (Mr McComb) Can I raise one point before we start? Can I register a potential conflict of interest with Remedy 12? I also am Chair of the Current Account Switching Management Committee and a BACS Board Director.
THE CHAIRMAN: I do not think we would regard that as a conflict of interest. On the contrary, your expertise in that area, I am sure, we will want to draw on in the discussion on the current account switching.
A. (Mr McComb) I am happy to provide any information or guidance on the actual running of the current account switching service but I do not really want to make comment on the governance, myself. My colleagues may.
Q. That is understood.
Q. (Ms Kent) First, thank you all very much for coming. The clattering outside is in fact additional water and glasses, so if anybody needs refreshments please

do feel free to pop out.

As you all know this Roundtable is part of a whole series of roundtables that we are holding with various market participants and stakeholders. We have circulated slides. We very much would like to focus the discussion around those slides, which essentially is around our package of remedies, which in turn have been developed around the customer journey. In trying to address the various parts of the customer journey, so we would like to keep to the broad structure of the slides if possible.

Obviously, it is an opportunity for all participants to not only put forward their views in terms of the remedies package that we have put forward, including variations and how it could be improved, but also, alternative remedies. A number of parties at previous roundtables as you will probably have seen from the submissions we have published on our website, have put forward alternative remedy proposals and we would like to cover some of those in the discussion today as well to get participants' thoughts.

I just wanted to make a few comments on practicalities. We have noted that Northern Ireland is a separate geographic market so in discussions, it is always very helpful to flag to us where you see that there are differences and indeed, where you do not see that there are differences with the rest of the UK. Also, as your responses have clearly highlighted, particular issues that arise around the Northern Ireland Order, and how that may interact with the proposals on remedies.

I hope we will be able to have a comfort break at about 11.30 am and then break for lunch at around 12.30 pm, with a view to finishing at around 2.00 pm if we can.

I just want to remind everybody that there are competitors in the room so if you could bear that in mind in the discussions. I think there are various people here who I am sure will jump in if there are any concerns, but just as a reminder.

We wanted to structure the discussions around the customer journey so looking first at awareness and at the triggers and prompts that we might be able to introduce. Then looking at searching and then we will look at remedies that we indicated. We will not mind if we explore other areas that we had had highlighted in our provisional findings but we are still doing more work on them.

Q. (Mr Hoehn) It falls to me to stimulate discussion and prompt you on the remedies that we have put forward. The first remedies stand at the beginning of the customer journey that may lead to switching and may lead to customers saying they are satisfied with their current arrangements.

The first one is about prompts for customer to review their banking arrangements at key times. Here we have had a number of responses by banks. We have had responses from yourselves and I would like to really know from you what you think about the general approach to using regular prompts or event triggers to send to customers to review their banking arrangements. The instance here, in Northern Ireland, you have lived with, since 2009, the Order and you are sending annual statements out. You are also sending a prompt for customers to consider switching. I would be interested in your experience. What is it that can be done to improve or amend such a procedure? Who wants to go first in terms of what are the key events, the key triggers that should be considered by our Remedy 1.

A. (Mr Stinton) When we looked at the topic of prompts, there is a general feeling that prompting is a useful thing to do, but you can break the prompting question into two. Should these be trigger-based prompts and a trigger can be either a bank initiated event or a customer initiated event or should you consider greater reliance and use of periodic reminders and prompts? As you say, we do that currently annually with personal customers.

In our view, the periodic prompts -- we would consider to be much more effective for three reasons. Number one, it will reach all customers as with our PCA annual reminders. We send them to all customers rather than just a small number. Number two, that prompting process with PCAs is conducted at a time when the customer can see what the cost of running their account has been, where we will detail all of the account running charges. Number three, I suppose, relates to a difficulty in understanding how we might best use triggers. If you take some of the bank-initiated events, for example, one of the suggestions that you had made was on the back of a major dispute. Well, in such a scenario, our focus is very much on resolving the dispute and there are very well articulated complaint handling mechanisms, whereby communications and the time within which communications are issued or delivered. In our view, the primary focus of the bank at that stage is resolving the issue, which has caused the trigger.

If, on the other hand, you were to look at customer-based triggers, things like starting a family or moving jobs. It is difficult for us to understand as a bank how we might intervene at that point, because with the best intentions in the world, we will not know all of those details and we will not be timely in understanding that you have grown your family. From that perspective, we do not have an issue with prompting. We think it is something we do already.

Q. (Mr Hoehn) Has prompting been effective, if I may ask?

A. (Mr Stinton) Has it been effective? Your evidence would suggest that there has not been a great uplift, but that might come back to the question will any one thing be successful in of its own right.

I think it has gone some way in terms of allowing us to communicate in a transparent way with our customers. If we were to think about could we increase the frequency of periodic communication, would you send your switching leaflet and switching message twice a year to PCA customers? Well, then I think I would favour that rather than a much more piecemeal approach to triggers, where you are trying to touch a relatively small number of PCA customers within your base.

On the business side, you will be aware that we have to pre-notify our business customers - as is the case with personal - of any charges which those businesses have incurred on a monthly basis, in advance of dispatching their statements. We do that on a monthly basis, we do not send an annual summary. I think from an SME's perspective, a monthly communication is much more effective. They obviously will run their business on a much more day-to-day basis. From that perspective, we have a mechanism where charges are being transparently communicated. You can very clearly see what costs you have incurred and perhaps what we should do is think about how could we use that infrastructure. Can we add a switching message to some of the pre-notification?

The key point I think in both situations is that, as a result of some of the Northern Ireland conclusions that have been reached before, we do have an infrastructure there, which we can build on and use. I think in terms of effectiveness it is one which reaches all customers. All business customers will incur a charge at some point or other in the year and all personal customers, whether they have incurred a charge or not, will receive their annual summary. There is a mechanism there where you can reach your objective of getting the message out there.

Q. (Ms May) Can I just ask a question on that? For SME customers who are routinely transacting, does that mean every month you are sending them advance notice of what their charges will be?

A. (Mr Stinton) Yes.

Q. (Ms May) In paper form?

A. (Mr Stinton) Yes. Unless the customer has stated their preference for electronic transmission and they will receive it through secure email.

Q. (Ms May) Can they opt out of that or not?

A. (Mr Stinton) Can they opt out of receiving the charges?

Q. (Ms May) I mean receiving constant messaging?

A. (Mr Stinton) It is more a case of opt in. Do they want to receive the pre-notification electronically? The businesses will dictate the frequency of their statements but we are mandated to pre-notify charges in advance of the statement.

A. (Mr Donnan) For clarity, they receive a pre-notification but they decide which channel they receive that pre-notification.

Q. (Ms May) Do you find that when they receive the notification -- does it tend to trigger changes in their behaviour or it is just now part of the wallpaper as it were?

A. (Mr Stinton) In a broader sense we see an increase in use of cheaper channels, both on the personal and business side, where customers appreciate that there are cheaper ways to conduct some of the transactions, so we see a move towards usage of those channels.

THE CHAIRMAN: The annual statement and the leaflet, do all your customers get it at the same time of the year?

A. (Mr Stinton) For Danske Bank, yes. For all our PCA customers.

Q. Different banks have different times of the year when they issue these statements do they.

A. (Mr Donnan) Our bank would issue it from 12 months from the date the account was opened so it would be on a rolling cycle. It depends on the system capability et cetera.

Q. Your customers, they all get it --

A. (Mr Stinton) All of our customers will get it at the same time, yes.

A. (Mr McComb) That is a good point. If you look at the last published statistics on the BACS facts and figures website, it shows the current account switching dashboard. I think the last published one was October, which gave the quarter July to September, and it actually flags that the Northern Ireland awareness figure is higher than in the rest of the UK. That ties in with the distribution of our switching leaflet in that same period.

Q. (Ms May) Awareness of CASS is highlighted.

A. (Mr McComb) The awareness of CASS.

THE CHAIRMAN: Do you observe any seasonal pattern in actual switching?

A. (Mr McComb) No.

Q. Is that relevant to you if your customers are on a rolling pattern.

A. (Ms Press) We would be similar to Danny's situation that we contact our PCA customers annually at the same time. We have monthly pre-notifications and actually, the customer engagements and the responses tend to come on the back of the monthly pre-notifications as opposed to the annual mailing.

We would be in broad agreement with what Danny's just articulated in terms of our preference and our recommendations for triggers. Maybe one thing just to share with you in terms of the customer perspective of receiving a trigger communication at a particular time, particularly in a major dispute situation. As Danny said, the ethos is to ensure the customers' concerns are addressed first and foremost and we would have a concern that to intervene at such a time would actually indicate to the customer that we might rather they banked elsewhere than resolve their dispute satisfactorily. That would be a concern we would flag.

The example I would use to underpin that is that a number of months ago when we wrote to customers on changes in the financial services compensation scheme. We had customer calls to ask us were we looking for them to move and why were we not wanting to continue to bank them, because we included the switching clause for them. I think we need to be very cognisant of the customer's perspective and understanding. It is important that we are very transparent and that we equip them with the knowledge that is out there around switching, but in such a way that it is helpful and informative to them, and to not generating concern for them that their banking is not valued.

A. (Mr Coleman) Ours is done over a short window within a kind of monthly statementing cycle at a particular time of year, so it is effectively an annual mailing. Over the course of say a month or something like that with the insert put in the bank statement.

In terms of general views, we would concur broadly with what Danny has said.

The triggers and the balance between trigger events and regular mailings. We would favour the regular periodic communication rather than jumping into the middle of the relationship and other things going on with customers

In terms of the effectiveness, I think you ask a question how effective has it been since 2008? I think we would point to the fact that CASS has only been around for a couple of years. Whilst the awareness programmes have been running since 2008, it is really only with the advent of CASS that customers begin to understand how to switch, it is easy to switch and clearly those CASS awareness programmes need to keep building. No doubt, we will talk about that later on. But the combination of the awareness and the advent of CASS, which will evolve as a process and hopefully customers to begin to see that it is easy, it is convenient, it is risk-free.

So I think it is that mentality, if you like, needs to take over the marketplace. The two things in combination stand some chance of increasing switching levels, but I would point to something we highlighted in our submission on the Northern Ireland Order. That work the FCA has done recently, back in March of this year, did point to the relative ineffectiveness of all of these types of communications to customers in changing customer behaviour in relation to switching, in broad terms. I do not think we should be expecting too much from all of this in terms of customer behavioural change.

Q. (Mr Hoehn) We are always talking about bank-generated messages. Is there a role for other parties, regulators, FCA to reach out to customers and prompt them to renew their banking arrangements?

A. (Mr Donnan) If you think about the awareness piece, there is definitely a role for CASS in that respect to increase promotion of switching and to improve confidence in it. There is a potential role for industry bodies in that respect as well. In fact, there is a role for the banks to increase the promotion of switching, so it is probably a combination of those things.

Just one point I would make on the notification, our preference would also be for periodic notification. The additional triggers you have from a customer perspective means you could have a single customer getting multiple communications and getting completely confused on the triggers, so I think that is one of the risks of the triggers. One further area where you might consider a prompt is for bank initiated events where the bank is significantly changing terms and conditions and is communicating with customers as part of that process, but generally, we would support the periodic approach. I think it is a combination of these prompts that can improve awareness of switching.

A. (Mr Ennis) Yes, I certainly agree with the periodic approach. The issue for me on triggers is firstly define, having them consistently defined, and identification of them will bring significant complexity to something that does not need to be complex and can be addressed through periodic messages.

A. (Mr Coleman) One consideration here that we have been debating is given -- certainly in the personal current accounts space, given the majority of customers do not actually pay any interest or fee charges because they maintain their accounts in credit, and I am sure we will talk about the free banking, in credit, model at some stage. Given that most do not pay in monetary terms for their standard services, regular mailings about switching -- unless something else is happening in relation to their relationship, are unlikely to make any impact on that base.

Our thoughts would be should we not be focusing more on those customers who are actually paying charges? If we cannot move that market in terms of regular communication around options for switching and other options out there, then you are unlikely to move the rest of the market. It might be an option to focus on that particular segment. If there is lower propensity in that market to switch, in terms of those who are actually incurring charges, well there is a message there somewhere in terms of how people see their relationship with their bank overall.

A. (Mr Stinton) There is some merit to that on the basis of any customer research we have seen, where the imposition of charges is typically the thing that leads to most dissatisfaction amongst customers. You could make the connection then that creates broader willingness to consider switching.

In my opinion, that is where the current pre-notification practices come into play. Perhaps that is an area that you could consider adding a switching message on to the pre-notification itself, perhaps, because every customer who incurs charges, either BCA or PCA, will be receiving those pre-notifications.

Typically, the personal customer or a business will get their pre-note, which notifies them that we will levy the charge in 30 or 31 days. Typically, if there is an issue with the charging that allows the customer time to come and engage with us and deal with any issues they might have before the charge is actually levied.

Q. (Mr Hoehn) So the message is the ability to switch, the service that you can get and savings. How should that be communicated? Is it up to the customer to figure out how much they could save or is there another way of promoting potential benefits, whether it is savings, whether it is increased rewards, whether it is better service. How should that communication happen?

A. (Mr Stinton) It is very difficult to say, Tom, on an individual customer basis because every customer is going to have different scenarios and situations and will use their account in a different way. It is very difficult to predict what the nature of a saving might be for a typical customer. If you look at the business market for example, the business current account market in Northern Ireland, permits extensive negotiation between the SME and the bank. The value of those negotiated terms is extraordinarily difficult for us to work out between ourselves and our competitors. From that perspective, having the pre-notification which details the transactions which the business has undertaken and costs associated to those transactions, allows that customer to take the notification and go and check with competitors, can I get a better deal elsewhere.

Q. (Ms May) Is that primarily lending or is that for small SMEs on the basic terms of their BCA.

A. (Mr Stinton) It is a pre-notification of their transaction charges.

Q. (Ms May) You said it was a very bespoke market where most people have negotiated terms.

A. (Mr Stinton) SMEs can negotiate their transaction fees, even small businesses

Q. (Ms May) Do they routinely? Even for relatively small businesses?

A. (Mr Stinton) Yes.

A. (Ms Press) On the personal current account front, I would suggest that the pre-notification of fees is an opportunity to engage with the customer to help them save money -- not just through switching although that is one of their options, but actually it might be the best outcome for the customer if they engage with their relationship banker to understand how a behavioural change would support them to save money. Because actually changing the structure of their facilities or how they do their banking might be more powerful and impactful than actually changing accounts. So that is a really important intervention with customers at that stage.

A. (Mr Donnan) I think there is evidence that text alerts have proved to be a lot more effective in helping customers revise their behaviour and save themselves money than perhaps a switching message. There is evidence for that.

A. (Mr Stinton) From the material that goes to the customers, when we notify changes to terms and conditions, we have used things like simple leaflets which say how to avoid incurring charges. Not just in terms of overdraft related charges but in terms of conducting your banking in a more efficient way. From that perspective, seen from the outside of the switching process itself, we do undertake work to try and motivate customers to bank more efficiently for themselves.

Q. (Mr Hoehn) I agree it is important to review banking arrangements and then find a better arrangement maybe with your own bank. That is always a benefit. Can I ask your experiences of 2008 and implementing that Order? Have you changed the way you have gone about sending out statements, prompting customers? If yes, how did you change and why did you change your communication?

A. (Ms Press) The key changes for us were that we moved from a quarterly communication to customers who were incurring charges to a monthly communication. We changed from post-charge communication to pre-notification, so that, as with our colleagues here, customers have 30 days to understand their charges, to respond if they are unhappy with their charges and to agree how they might do things differently. That is the primary consideration but we are also much more cognisant of how charges affect customers. We are more pro-active in looking at parameters within which we would make more pro-active contact with the customer than just writing to them. To support them in understanding how they might do things differently or what might be more effective for them.

Q. (Mr Hoehn) What made you introduce this change?

A. (Ms Press) First and foremost, the Order but also our whole approach to customer engagement, customer journeys and understanding customer needs. I think the market, during that time, from 2008 has become much more aware and much more cognisant of the importance of understanding the customer journey as opposed to the bank journey.

A. (Mr Stinton) At the same time there has been a lot of development in the industry. Internet-based accounts are much more in use; things like text messaging are much more prevalent. From that perspective if we are looking to identify a problem in the bank we do not wait on our colleagues to come and tell us what the problem is, you go and look at Twitter because you will find out from a customer instantaneously. That pace of communication has changed quite a lot.

Q. (Mr Hoehn) The feedback from customers to you has changed and made you change?

A. (Mr Donnan) Customers are a lot more in control. Take the mobile phone; through that customers have a lot more control over their finances. They get access to this 24/7 and they can go back seven years or thereabouts, on their statements, for Ulster Bank at least, to look at past transactions. If you go back to 2008, there was no mobile banking in the market , so it gives us far greater capability to communicate with our customers in a more pro-active way and equally gives them much more control.

Q. (Mr Hoehn) Have customers become more sophisticated in your view?

A. (Mr Donnan) Yes, they are more sophisticated. That is why we are also working with customers to increase their awareness. However, there are some where financial literacy still needs to be addressed in certain segments and that would be a point that we would make if you are looking at some of the things like partial switching, which is mentioned. I think there is still a gap on financial literacy in certain segments that would need to be considered before introducing any more complexity into the market.

A. (Mr Stinton) It is the beauty of the pre-note at the moment. Everybody gets that.

Q. (Mr Hoehn) All of you started with post notification and then moved to pre-notification? Same experience?

A. (Mr Donnan) I think we would all have probably applied a “post-notification” approach before the Order was introduced and moved to a “pre-notification” approach following the introduction of the Order.

A. (Mr Coleman) Pre-notification of fees has been around for some for some time. It was part of the Banking Code going back before the Northern Ireland Order came along, which dealt specifically with PCAs in Northern Ireland. More generally, all banks in the UK were pre-notifying customers before the application of fees and charges for some considerable time. As I say, that was an early provision of one of the provisions of the Banking Code going back to -- I am not sure how far back, but a considerable distance before 2008. That has been around as a UK standard for many years, is my understanding.

A. (Mr Stinton) I think it would be fair to say it is much more prevalent and structured across PCA and BCA customers since then.

Q. (Mr Hoehn) We have talked about what you do and how you have reacted to feedback. What about us? We decide on a remedy around prompts. How do we evaluate the effect of this and how should we build in flexibility to change the remedy or the mechanisms that have been proposed. Do you have any views on that?

A. (Mr Stinton) It is probably difficult to look at one aspect of the remedies in isolation. There is a bundle of remedies here, so from that perspective I personally would not like to have to answer the question, how effective has this one strand been, because I think there are a number of things to come into play. The introduction of CASS and some of the recent developments in terms of the increased advertising that have taken place are likely to address more effectively the broader issues around customer consideration and confidence than necessarily just a periodic prompt.

A. (Mr Donnan) Yes, the remedies should be judged in their effectiveness as an overall package. It is very difficult just to isolate one specific aspect even more so one particular prompt.

Q. (Mr Hoehn) Should we have periodical reviews or should we get somebody to review the response in the market in order to possibly make adjustments?

A. (Mr McComb) One thing I did yesterday, again in my role at CASS, I asked BACS to supply some information specific to Northern Ireland, which I have not really done as part of the reporting before.

I agree in awareness, there is not a great deal of difference. There will be spikes whenever we issue the leaflets et cetera. One thing that sticks out from November's figures is the confidence levels.

When we look at the seven questions that feed into the confidence figure that is reported for CASS, in all but one category, Northern Ireland scores higher than the rest of the UK. And the one area that does not, it is equal with the UK. The most startling thing is if you look at the key question of the seven questions, the key question is I would be more inclined to consider switching my current account. Northern Ireland scores 62%, GB scores 45%; so, there is something in there, in terms of the package of remedies in the NI Order that suggests to me that there is something that is working. I am not sure that we have maybe drilled deep enough into this and looked at the record.

If go back to pre-CASS in 2013, we were issuing a leaflet that gave a form of guarantee from both old bank and new bank. I think maybe customers are more confident now, but again I think there needs to be research done. We can do that through the CASS and BACS team.

Q. (Mr Hoehn) You say there is the information there to evaluate a remedy. CASS and BACS seem to be important sources of information or maybe other institutions that can help and do that.

A. (Mr McComb) Absolutely, yes.

A. (Mr Stinton) There are other things to look at as well, Tom, other than just the number. In our own bank, we would have looked at the number of complaints that come about as a result of charging and that has led to things like pre-notifying customers through mobile channels, text alerts, introduction of spending overview where a customer can see recent transactions and future transactions on their mobile phone. Those are outcomes that come as well as switching. There is innovation and activity that takes place as a result of our desire to hold on to our customer relationships.

Q. (<u>Mr Hoehn</u>) We will get on to talking about quality of service and how that should be measured. Can I just ask about CASS? How could it be promoted more effectively?

A. (<u>Mr McComb</u>) To be fair, CASS has had its challenges. I mean it was launched with fanfare back in 2013. I think that probably there was not the investment in advertising post launch. That was a bit of a challenge for us in 2015. We did agree to come up with some additional funding and the problem with CASS was that it was always designed to be self-funded. The idea was that the cost of the switch, which the banks pay, would actually fund all the activities at the centre. Given the volume of switching and the fact that the fees are capped, it just meant that the budget available for advertising has been extremely low. It is about £500,000 max, so we have had to go out on a call to get advertising. That was done in 2015.

I am pleased to actually say that as of the end of yesterday the awareness figures in November hit 77 per cent, which is 2 per cent above the target, which is a success. It shows that the advertising from a customer view, even if the survey questions are challenged seems to be working.

We are also investing £7.5 million in 2016 and that is the sort of level that Engine, the advertising company that we have contracted believe you will have to spend to keep those awareness and confidence levels at the 75 per cent mark.

The whole process around advertising is a three-pronged attack. It has always been the strategy. There are three ways in which we advertise the service: one

is the centre, and that is the £7.5 million, which is the advertising you see on TV, radio, digital et cetera. The biggest chunk of the advertising is with the member banks and there are guidelines that have recently just been re-issued around, for example, trying to promote the trust marks to make sure that it is more visible to customers. The third thing is where we have regular breakfast briefings, meetings with ministers et cetera. It is a three-pronged approach.
I think possibly -- and we are looking at this for 2016, we need to maybe drill down a little and rather than just generic CASS advertising from the centre, we need to start getting into some of the segments. The likes of the SME segment, maybe the youth market, 18-24 type area and maybe some of the financially skewered type areas. We are looking at trying to break down those segments and work at it in a lot more detail and there is that whole structure that has been set up a Strategic Communications Working Group and sub groups to look at that.

Q. (Mr Hoehn) Any other views?

A. (Mr Coleman) I think banks themselves, as has been mentioned, have a role to play, in terms of on our own literature, the communications that we are pumping out to customers every day. Arguably, we should be including more information about CASS and it probably fits with some of the other remedies in terms of the -- whatever prompts we may adopt as a result of this. Prompts clearly need to reference the CASS scheme and, again, the benefits, convenience, risk-free nature of it. That messaging needs to be put prominently in front of customers so they are aware of it and have some trust in it.

A. (Mr Donnan) It is important to factor in some segmentation to the approach. That is because there is no such thing really as an average customer.

Customers have different needs; there are different cohorts of customers and messages should cater to each customer's needs. That applies to other things like comparison websites et cetera as well. We are wary of looking solely at a price comparison, any comparison needs to encompass the full package, based on both price and service quality. First and foremost, it needs to take account of what the customer's priorities and needs are.

Q. (Mr Hoehn) Any other views?

Q. (Ms May) Can I just ask one question about the market in Northern Ireland, forgive my ignorance. You have mentioned, Jim, that the important focus on those that are incurring charges, as most people have free-if-in-credit, and I just wanted to pick up on that. I did not know to what extent there has been a proliferation of reward accounts amongst Northern Irish focused banks, as there has been certainly where we are, whereby most banks now have some sort of reward offering. I just wondered if that had been a feature in the last few months since we were last here in Northern Ireland or not.

A. (Mr Coleman) Not so far as I am aware, no.

Q. (Ms May) Santander ...

A. (Mr Donnan) Santander and Halifax are already present in the Northern Ireland market. We also have packaged account offerings, which are fee based and have rewards and additional benefits i.e non-price aspects associated with them. Our parent, RBS, has just launched a Rewards-type offering as well. So there have been various innovations. There are also , as Danny said earlier, other innovations in the current account market through the services that are provided as well. There has been quite a lot of innovation in the Northern Ireland market in the last few years.

Q. (Ms May) Thank you.

A. (Mr Stinton) In Danske Bank we have offered packaged accounts as well as standard accounts since 2007. Well, the package is that we offer would have -- well obviously not very high credit balances in today's environment but we would have kicked off with tiered offers around credit interest and so on.

THE CHAIRMAN: On RBS, the very heavy promotion that we see on every street corner in London from NatWest of reward accounts. Is that happening with you?

A. (Mr Donnan) [✂]

Q. [✂]

Q. (Ms Kent) I just wanted to pick up on a point. We focused on price triggers and obviously flagged quality as just as important for many customers. But what about triggers around quality. I would just be grateful for your thoughts, branch closures, obviously Northern Ireland has experienced quite significant IT issues and I am just wondering about your views about prompts and triggers around potentially quality metrics.

A. (Mr Stinton) It may be not fair to say that Northern Ireland has experienced major IT problems, only one bank has had major service interruptions.

Our view on this is there can be a range of issues which cause complaints and each of those issues is dealt with in a fashion that is particularly relevant to that complaint itself. We do not actually lose a lot of customers through that process because we put a lot of effort into trying to manage the complaint process well. From that perspective, I am not sure I can make the link between dissatisfied customers with service issues necessarily and immediate jumping into switching because there can be so many factors and motivations. Service interruptions could be anything from the ATMs run out of cash to the merchant acquiring systems going down in a particular retailer. There are such a wide variety of situations where you may experience service interruption, it does not actually translate into a major issue in itself with the customer. It is only likely where you would be unfortunate enough to incur a series of service issues in a short period that you would see such a situation.

A. (<u>Mr Ennis</u>) The FCA are doing work on complaints at this point in time and intend to publish information on complaints and I think complaints is one measure of service that is worthy of greater awareness.

A. (<u>Mr Donnan</u>) Just to comment specifically on the branch closure issue that you raised, and it is clearly an obvious point at which a customer -- if their bank is closing a branch would be thinking of alternative providers given that the branch that they normally use would be no longer there.

We have closed a number of branches over the last few years in Northern Ireland and generally our experience has been that through good communication with customers and by showing the alternatives which are available, most customers are happy to stay with the bank given other channels available to them.

If we are writing to customers and telling them we are about to close their branch, then this is clearly another opportunity to remind them that there are other providers out there. I know there are some new protocols being put in place around branch closures and the steps that banks should take in terms of consulting and publishing information, so clearly that is a consideration.

Q. (<u>Mr Hoehn</u>) That is not happening at the moment is it?

A. (<u>Mr Coleman</u>) I'm not quite sure of the status of it as yet but ...

A. (Mr Donnan) In terms of?

Q. (Mr Hoehn) With branch closures is there a notification that includes a reference to switching.

A. (Mr Donnan) No, not at the moment.

A. (Mr Stinton) I think it would be fair to say that the banks here have been very progressive in terms of developing their relationship with the Post Office. That would have been something that has been used for a number of years as a way to retain that relationship with the customer in the event that you do close a branch. From my perspective, closing a branch -- the challenge for us is try to retain our customers not invite them to leave.

A. (Mr Donnan) On this aspect there are definitional challenges. As we alluded to earlier, the key thing is when you have something where you are putting the customer right. So, I do not believe writing a switching letter in the middle of that makes much sense.

If you were to look at one area, any complaints that are referred to the Ombudsman where the customer feels that it has not been adequately dealt with, that might be an appropriate definition that you could apply because it is easier to define and there is clearly some customer dissatisfaction in this scenario. That would be a suggestion to consider.

A. (Mr Ennis) On complaints and awareness around that, it is important that we have definitions and understanding of what information is published. I know the FCA are doing work on that and I think one of the areas generally on this CMA review, is just making sure that any overlap and perhaps I suggest it would be worthwhile feeding into that particular FCA strand.

A. (Mr Stinton) The issue with the FOS suggestion and it is a practical and workable suggestion is PPI as an example where you end up with speculative use of FOS as a way to try and generate claims. Where we could end up incurring the costs of communicating to tens of thousands of customers whose engagement with FOS is more around a query in a specific area. There is scope to use a referral to the Ombudsman for certain categories of complaint as an opportunity to advise the customer about switching.

Q. (<u>Mr Garland</u>) Could I just ask a question about the funding of CASS? Andy, you said that CASS, which was designed to be self-funding, but the available budget for promotion and advertising was not sufficient and next year there is going to be £7.5 million. Can you explain how that is going to be funded? Who is contributing to that and the sort of ongoing commitment for that in the years that follow?

A. (<u>Mr McComb</u>) If unable to self-fund the only way to get the money is a call on member banks and that call is based on a share of current account holdings in the UK. The call made in 2015 was for a maximum of £4.5 million in two bursts, in Quarter 3 2015 and Quarter 1 2016. That is followed up with the understanding that it would need £7.5 million in 2016. Beyond 2016, CASS has made it pretty clear that there is going to be a continual requirement.

THE CHAIRMAN: Shall we move on down the customer journey. We have succeeded in prompting customers enough so that they are interested in working out whether they are getting good value for money from their account provider or whether they should think of switching. Then it is the challenge of actually working out whether someone else can provide them with a better service than they are currently getting.

Our starting point for that is recognition that it is actually quite a complicated thing to do. Working out value for money for a customer whether it is a personal customer or business customer, it depends on the customer and their own use of their account and also it has already been mentioned, price is not everything. There are a range of issues that I want to open up the discussion with, and when we looked at what seems to be the basic problem of the complexity of making an assessment of value for money and let us start off with the individual customer in the PCA. We have been, as we set out in the Remedies Notice, impressed in principle with the Midata tool because it is attempting to do the kind of job that needs to be done. Taking the customer's individual characteristics and custom and account usage making it available in a way that makes comparison possible.

We are aware of the difficulties of implementation of Midata and the word that seems to pop up everywhere in the discussion of Midata is "clunky", which is, if anything, a kind piece of terminology. It is quite difficult to use and it is unsurprisingly not much use. Nevertheless, the principle behind it seems the right one to us. We are interested in whether you think that further development of Midata, particularly with the development of common APIs, Application Programme Interfaces, is going to turn Midata from a clunky and very hard to use tool into something that will really be an effective price comparison tool for PCA customers. Views on that?

A. (Mr McComb) Certainly, I do not have first-hand experience of Midata. Obviously, I have read a lot about it. I think the concept is pretty good because I think you do need to see usage built into your comparison to make a sensible decision.

The problem we have is that Midata is very much -- it is new. There are clearly issues with it. There are things like no Apple support, there are things like the customer has to actually go in and download the data and then load the data into a comparison website; there is one comparison website only that supports it at the minute.

The most important thing is there is other pieces of legislation coming in that complement it, things like PAD, which requires an independent comparison website. You then have PSD2 which will set up the infrastructure to have things like AISPs piece and totally lends itself to having a standard API. We have the OBWG, Open Bank Working Group, which is looking at standardising data terms and building that API and while I think MiData is fine, it is about timing. The last thing we want to do is invest in something now to find that it changes and has to be rebuilt it in two-years' time.

I would like to see the outcome from OBWG. I think it certainly seems to be going down the right track and that is a piece of work for which a plan will be presented early in 2016. I think that Midata is -I am not saying it is not the right way but well it might need an enhancement. It does not make a lot of sense to try and invest in it and then re-invest in the future.

Q. The Open Bank Working Group is the form in which common APIs are going to be developed is it?

A. (Mr McComb) There are a number of strands to it. There are a number of like sub-groups. There is a security sub-group, investigating how we build the security that is robust between third parties and the banks. There is another sub-group that is looking at the data and defining the data standards, the location data standards, the customer product data standards and all that sort of thing. Then there is the development of the API and specification of the infrastructure between the banks and third party providers..

Q. Let us not get hung up on whether we are trying to fix something called Midata, and that would remain something called Midata. But if you are looking in broader terms where we are at the moment and the end point we would like to be at is a customer who has received a prompt that has encouraged them to do a comparison because they know that they have had a prompt and they know that switching is going to be easy if they want to switch. Can just press a button and say they want someone to look at my banking data, and tell me that I would get better deal by switching from your bank to his bank.

A. (Mr McComb) Ideally, in my view that is what these other bits of legislation will lead to. To me, you should be able to go on to a comparison website, that is properly regulated and allows the customer to make that comparison but for that third party website to go to the banks and to show the banks that there is an explicit consent from the customer to obtain their information. To supply all of the information that the customer needs to make that comparison and have all that properly secured so the customer has no hassle in doing it. It is a one stop shop so I think it is the right thing.

You need infrastructure to make sure that those third parties are regulated, which will come with PSD2. It might come before that with the OBWG, because I think that HMT will be keen to get something in ahead of PSD2. When you have all that, absolutely, I think that is the right mechanism to have. It protects the customer from a security point of view.

Q. Do you have a sense of what timescale we are talking about to do the things that you think need to be done?

A. (Mr McComb) [✄]

Q. Clearly, security is an important issue because if customers are not already aware of security issues then things happen from time-to-time involving mobile phone companies, or whoever, that like increase anxiety about the security of personal data. How big a challenge do you think that is both in the challenge of actually ensuring that data is secure when it is being passed from a bank to a comparison website or to whoever and encouraging customers to know that it is secure?

A. (Mr McComb) That is part of the process around the regulation of third parties. The regulation would include whether it is trust marked, whether it is notifications on the screen when you log into the comparison website that says they are regulated and are secured et cetera. I think that is the important piece of selling it.

[✄]

Q. Do you all agree, in principle, this is the right way to be going?

A. (Mr Donnan) I think if we are making it easy for customers and giving them confidence that the website is secure, the only other point I would add relates to data protection, so customers are aware of what the data can be used for and be confident it will not be sold on to other parties or they will receive any unsolicited approaches . I think it is definitely the right way to move forward and we would be supportive of this.

A. (Ms Press) The concept is absolutely correct but I would just caution against the understanding the complexity of what we would be enabling customers to do. And what I mean by that is them understanding their own financial behaviour and their ability and knowledge in transferring that into an accurate tool that helps them understand not just the cost of how they transact their business but also the connectivity between rewards, incentives and loyalty schemes. I just think it is quite complex and I suppose I would pose the question of what are the insights or where is the customer demand for this particular remedy, insofar as is it a proportionate remedy and perhaps that is important to us in terms of being a smaller scale player in the market and the cost of delivering on such an initiative.

Q. Sorry, I missed what you said, challenging and prohibited?

A. (Ms Press) Yes, just in terms of a small Northern Ireland contained bank being able to build the technical capability to delivery on that vis-à-vis the scale of an RBS. So just being transparent and sharing some challenges.

Q. Which aspects of it are difficult for a small bank? Is it the common APIs, is that a particular -- ?

A. (Ms Press) Yes, I suppose and there are some pieces there that are coming into the future which, of course, we would be complying with but in terms of looking at Midata specifically, as a platform, there will be technology builds presumably required to feed to that accurately and robustly.

Q. (Ms May) If the API scenario that Andy has laid out comes to pass in the next couple of years, would that be an easier solution for everybody in terms of technical spend?

A. (Ms Press) I would suggest it would without having the detail and the insight of what the requirements are right now.

A. (Mr Stinton) We would certainly only like to spend the development money once in the next two years. Andy has pointed out the different work streams in the Open Bank Working Group. It is addressing all the right questions around security and the other aspect is it is broader than just the price comparison, as

I understand it. The terms of reference will look at other factors and will extend to SMEs as well as personal customers.

A. (Mr Ennis) I think that is clearly a very important point for a smaller bank that it is not just a price driven comparison website. There are other factors that are important to our customers, certainly, in terms of service and other issues.

THE CHAIRMAN: I understand the point which now two of you have made that we would not want to go down the route of developing the current Midata in expensive and demanding ways only then to say but actually we now want to retrace our steps and go down a slightly different route to the same objective. That is clear.

A. (Mr Donnan) There is commonality on the end objectives. It is how you get there that needs to be assessed. Whether you develop what you have got or you go to a new model.

Q. What about doing this comparison tool for those customers who do not necessarily treat it as a matter of routine -- getting out your iPad and pressing a button that sends your data off to a price comparison website. Who are not comfortable with those sorts of tools? Are there other ways of helping them assess the value for money that they are getting from their current banking provider?

A. (Mr Ennis) Common terminology and standardisation of terms. Those sorts of things can help if everybody is using industry standard terms, terminology, and definitions.

Q. Maybe you have not seen Tesco Bank's response to our Remedies Notice, but they have been suggesting using a traffic light system that would be in some sense a much less sophisticated tool than the API, Midata, type of tool, but would in a way help customers understand that they were in a current account that had a strong reward offer but high overdraft charges or whatever it is. Do you think that kind of tool would be helpful for customers who are less comfortable with electronic tools?

A. (Mr Stinton) I have not read Tesco's evidence but I am familiar with the red, amber, green approach that they use in the store. I suppose my issue is what is red and what is green. Banking is way more sophisticated than one typical customer with one set of common demands. We have talked about service, we have talked about charging, there are other things there and additional benefits that comes through the account, joint accounts and their efficiency, current accounts which are linked to mortgages. It is just very difficult for me to understand how you may put something so simplistic out there. To apply something like that I think would require such a wide variety of potential scenarios and circumstances to which you apply your red and green that it would be a bit bewildering.

A. (Mr Donnan) It is hard to see how you would practically make it work. For example, you could have a current account that looks good on price factors but there is no branch network, and which therefore may be unsuitable for an elderly customer who has a regular need for visiting the branch. Again, I come back to what is important to the customer and there will be three or four strands to that. It is possible to “tick a box” and generate a list for customers on that basis, but this still needs to capture and be tailored to the customer's priorities rather than what the bank thinks is appropriate for that customer.

A. (Mr Coleman) If you are talking about customers without access to technology to do the comparisons online or through price comparison websites, your only option then is probably some kind of standardised scenario type literature. Here is a page with a number of options based on usage and transaction types on balances et cetera to allow a customer to see why I kind of fall into that box, therefore that offering is possibly more likely to be better for me. But again, it is a very blunt tool compared to the more sophisticated price comparison website it is a very blunt tool and again could drive customers into wrong choices. If there is a need there that you are trying to address that is possibly the best way of addressing it.

A. (Mr Bridle) You provide access through other public offices. Public libraries for example, are providing access to the public for various things. Do you extend the service that they provide to help people who are of that ilk?

A. (Mr Coleman) Consumer bodies and the like could have a role to play here in terms of helping people but again they would have to be provided with the necessary information and tools to allow them to help customers with those types of analysis and choices.

Q. Moving from personal customers to business customers, do you see the Midata/API approach as being extendable to business current accounts?

A. (Mr Stinton) Aspects of comparing service, I think. Where I struggle with the BCA product is how you factor in the impact of negotiable lending terms and how you could possibly factor that in to the overall cost of providing a BCA.

Yes, from a customer satisfaction perspective. You will be aware of Business Bank Insight the survey that gives an outline score for customer satisfaction and a follow-up with some verbatim comments which give an insight into the satisfaction aspect. There is an element of comparability around the rate cards that you apply, your published transaction charges but in Northern Ireland the majority of SMEs will negotiate their terms and I struggle to understand what benefit it would be to remove the customers' ability to do that.

Q. I remembered that you said earlier that it is not just loan terms that are negotiable but the charging schedule. Is Northern Ireland usual in this respect because the impression that we have had from the discussions with the broader UK market is that everything is negotiable above a certain threshold, which might differ from different banks, but for small SMEs the rate card is the way it works. But you are implying the Northern Ireland is different in that respect?

A. (Mr Crimmins) I think from my perspective, certainly for smaller business customers, there is a move towards standardised pricing. There will above a certain level be more discretion on pricing for business customers . There are also other difficulties here as well for example, a typical SME just does not focus solely on the price of its current account. There would be other needs and requirements that go with that so the customer might want an overdraft, they might want a loan, they might want a merchant facility, they might want a card. Being able to factor all of that into one price comparison website would be a very difficult thing to do. Also lending is typically risk-based in terms of how the customer charged, so there is an element of individualised or tailored pricing but trying to pull that all together in a comparison tool could be quite difficult.

A. (Mr Stinton) It probably would be fair to say that we compete at a lower level of turnover than some of the bigger British banks would, because of the nature of the market within which our SME customers operate; so, we would compete at a lower level of SME customers.

A. (Mr Coleman) From our experience, once we have published standard tariffs, in many cases customers see that as the starting point for a discussion. It is not a set price, it is “let us have a conversation about this”, in many cases, is the approach the customer adopts. As Danny says, the nature of the market in Northern Ireland -- Northern Ireland is a small business economy. Arguably, it is a microbusiness economy so you are dealing with a very different market here in terms of the size of business. Right down to a very low level of turnover where in the mainland perhaps that would be a standard package no-flexibility, no-negotiation. The market is different here just because of the nature of the business market, not so much the banking market.

A. (Mr Bridle) We have just come out of a great crisis as well. A financial crisis and particularly the regional downtown in Northern Ireland as well which revealed a number of things as well particularly the relationship about as Tim said the profile of the market, the mispricing of risk, the intense competition between banks for a limited business market. It can lead to some of those characteristics that really become more evident, and have really become evident during an economic downturn.

Q. Several of you have already mentioned the quality dimension as being another very important aspect of comparing providers but one that does not naturally fit with the price comparison approach to making choices. Any thoughts about how reliable quality information can be provided if customers are thinking about switching so that they have information about quality, not just about price?

A. (Mr Donnan) There are a couple of dimensions to that. From a quality perspective, there are some services that customers may expect from their current account including, for example, whether there is branch availability, what the opening hours are, whether there is mobile banking capability. Here, a current account provider either has this capability or does not have it, so you could have a tick list on that.

I think where it gets more challenging is where you get into ratings of service quality or satisfaction. I think there are ways you could do that. I think it is important however -- that any definition is robust and applies on an industry-wide basis in order to facilitate comparisons. But, again, there are surveys, and industry surveys that can work there. The challenge for us in Northern Ireland would be the size of the market and getting data that is robust, but I think there are steps that could be taken on ratings of service quality.

A. (Ms Press) I would agree, there is a number of dimensions to that in terms of channel combination, accessibility et cetera. I think it is really important that if this remedy is progressed that meaningful comparison is undertaken by ensuring there is an industry standard. We know the FCA is looking at publishing data based on complaints per thousand customers and that is one aspect of the standard, but perhaps net promoter scores or some other industry-wide mechanism is appropriate, but, as Richard says, given the number of players in this particular market, that could be quite complex to ensure standardisation.

A. (Mr Coleman) Our view is that all the banks round the table would use mechanisms like net promoter scores or overall satisfaction. There are single measure to try to reflect a combination of various elements. We would actually be less well disposed to that single number because it hides so much behind it. At any individual customer level you do not know what is important to that customer so if you were going to be transparent about this and provide useful information to customers, it would need to be a broader range of variables presented in terms of service and product quality and channel access, reliability, complaint handling. There is a broad range of variables that would be important to customers and it has different weightings to each element there. In our view, if this was going to be progressed, it can only be done by some form of independent market research that is accredited and independently done and published in some ways.

A. (Mr Stinton) It is an interesting discussion. From my perspective starting from the view of getting the banks to collaborate and producing a common satisfaction survey is the wrong way to look at it. It is much more powerful to look at the existing Business Bank Insight survey, which is a customer view of how well their bank is performing. There is some quite good value in some of the verbatim comments that sit behind it which captures a variety of situations be it price, be it relationship manager, be it service interruption and reflects the customer viewpoint rather than necessarily our view as to what is good, bad or indifferent.

I agree with Jim's point that if you were trying to force a satisfaction survey based on three or four service metrics, you end up creating something that could be perceived to be so vanilla it is lacking in value and meaning.

Q. (Mr Hoehn) Coming back to the net promoter score, the view is just ask the customer would you recommend your bank from your experience? It is a very simple effective metric and it does not go into details and you take it seriously?

A. (Mr Coleman) Absolutely, yes.

A. (Mr Stinton) It is a very volatile metric though.

Q. (Mr Hoehn) Why is it volatile? Is it because the service varies or is it the underlying survey?

A. (Mr Stinton) I just think by nature it is volatile?
A. (Mr Crimmins) It can be quite an emotional metric in that sense. But the point I was trying to make just before that was that there is one thing that I do not think we can ignore is the use of social media. That will definitely reflect underlying customer behaviour satisfaction. It is instant, it is there. It is controversial potentially but it is definitely a mechanism which might be used.
A. (Mr Donnan) The only thing I would say on net promotor score is sometimes it can be impacted by industry issues as well and past events, so legacy issues can act as a drag on a bank's NPS score. For example, the banking industry's NPS versus say Tesco's NPS will be different. We have just come through the financial crisis, so that is just one of the things to bear in mind.
The point I come back to is that this should be built taking into account what is important to a customer. Each customer will have things which will be important to them and requires a tailored approach rather than trying to have one overall measure that tries to factor that all in. Because price might not be the most important thing to me on my current account, it might be accessibility, it might be convenience. So you can build a relatively simple tick list to identify what is important to a particular customer and then rank the banks on the basis of that metric. This is quite a challenge but if a wider measure is to be used, NPS is probably as good as any other.
Q. (Mr Hoehn) It is probably the one. Absolute value is one thing but the relative value is another.
A. (Mr Donnan) Yes.
Q. (Mr Hoehn) If the industry experiences a negative event, all the net promoter scores go down.

A. (<u>Mr Donnan</u>) The only thing to be aware of in that respect is what is a “bank” and what is not a “bank” in the environment we are going into because it is a very competitive market place. That is the only thing just to watch out for.

A. (<u>Ms Press</u>) Yes, I think that is a fair comment. If we were to go forward on a basis of net promoter scores, it is about ensuring that the context of the customer journeys and the life cycles that are being tested are consistent across the industry.

THE CHAIRMAN: Going back to the complexities of doing this sort of job for business customers, where you have raised the fact that even for relatively small business in Northern Ireland, business current account charges might be negotiated but there are all these other services that you can use alongside the current account, lending services and so on.

Do you think there is any scope for financial platforms at some point doing this job for the small business of helping them work out what is the best banking provider for them? Taking those sorts of complexities, including the liquidity dimension into account?

A. (<u>Mr Crimmins</u>) Potentially, but I would see that being a very difficult thing to engineer because there are so many variables in it. The point I made earlier is that a typical small business could require seven or eight different things form its bank, so how do you actually rate all that and how do you build in the customer's ability to negotiate with it as well?

Q. What about using financial advisors or rather professional advisors as the channel through which businesses make their banking decisions. In that many businesses might not want or might not feel comfortable with being able to make that decision themselves but might take very seriously the advice of their accountant who is dealing with 25 businesses all with different banking providers, each of them with banking experience. Is that a channel that we could use to give small business better information about their banking options?

A. (Mr Crimmins) I would have some reservations that that capability exists at present amongst the professional advisors. You will find some accountants are very good, for example, on the fundraising side but would not be that well versed in terms of the kind of technicalities of some of the other issues. So this might be good in terms of business planning and preparing applications for loans but in terms of the complete suite for SME requirements, I would not be convinced that there is a network of professionals there at the minute that could deliver that service.

A. (Mr Press) At the higher value end of the market, that is quite active as it stands. The challenge to introduce that at the lower end of the market is what is the cost that that adds to the customer's business in terms of employing that level of advice.

Q. I was not thinking that we would somehow require businesses to have financial advisors but simply those of them who have a financial advisor -- that might be a powerful channel for helping give them advice.

A. (Ms Press) That is fair. It may be that it is the other segment that has that need.

A. (Mr Coleman) I would suggest it is probably happening at the minute. It is happening organically but in a pretty unstructured way if you want me to describe it. Obviously, most small businesses need an accountant to help them at least prepare their annual accounts and tax and stuff like that and I am sure in the midst of those conversations, banking arrangements at times will be discussed. As I said, it is happening probably on a business as usual basis but on a pretty ad hoc and unstructured ...

Whether it is a channel CMA could plug into does not feel like it without a lot of oversight and structure being applied to it which is probably not that appropriate.

A. (Mr Bridle) There may also be some differences between sectors. Some sectors of the economy will have their own industry bodies that do help and provide -- for example, agriculture, which is a big proportionally larger sector in Northern Ireland through their union and so forth -- will provide some of those types of services. The Small Business Federation who provide some of those advisory services as well at a very low level, however.

Q. Just going back to how you spread information about quality indicators. I suppose we took the view that something like net promotor score was the right thing to do because it is generic, everybody uses some version of it, it is not easy to manipulate. What would be the best channels for communicating net promoter score comparisons? Is it websites, sending information to customers whether personal customers or SME customers regularly about how their bank shapes up? Any thoughts on that?

A. (Mr Bridle) It is through industry bodies. We are well represented in Northern Ireland through various groupings that do represent their sectors. I think they potentially would have a role to play in that.

Q. What about personal customers? What is the best way to inform them about their bank's net promotor score compared with others?

A. (Mr Stinton) You would use your existing channels, website and branch literature and so on, a suite of communications material available.

Q. (Mr Garland) Just following that theme, on the business banking side, how do you plan to use that information at the moment or is it more the bank uses it to inform its own strategy or do you use it to engage with customers to show where your leading against your competitors. Is it part of your marketing or is it part of your negotiation.

A. (Mr Stinton) It would not be part of our marketing mix at the moment. So we would use more as an internal indicator of how are we comparing?

Q. (Mr Garland) It has been said that that might be a good source of information in comparison of quality, so what would need to be done to make that happen and to provide that to customers?

A. (Mr Stinton) Alan made a good point about some of the industry bodies and as far as I understand that satisfaction survey was developed in conjunction with either the Chamber of Commerce or the Federation. I would have thought that supporting some sort of marketing through those bodies would be a helpful way to increase awareness of the existence of the survey.

In the survey itself, it is fairly irrelevant me sending you a message as a business customer saying our satisfaction score is 99 per cent. It is not by the way. Because that is one figure that may be completely irrelevant to your business and the beauty of this survey is that you can go in and put in certain segment bands. You can segment Northern Ireland, you can segment the size of your business and you can get what businesses, similar to yours, have said about a particular bank and get a score that way.

Personally, I think trying to promote awareness and usage of that independent piece of analysis in a way similar to the other topics of discussion, is potentially more powerful than compelling the banks to send out a number. The number

means nothing unless it is relevant to your business.
A. (Mr Donnan) Perhaps linking it into a kind of Midata tool or price comparison tool or through CASS or ...
A. (Mr Stinton) Or the idea of the OBWG work.
A. (Mr Bridle) Some of the other sources of research that we use, they are just not available for marketing purposes. It is a propriety research and that is part of the restriction upon it. Inevitably, they are used to inform presumably individual bank strategies as to where you are strong and where you are weak.
THE CHAIRMAN: I think we are probably done on comparisons.
Q. (Ms Kent) A short break for coffee. I just want to check that the fresh coffee has arrived and water ... ten minutes?
THE CHAIRMAN: Ten minute break.

(Break)

Q. (Ms Kent) Thank you very much for returning, it is always worrying making sure everybody actually comes back after a comfort break.
We are now on the customer journey where hopefully there would have been a bit of action, so I will pass over to Jill.
Q. (Ms May) I would like to look at some of the remedies we have proposed, namely Remedies 6 to 12, which are designed to think about practical measures to actually make it easier to switch. Once you have reflected, assessed and you have now decided you want to switch, what obstacles get in the way that we might be able to alleviate.
The first one I would just like to look at is a proposal that there might be pieces

of the account opening procedures, in particular for PCAs, which could conceivably be standardised without taking away from the innovation and the differentiation that individual banks seek to pursue.

I would really like to think about whether are there aspects of account opening, common standards that could be agreed amongst industry participants that could then be made standard. Whichever bank you go to, you have a piece of the standardised approach thus the process can be accelerated. Can I hear your views on that proposal?

A. (Mr Ennis) I think, important for a business customer, well for any customer, is the risk assessment procedures that a bank has to undertake and obligations when opening an account. I think it would be very difficult to place reliance -- for instance, the passport scheme suggested would be very difficult to base reliance on somebody else's processes.

Q. (Ms May) Setting aside the lending piece, just looking BCA, you still would suggest that there is no part of the process that can be standardised without prejudicing your own risk management procedures and anti-money laundering concerns?

A. (Mr Donnan) Possibly standardisation of some forms and terminology that a customer might have to complete. For example it would be nice to standardise AML processes for lower risk customers but even then this comes down to each individual bank’s risk appetite and procedures so I think there is maybe something that could be explored on forms and terminology.

A. (Mr Coleman) I think we would say that we could certainly see a case maybe for setting out the kind of common information sets that a customer might be asked to provide depending on the type of customer. First of all, when you talk about a business, if you have a limited company, a partnership, a sole trader, what is it? Because that, in many cases, will drive the information requirements so I do not think it will be one set there could be a series which sets out typically if you go into a bank this is the information that you will need to assemble and have available in order for the bank to begin getting into the account opening process with you. There are probably merits in trying to come up with that.

Having said that, I do not think it will be comprehensive; around the margins. Individual banks will probably require individual additional bits of information and for whatever purposes to complete their own process but I think the major one we see then -- to many situations we see beyond that then as on the lending side. If the customer is also looking for lending facilities, well that is into a whole different area of information and I do not think that could be standardised.

Secondly, the customer's due diligence, money laundering, all of that area -- I do not think any bank would be prepared to rely or could rely or would be allowed to rely on those due diligence checks undertaken by another bank just simply being lifted and dropped into the new account opening process. That is our broad thinking on it, but we would happy to explore.

A. (Mr Stinton) There are elements of innovation here where you have E-ID and such like coming in and that is something we have competed on. Where there are areas of flexibility and I accept the point that Jim's making that there are not that many, we would prefer to compete on that rather than standardise it, to be honest.

Taking a customer view from this, the most lengthy part of the account opening process is typically the AML process, particularly where there is more than one business principle. They need to go through the AML route for each principle involved with the business. That is dictated by each bank's own perception of the risk associated with the sector the business is in, the area the business comes from, the history that the business presents and without wanting to seem obstructive, I find it difficult to understand how that could be harnessed.

Jim made a good point about the business plans that an SME will come to the bank with in terms of having a fruitful dialogue, because they have to first of all go through the dialogue and choice process of deciding you are the bank they want to open the account with. There has been a lot of good work through the Better Business Finance Initiative and the website that is there in terms of giving SMEs insights into the type of preparation they can do before they get to the account opening process.

Q. (Ms May) I am not familiar with that website and I apologise. Is that Northern Ireland specific?

A. (Mr Stinton) No, it covers Northern Ireland and the UK. As I understand it, it was the baby of Project Merlin and it offers hints and tips and guidance. Also, by the way, if you are an SME you can go on and click who are all of the potential finance providers in a particular area so when it comes to lending it goes beyond just banks.

A. (Mr Bridle) It was driven, Danny, by the issue or the perception around access to finance, just after the crisis.

A. (Mr Stinton) That is right.

Q. (Ms May) So the consensus is that the bar maybe for smaller SMEs with extremely simple businesses, on a segmented basis there might be some opportunity for some standardisation but broadly you think it is limited.

A. (Mr Stinton) I think it is limited, yes.

A. (Ms Press) I agree.
Q. (Ms May) Anything else on that? Can I come onto certainly a perception, and I think a reality, that personal customers with overdrafts tend to switch less than customers without overdrafts. They perceive that there are risks in switching and that there is a risk that they will open a new account or they will close their existing account without necessarily certainty that they have the overdraft they want.
We are trying to look at ways to make switching for those using overdrafts easier. We have looked in the Remedies Notice at whether there is some sort of overdraft eligibility tool that might be helpful to them or just whether there are ways in which one can make the switching process robust, so that there is no chance and no perception that they could be left without the overdraft facility they want.
Would love your thoughts as to whether this is an issue. I think the interesting thing for us, as I understand it, under the Northern Ireland Order, you do guarantee overdrafts for switches, if that is the right expression, for three months after opening. I do not know if that is valid to this debate but it would be helpful to get your perspectives.
A. (Ms Press) We would say that the existing CASS process does allow for customers to know that they will have an overdraft provided prior to progressing with a switch. In the event that a customer actually makes the decision to select the date for the switching to progress, before the seven-day guarantee kicks in, during that time period there is clearly opportunity to walk through the customer needs with them and be able to give them a clear indication that you can support them with an overdraft. We would see that that works.

The other aspect is the partial switching. You could start to engender greater use of the partial switching facility so that customers are very confident and assured that they will have those facilities prior to progressing with their full switch. We believe that that is relatively straightforward to do.

Q. (Ms May) Do you see a lower instance of switching amongst overdraft users in Northern Ireland?

A. (Ms Press) Honestly, I would need to look at that. I am not clear in terms of our own bank, but we might, and I can't comment on the industry wide position.

A. (Mr McComb) We would be the same, yes.

Q. (Ms May) A lower instance?

A. (Mr McComb) First of all the current account switching service does accommodate overdraft switches, that is the first thing.

Q. (Ms May) It is up to you when you push the switch button, yes.

A. (Mr McComb) Absolutely right. It is two-step process for a seven-day switch. You go and you open your account, and you agree the switch date there and then. The guidance that we have given as CASS to member banks is that they should not kick off a switch until the current account is in an operational state. That, if you are an overdraft user, should include confirmation from the new bank that you have an overdraft in place and then you kick off the switch. [✄]

A. (Mr Donnan) And the overdraft would be approved as part of that if that is what the customer needs or is looking for, so they know at that stage.

A. (Mr McComb) The other thing CASS does as well, is on the full switch the new bank has the opportunity to define, in the very first message that it sends to say that the customer wants to switch, how much of an overdraft it is prepared to fund. Once you have provided that message to the old bank, you, as new bank, cannot withdraw that. You must fund at that level. When it comes to the day before the switch completes, on day six, you have the opportunity to increase that amount but not decrease it so there is a good robust mechanism in there to do it. I think the key point here is the concern is about actually having the overdraft or agreeing the overdraft before you go ahead with the switch. There is a process around it.

Q. (Mr Hoehn) Are customers aware of this process?

A. (Mr McComb) The banks are told to make it clear to the customer that you have to have the account opened and in an operational state before you carry out the switch.

Q. (Ms May) It is, to your mind, a perception issue rather than a real operational issue.

A. (Ms Press) There is probably an opportunity to increase consumer knowledge so the banks are clear on the procedures and the knowledge. I think there is an opportunity to increase consumer knowledge, but I think the process is available in terms of the remedy that has been proposed.

Q. (Ms May) There will be those customers who, for a good reason, cannot match their overdraft with a new bank. That is a legitimate positon by the new bank.

A. (Ms Press) A priority is communication in that instance.

Q. (Ms May) Just any observations on your guaranteeing free overdrafts for three months at the credit approved level for switchers. Has that run into any difficulties. Has it driven behaviour?

A. (Ms Press) That is firmly embedded and in play. There were teething problems in terms of procedural knowledge and consistency of application but there are clear mechanisms in place for us in terms of first and second line of sight to the adherence to that and I think that that is now working particularly well.

Q. (Ms May) Is there any tendency to have the initial free overdraft level subdued as it were and then you ramp it up after three months?

A. (Mr Donnan) Speaking for ourselves, absolutely not. You provide the overdraft at the level that the customer requires on an ongoing basis. It just happens to be free for the first three months under the arrangement. We typically do not really agree an overdraft for three months it will be agreed for a longer period of time whether a year or on an evergreen basis.

A. (Mr McComb) One of the things we really have to focus on at CASS is to make sure that the message is very transparent and clear to the customer. The Northern Ireland Order has some very good activities that we have committed to, like the leaflets et cetera. The three month interest and charge free overdraft is a good initiative, but it clouds the message. You need to have a consistent message across all the banks. I would like to see it pushed into GB as well so we can have a common message that we actually share, as part of the switching process.

Q. (Ms May) That there is no risk on your overdraft?

A. (Mr McComb) No, that you get an interest-free overdraft for three months, if you meet the bank's eligibility criteria

Q. (Ms May) That is interesting. The other point, is that clearly there is a considerable perception as a risk here where if you do it correctly, there is not a risk. I think that is an interesting area that we have to highlight.

On the second idea that there might be some overdraft eligibility tool to make it easier for people to be confident or not be confident but to have some understanding that if they have switched, they probably will get the overdraft that they would like from a new bank. Any thoughts on whether that is practicable, useful, would encourage overdraft users to dip into the market?

A. (Mr Coleman) What would probably be useful as part of the initial shopping around and searching would be to go to banks website or a price comparison website but certainly an eligibility indicator. A little front end system sitting on the banks' own website.

Q. (Ms May) One or two providers do something similar.

A. (Mr Coleman) There are already examples out there of some banks that offer it but to be very clear that is all it is. It does not go through any credit assessment or credit scoring.

Q. (Ms May) What does it rely on?

A. (Mr Coleman) It is simply responding to half a dozen standard inputs from the customer in terms of the amount and the term and the purpose and things like that.

Q. (Ms May) Are you employed?

A. (Mr Coleman) Yes, and running income levels things like that and then running a little model in the background but it does not go beyond the bank's own front-end. It certainly does not go into credit searching or credit scoring systems.

A. (Mr Donnan) You would have to be very clear with the customer that it is only an indication so that they do not create any undue reliance on it. You would not want to create any false expectation.

The other factor is the credit reference as you would not want multiple footprints to be created for customers in that scenario. The point that we touched on earlier is that increasing awareness amongst customers that they can have a conversation about an overdraft and that this will be agreed before the switch actually takes place, would remove a lot of the uncertainty that you will actually get that the overdraft that they would like from their new bank.

A. (Mr Stinton) In the business world, the concept of a simple indicator that you will get credit carries all sorts of issues in terms of matching the indicative price of that credit. You could end up in a situation where you create something that is so high level that it is meaningless by the time the customer gets to the end of the process and what you end up with is dissatisfied customers.

A. (Mr Ennis) I struggle to see how you could develop something that could deal with the complexities.

A. (Mr Stinton) Yes, it would be so high level.

A. (Mr Coleman) Obviously personal customers can check their own credit score anyway by Experian. Their credit worthiness if you like, they can see how they are rated from a credit perspective.

Q. (Ms May) Presumably you would have to err so much on the side of being conservative rather than appearing to sell on the basis of an inflated figure.

Q. (Mr Garland) Are customers with overdrafts the customers that the banks go to try and encourage to switch, or is it that if they need an overdraft they are a bit riskier so we would rather not compete?

A. (Mr Donnan) Banks compete to attract customers across the entire current account customer base and do not necessarily differentiate between overdraft or non-overdraft customers. You would want to win current account customers to the bank.

A. (Ms Press) Customers can go through their life cycle between not being an overdraft user and then having a period of time due to life cycle events where they do need it so it is the customer lifetime value that we would compete for as opposed to the specific features on their banking.

Q. (Mr Garland) In terms of the CASS data, that is something that you actually see that the switchers that are going through CASS are broadly proportionate with the population of overdrafts? You would not know about that?

A. (Mr McComb) [✂]

Q. (Ms May) How does that work? The new bank guarantees a £1,000 overdraft. Can the customer go, "Oh, that is great, but I am cancelling the switch". Are they still committed to offer on a partial basis?

A. (Mr McComb) [✂]

Q. (Ms May) Anything more on overdrafts? Can we come on then to one or two ideas. It is suggested that features of this current switching process and the mechanics cause some concern and whether you might be able to improve confidence. Some of these are CASS related, some of these are related to providers themselves. I know it is a moving feast at the moment, but one suggestion that the period whereby payments in are guaranteed be extended from the current 36 months to, I think we have suggested 5 years. Would that pose problems? Would that would be effective? Would that go some way to addressing the nervousness around switching?

A. (Mr Ennis) The first thing to say on that is we have not been through a 36-month cycle as yet, so it is hard to make a comment at this early point and I think it is something that probably should be reviewed after we have been through a full 36-month cycle.

A. (Mr Donnan) I think one of the options to look at is the reminders during that period as well, to make it more effective rather than extending the period. I think the longer you give it, is the less likely it is to happen.

Q (Ms May) At the moment it is not 36 months. It has just been extended. If you are a switchee and you have switched to Ulster Bank and you are coming up to the 12-month anniversary or the 2-year anniversary, do you send a message saying, “Have you remembered to transfer all your payments?”

A. (Mr Donnan) I would need to check that out because we have just moved, but I think we should build something on that basis.

A. (Mr McComb) We built CASS in 2013. We had a 13-month redirection and that took us through to October 2014. Coming up to 2014 we still saw a too high number of switches that were conducted in October 2013 where there were continual redirections. Originators were still sending payments through to the old sort code account number, so they had to be redirected centrally. We then decided to move to 24 months. I think it was in the autumn statement 2014 that there was a suggestion we should move to 36 months, which we did. This is not a simple change, this is an IT change in each member bank. There is this idea that there is this magical central redirection. It is actually in two parts: there is the central redirection for Bacs and Faster Payments at VocaLink; and there is a forwarding redirection at each member bank that has to be changed in line with that every time.

We are currently, on the back of the FCA review, extending the redirection period to 36 months. The decision is made. The design is currently being worked through. It will be a two-part, two-phased approach. One would be to extend all switches that have been conducted since the start of current account switching. We are saying indefinitely. There is no definitive time limit, it is indefinitely at this point in time.

Q. (Ms May) For all payments?

A. (Mr McComb) For all full switches that have occurred since the start of 2013, the redirection will be extended indefinitely. That is the first thing.
The second thing is the problem with that, of course, is that you build onto the redirection database, it grows and it grows . We also have the added complexity of the scheme regulator at the Bank of England, who insist that we are very careful, that we do not risk any of the payment systems by allowing CASS to grow to such an extent that it conflicts with the major payment systems. We have to then look at how do we go in and start to remove those switches that no longer have any requirement for redirection. That will be the second part of the build that will happen in 2017. It is a two-pronged approach. It is being done, it is being redirected.
Q. (Ms May) Are you looking customer by customer?
A. (Mr McComb) Yes, we look by customer.
A. (Ms May) You look at activity on an account and if there have been any problems?
A. (Mr McComb) Correct. We look at each switch and we will check, "Have there been any redirected payments in the last 13 months?" If there have not been we will then flag it to be removed from the database and from the member's redirection or forwarding systems. That is what we are currently building.
Q. (Ms May) If I am a switcher of a year ago and I tediously continue to have constant redirections, I have no risk at all because you are going to carry on doing that?
A. (Mr McComb) Correct.
Q. (Ms May) Again, that is a perception point. Is that being publicised?
A. (Mr McComb) There are changes to the guarantee. Every time we change

redirection we have to change the assets that go with the current account switch. The contract, the guarantee, all of those are having to be changed. There was, I think, a lot of debate when we first moved from 13 to 24 months around advising customers that the redirection period had changed. I think it was down to individual member's legal guidance as to whether they felt it was necessary to do that. Some banks took the view of a tombstone advert, to put something in the paper that said, "We are extending it". Some banks took it that if it is in the paper there is no need to do that and we are going to redirect anyway so the customer will not suffer. I think that has been followed through on every time we have done a change or made a change to the redirections. The customer will not suffer. The redirection will remain in place and in fact their service is going to be improved.

Q. (<u>Ms May</u>) Going forward, the reality is there will be no risk that something will go astray outside of the CPAs, which we will come on to in a minute?

A. (<u>Mr McComb</u>) The only thing I would say is that for a full switch we will have a full redirection process. Partial switches are different because there is no redirection on a partial switch.

Q. (<u>Ms May</u>) Is that because that is a manual process and it is elective on the customer?

A. (<u>Mr McComb</u>) No. The way redirection works, where you have a full switch, you close the account. What we do at the centre is we say, "That sort code and account number has now moved to here". Any payment that comes into the old sort code and account number is redirected, be it CHAPS or Faster Payments. On a partial switch your old account is still open. The customer selects which payment instructions he or she wants to move. Therefore you cannot put an automatic redirection in place. How does the originator, both for a full switch and a partial switch, know that the account has changed? They do that through the Bacs scheme, through what we call ADDACS reports for direct debits and AWACS reports for credit, and through Faster Payments' redirection report.

The originators of the credit or direct debit have to go in and change their systems to point to the new sort code and account number in addition to redirection. Redirection is, if you like, a fail-safe for full switches. If you keep continually changing the redirection period, which we have had to do, then those originators become reliant on that central redirection process and therefore the risk is put on the partial switching where they maybe do not go in and pick up reports and action them. And we are finding that. There is a whole piece of work in Bacs around service user compliance to try and make sure that originators do action those ADDACS and AWACS reports on a regular basis.

Q. (Ms May) Clearly this is an aspect of CASS that is probably not sufficiently well-understood. Anything else on redirection? Any views on account number portability as a way of improving confidence in the switching process? I would be interested in your thoughts. It has been suggested by some as something we should be looking at.

A. (Mr McComb) Account number portability would be an alternate to CASS but CASS is not broken, CASS works. I think there are features around account number portability that CASS would support and ANP would not. For example, if you are two young people getting married you can both switch your single accounts into a joint account. How would you do that with current account number portability? You cannot do it. You still have that whole piece around having to change your cards. Your card does not switch under account number portability. Different card issuers use different BIN ranges. You still have the whole security credentials that you have to have, new cheque books. The actual cheque clearing system works on sort code and points to the bank that own that sort code. If you are down to account level it is virtually impossible to do that. Until we change the cheque clearing system I do not think it will support account number portability. It would be a massive, massive build and I am not sure that it would achieve very much more than you achieve with CASS.

Q. (Ms May) Are there any contrary views?

A. (Mr Coleman) Any work we have seen on this is hugely technically challenging and hugely costly and, as was pointed out, CASS is the way forward.

Q. (Ms May) When individuals close their account, would making available their transaction history after the event or at the time of closure for up to five years, or whatever period, give extra comfort to would-be switchers? This point was raised in some submissions. Any thoughts on that?

A. (Ms Press) We currently do have the functionality to do that and I think, Richard, you articulated earlier that you also have that functionality so I am not sure where this insight has emanated from. A customer can request up to seven years in our branches.

Q. (Ms May) Even once they have closed the account?

A. (Ms Press) Yes. I think what we would welcome is some more clarity around your exact intentions here. If a customer has closed their account in the last four or five years that is not a problem. If a customer has closed their account in 1990 that could be a challenge. Some further clarity from you would be very helpful to us in responding to this, but currently we believe we have the functionality to meet those needs.

We do not see those types of requests on a regular basis. It tends to be for ad hoc triggers such as disputes, divorce, tax challenges, as oppose to something that we frequently have a request for, but we certainly have the ability to deliver it if required, within certain parameters.

A. (Mr Coleman) I think the suggestion that it be provided automatically to all customers is quite disproportionate. I think, from a customer's perspective, to be presented with information they have not requested and were not perhaps expecting, would bring, perhaps, security and privacy and all sorts of other data issues attaching from that. An on demand basis is probably the best way of coming at it, but again we would see very low demand for it.

Q. (Ms May) But you currently provide it?

A. (Mr Coleman) We could provide it if required, yes, and we do provide it.

Q. (Ms May) Would you charge for it? Do you charge for it?

A. (Mr Coleman) I think on the charging front my understanding is that this is treated as data under the Data Protection Act you are limited to charging £10 for it.

Q. (Ms May) £10 is what you charge?

A. (Mr Coleman) Yes.

Q. (Ms May) Okay.

A. (Mr Coleman) That is the maximum you can charge.

Q. (Ms May) I see.

A. (Mr Ennis) I think I would echo that. Giving the customers as a matter of routine, actually, is more overburdening them.

Q. (Ms May) I hear that.

A. (Mr Donnan) In practice, it is typically a much shorter period anyway, maybe three to six months maximum, looking at business and personal customers. I think on customer demand seems to be the right way to continue to do it.

A. (Mr Coleman) The other point I would make is that in cases where we see this happening they require the information for a specified period. They know something has happened between x date and y date; they have mislaid their statement or destroyed their statement. We can provide them with the extract relating to those two dates, rather than providing them with the full five-year history, or a three-year history. It is a specific purpose the information is required for

Q. (Ms May) So it is perfectly possible, to your mind, but it is not something you get a great deal of demand for and you do not see it as being a major trigger that would change people's confidence.

A. (Mr Donna) I just do not see the customer insight that would suggest that is the case.

A. (Mr Coleman) What is driving this is there is a perception that if the customer switches bank that they lose access to all of this data. Well, that is certainly not the case. The data is there. Obviously it is subject to how far back we actually retain it, but certainly for five years or seven years from the date of the account closure, that information is there and that information can be made available to customers on demand.

A. (Ms Press) So it is more a matter of knowledge, communication, education for customers, as oppose to accessibility of information.

Q. (Mr Garland) Can they do repeated requests for this, so if they want a three month period from two years ago, then a year later they want a six month period, they can come back?

A. (Ms Press) The information is there, it is archived, it is available on demand.

A. (Mr Stinton) Within the extent of the guidelines though. So if they have left us eight years ago they will not be able to get the data.

Q. (Ms May) Moving on to whether we can do more to guarantee CPAs when a bank account is closed or switched. I know it is a relatively small proportion of the total, but it clearly causes concern for some. Any thoughts on how they might also fall within a guarantee that nothing will go wrong?

A. (Mr McComb) The simple answer is we cannot guarantee it. The switching system is built around the VocaLink platform and that supports Bacs and Faster Payments, which are the vast majority of the payments you receive. CPA is a product that was designed in America. It is effectively a competition to direct debit and it is strictly an agreement between the customer and the card merchant. The transactions are routed via the international card schemes and hit the member bank accounts, so there is very little opportunity to redirect them. That said, we had MasterCard and Visa included as part of the build of CASS. Because they are competing organisations, it was very difficult to come up with a common solution, so what we did was we set some criteria out around CPAs. We could not guarantee them but we set criteria out that says when a new bank switches in a customer they should provide their card scheme with both the new card details and the old card details and they should subscribe to the updater service, which is either the Visa VAU or MasterCard ABU. What that does is it flags the customer's new card number against their old card number. The way it is meant to work is that an organisation that uses CPAs are meant to be regulated by their acquirer and by the card schemes to ensure that before they submit a file of CPA payments they go into those updaters, they check the card details and they update the card details with the new card number before they submit the payments.

There is a cost involved in all of that so therefore we find that sometimes they do not do that, they just slip them in as point of sale transactions. It is an absolute minefield. It is something we have pushed very hard to try and get something done on, but I think we are trying to push water up a hill.

I do think there are things that we could do for CPAs, because I do share your concerns. There are customers out there who firmly believe that a CPA is a direct debit. It is a completely different beast but they do not understand that.

Q. (Ms May) No, I did not understand it.

A. (Mr McComb) I think one of the things we, as banks, could do is those CPAs, I am not saying we do any guaranteeing with them, but perhaps to flag them up so that we can explain to a customer that that is not a direct debit, that is a CPA. I think you can do that, because the way they come in, if they are properly coded, there is a field on them that says it is a recurring payment. A good starting point would at least be to get the banks to flag on the statement that these things are CPAs, to start getting a bit more transparency.

Q. (Ms May) So when a new account is opened there is a sort of forensic analysis of what is coming in?

A. (Mr McComb) No, just any CPA coming in today comes in with a code, so at least if we could get the banks to flag those and statement those as CPAs and start the education process for customers that would help to explain what a CPA is.

Q. (Ms May) And you think that is achievable?

A. (Mr McComb) Yes, because they are coded separately.

A. (Mr Ennis) There is a wider obligation here though on MasterCard and Visa, and the industry consultation needs to be broader than just the banks.

A. (Mr Coleman) Andy, can I understand what you are suggesting there? It is when the customer gets their bank statement then the transaction narrative against that particular payment on their bank statement is indicating it as a continuing payment authority, rather than some other narrative in terms of how it might be described at the minute.

Q. (Ms May) As a direct debit.

A. (Mr Coleman) Yes, so it is simply flagging to the customer, "This is not a direct debit, it is something else".

A. (Mr McComb) What that allows them to do then is when they come to the new bank the new bank can tell them, "Look, we cannot guarantee those payments, but what you can do is talk to the merchant because you have to advise them of the change of card details as an extra check".

The other thing we could do, with the help of card schemes, is create a new charge back code, because if you get the CPA sent to the old bank account the only people that can charge it back is actually the old bank. Those are the card scheme rules, but if you charge the bank with the code that says, "Go and check your updater table and you will find there is a new card number" rather than turn around to say it is not there.

Q. (Ms May) So an automated message would be sent saying, "There is no money in the account, but go into this system".

A. (Mr McComb) Well, when you say there is no money in the account it would say, "This account has switched. Check your updater table and you will find your new card number".

I think there are things that can be done with it, but we need the card schemes to work with us. It is international card schemes. It is MasterCard and Visa, it is not UK-based.

Q. (<u>Ms May</u>) But we could at least make it clear to customers that they have these different forms of payments going out of their account which would highlight the fact there is no guarantee on those.

A. (<u>Mr McComb</u>) It would tie in with some of the guidance from the FCA around cancelling recurring payments as well, which is the other side of it.

Q. (<u>Ms May</u>) Are there any further thoughts on that? Very interesting. Thank you. We touched on partial switching and the inability to guarantee that service in the same way as one can guarantee a full service. I do not know how much multi-banking and partial switching takes place in Northern Ireland. Any thoughts as to whether if we could make that a more robust process that that would drive further confidence?

A. (<u>Mr Stinton</u>) There is a high incidence of multi-banking and I suppose, from my perspective, I would put myself in the customer's shoes. There is a reason why they have gone partial switch rather than full switch. So I am not sure if there is a problem to be corrected there.

Q. (<u>Ms May</u>) Do a significant proportion of multi-bankers go through the CASS partial switch service or do they just open a new account and do their own thing?

A. (<u>Mr Stinton</u>) It is hard to know. We see some numbers, but I would imagine that is not all multi-bankers.

A. (<u>Mr Coleman</u>) It is a combination. Help the customers choose what suits them.

A. (Mr McComb) I think the area where the partial switch potentially needs to be beefed up is on the SME side because when you do a partial switch, in a lot of cases, out of talking around the table today, business banking is complex and it is very, very difficult even for an SME to do a switch in seven days. There could be collateral connected to the old account, there could be Bacs service user numbers that have to change, there could be merchant acquiring that has to change. That is all very difficult to do in seven days, so you tend to find that businesses will use the partial switching service and they will move their payment instructions first of all. Then, at the time when they are confident that payments have all been set up with the new bank they will make arrangements for the balance on their old account to be changed or funded, or whatever, to close the account. The difficulty with that of course is they have done a partial switch so there is no automatic redirection, so they do not benefit from that.

What I think we should be looking at is: is there a way in which we can use the existing service and come up with a process that maybe lends itself better to SME switching? For example, could we allow them to do the partial switch to get their payment structures across, but then follow it up with a full switch? Once you do the full switch you close their old account and give them the benefit of redirection.

Could we also build into that undertakings for collateral to be moved on the basis of a funding at a later point in time? Try not to shoehorn it into seven days, try and extend it, but using the already built system that is there.

I think there are things we can do and, indeed, that is something we and CASS were looking at as part of our strategy, whether we can beef up the partial switch service.

Q. (Ms May) What was striking was the higher level of awareness in Northern Ireland about CASS and confidence in CASS. Is that mirrored in SME awareness and confidence as well?

A. (Mr McComb) Personally speaking I would say if I look at the quoted statistics for the number of business switches in the UK, it is a very low figure. Ours certainly would not be that low. They are a lot higher, but that could be down to a lot of things.

Q. (Ms May) Across the UK we understand that knowledge about CASS for SMEs is relatively low. I wondered if you had made more progress in Northern Ireland, where, as you say, it is a very SME-driven economy. If there is more confidence and knowledge, how have you had achieved it?

A. (Mr McComb) I think you already had, prior to CASS being implemented, the SME undertakings and you had elements of guarantees in there that helped people have confidence in switching. CASS is a bit convoluted now because you have SME undertakings and you have CASS. It is a bit difficult. The message is a bit convoluted, but I think because it has been there in the past it has probably helped. I think there is probably a greater propensity to switch in terms of businesses here than there would be on the mainland.

Q. (Ms May) Any other thoughts on partial switching, SMEs or otherwise? Remedy 12 just looks at the governance of CASS, and obviously you have a very good understanding of the membership and the way that the organisation is run, and makes the suggestion of adding new stakeholders to an overall oversight committee. Could it be improved in any way to make sure that the overall objectives were not in any way compromised by the interests of individual members?

A. (Mr McComb) As I say, I do not want to give my views but I will tell you what I have learned over the past couple of years in chairing it. We set CASS up very deliberately so that it would be one man one vote. From memory, I think it was mainly the larger banks that were insistent that that would be the case, to make sure that new entrants, smaller players, got a say in the running of CASS. That is the first thing.

The CASS Management Committee runs the CASS service. Because it is a managed service within Bacs there have been questions on why decisions are not pushed up the line to the Bacs board to make a decision. There is a very clear reason why that does not happen. It is because the CASS participants are not all Bacs members, so why would you take a decision to the Bacs board that affects people who are not part of Bacs? So there are two distinct committees. The performance of the scheme is reported up to the Bacs board. There is an independent chair and independent directors on the Bacs board. If there is something from a risk point of view or anything else that is flagged up, the Bacs board could overrule CASS on those types of risk issues, but there is a different participant membership of CASS.

We had a debate around the advertising spend in 2015 and it was a lengthy, lengthy debate. Weeks went past. The FCA were knocking at the door to say, "Where are we on this? We need to see the funding". We could not get agreement. We went through the BBA policy committee, we engaged them. We tried everything we could and we could not get an answer. Eventually I forced the issue and went to the vote and the vote was passed. Some banks did not like it, but it was passed and the funding was procured. I would argue that if the voting structure was different we probably would not have got past that. That is my own view.

Q. (Ms May) And would there be any merit in having representatives from consumer groups who have a different perspective on the requirements?

A. (Mr McComb) For many boards that I have sat on recently where we have independent chairs or independent directors it is a benefit and it adds value, yes. Personally speaking, I would welcome it.

Q. (Ms May) So an extra voice?

A. (Mr McComb) Yes, absolutely.

A. (Mr Stinton) Just to add to that I happen to sit on the policy committee that was on the receiving end of Andy's vote. That was good. That policy committee which sits within the BBA does take regular soundings from Citizens Advice and consumer bodies. In fact, some of those people are actively involved in the working groups that sit underneath the retail policy committee and help shape and form the industry's response to those issues. So there are independent voices in the process.

Q. (Ms May) Does anyone else have a view on CASS governance?

A. (Mr Donnan) The voting structure seems to work.

Q. (Ms May) Colin, anything you want to add?

Q. (Mr Garland) Some people have suggested that when the original CASS governance was put in place it was very fixed on operation and making sure it all worked, which it did from day one. Somebody else said there might be benefits in changing the emphasis away from the operations, now that it is all bedded in, to trying to be a bit more commercial; to trying to change the way it markets its service and engaging with the issues around what are the benefits to customers from switching; and trying to increase awareness. There is a lot of confidence driving increased usage and maybe change some of the incentives around that. Do the banks think that would be a good thing to happen and what are the mechanisms by which the incentives on CASS might be changed?

A. (Mr Stinton) Andy made the point that there has been the discussion and the vote and the commitment to additional marketing investment at an industry level. That to me is a clear indication that there is a commitment to expanding the marketing muscle that sits behind the CASS service. Andy will know better than I, but as far as I am aware the marketing programme was put together by a professional marketing agency and was executed in a way which is best designed to deliver the objectives.

As I understand it, the objective so far has been to launch the service and create awareness. In my opinion the objective has started to encompass consumer confidence as well. I would argue, perhaps, that that recognition is already there. I think Andy mentioned earlier that there has already been a discussion about sustaining some of that market investment for a longer period.

A. (Mr McComb) I think that is a fair comment. Operationally, yes, when I look back to when we took on the service after launch we had, for example, the first time acceptance rate of 90 per cent on switches and we set ourselves a challenge of 95 per cent. That took a lot of work to get that and we achieved that. So, there have been operational things we have been trying to improve along the way.

We are being pegged back a bit because we have had to change redirection from 13 to 24 to 36 months, and now indefinitely, based on regulatory demands. So we have not been given the opportunity to really try to develop the service.

We do have an annual strategy review. We have a strategic plan and CASS would be more than happy to share that strategic plan with you, if they have not already done so. There is a clear plan there of how we develop the service. We take on board things like PAD. Do we open up the service? Do we expand it into payment accounts as opposed to purely current accounts? All of those things are part of the plan. PSD2 coming along and Midata, or Midata 2, or whatever it will be. How do we start to promote that? All of that is part of the strategy. We have a good strong strategic plan.

Q. (Mr Garland) Are there commercial incentives around that? You said earlier that it was intended to be self-funding, so is there a profit motive or a revenue-generating motive?

A. (Mr McComb) It is an interesting one. Before CASS was launched we looked at a pricing mechanism: what was the right price to pitch the switch at? The banks would pay for it and it would be free for the customer, but we wanted a figure. The figure was something like £50, and that got challenged. It got challenged, from memory, by a challenger bank that went to a lot of trouble, a lot of legal guidance, to force the scheme to push that switch fee right down to £5. There was then a really strong argument from them that the switch fee should not fall on the new bank, it should be shared because it was seen as a barrier to new bank entry to the CASS service. So, unfortunately, we have a five-year cap which will last through to 2018 and the charging structure is that it is a 50:50 split. The old bank pays £2.50 and the new bank pays £2.50 for the account they get. We have no way to change that unless there is a majority decision to do so, and I think it would be challenged by some of the new entrant banks.

A. (Mr Coleman) Membership is currently 31 banks, I think, that are members of CASS. Another three are joining very soon and discussions under way with nine. The smaller players who are not currently members still see CASS as something they want to get involved in despite the cost and charging structures.

Q. (Ms May) That is that piece done. Do you want to go on to SME lending?

Q. (Ms Kent) Shall we complete SME lending?

Q. (Ms May) Coming on to SME lending and the observation that most SMEs go direct to their bank with whom they have the PCA for their lending needs. A very high travel through, if you like. Completely logically the bank that has that PCA relationship has a good knowledge of the business concerned, has a clear understanding of its credit history and a great deal of other business information alongside. How do you engender more competition in the market by levelling the playing field between the incumbent bank and newcomers who might be able to provide interesting lending alternatives? How do you stimulate SMEs to look around a bit more when they take out that loan? What is realistic? What is in the pipeline?

The first thing we have noted is how we reduce what we have called "information asymmetries" between a new bank and the incumbent provider. We note the work being done, as we speak, under the flow down from the Small Business, Enterprise and Employment Act, SBEE Act, requiring named banks, including all of your organisations, to share data on those SME customers - subject to this consent being given by the SME - with credit rating agencies, who would then be able to provide would-be newcomers with much more information to make a proper credit assessment.

I would really like your thoughts as to what the reaction of SMEs to confidentiality and data-sharing is going to be. Is it something that they would be likely to consent to? Will that credit rating agency data delivery change the marketplace? How might we stimulate SMEs to look more widely and engage in this exercise? Are there any initial thoughts as to whether this goes far enough? I think there is about a two-year time period for implementation. Is there anything further we should be doing in terms of encouragement? What is your perspective, as would-be lenders, on new customers who have a cosy relationship with somebody else?

A. (Mr Crimmins) As a matter of principle anything that encourages a flow of credit into the economy and anything that helps with credit due diligence in assessment is to be welcomed. I think the important thing to remember, though, as we potentially share data, is that what can shared is only part of the overall credit approval process and that, on top of the available credit share data, things like standard checks on affordability, what security is available, business plans, et cetera are relevant. I do not think this is going to cure everything but it might be helpful as part of that process.

From our perspective the bigger parts of the lending process are around the stuff that you potentially could not check. So, affordability checks, security, business plans, credit card principles, all those other standard things.

Q. (Ms May) But it would help?

A. (Mr Crimmins) It would help a prospective provider compete against the incumbent. It would help, but bear in mind there are other potentially more significant steps after that to ultimately getting credit.

Q. (Ms May) Under this initiative the information that the credit-rating agencies would receive would be transaction data, various default data?

A. (Mr Crimmins) Default transaction data, current account, number of unpaid cheques, the profile of the account, that type of thing. Are there any defaults? Can this customer prospect conduct a bank account in the correct way? That is very much tech type stuff. Beyond that, especially as you get into the more complex SME lending, that becomes quite a small part of a much, much bigger assessment.

A. (Mr Stinton) It is a slightly two-edged sword though because to be at its optimum level of effectiveness all SMEs would have to share similar sorts of data with the credit reference agencies. My understanding of the SBEE requirements is that what is shared is purely what a customer consents to share. Some of the evidence that I have seen from our own market research, and from some of the industry bodies, suggests that there is a more fundamental issue of concerns around data security that have been expressed by the SMEs themselves. The SBEE will require us to share data where the customer has consented to that sharing. I see fundamental issues for some of those SMEs consenting to share data where an application for credit has failed. The CRA process cannot be truly effective unless everybody buys into it.

Q. (Ms May) When you say that CRA's process cannot be truly effective unless everybody buys in, is that because some of that assessment is a relative assessment using a lot of industry data?

A. (Mr Stinton) You need it at that level.

Q. (Ms May) That there be enough information to be able to make a judgement?

A. (Mr Stinton) Exactly. I do think the more fundamental issue will be SME concerns about data security and their consent ultimately.

A. (Mr Coleman) I think, technically, the work that is underway at the minute to meet the Credit Information Regulations that fell out of the SBEE Bill, that obviously provides the infrastructure between the banks and CRAs to exchange information.

Q. (Ms May) They have to do so.

A. (Mr Coleman) That infrastructure already is being built onto to facilitate the new requirements here. As has been said, issues around consent, data security, confidentiality of information, things like business turnover, for example, is potentially a very sensitive piece of information that certain businesses would not want to get into the public domain.

In terms of what is required for alternative lenders to look at, to use CRA-generated information for credit assessment purposes, you are back to not so much an infrastructural issue, it is back to consent and what SMEs themselves are happy to put into the public domain via their bank.

Q. (Ms May) Your perception is that that is a major obstacle. Even if you have had your loan application turned down you would be very unwilling?

A. (Mr Coleman) "Why would you want that broadcast?" will be the view that some SMEs will take.

A. (Mr Ennis) I think some SMEs will prefer just to go to another bank on their own. They can get access to the information that is required by another bank.

Q. (Ms May) They would just go directly and unilaterally to another bank?

A. (Mr Ennis) Correct.

A. (Mr Bridle) It is the small community thing of disclosure.

Q. (Ms May) If you do reject your SME clients for a loan are they inclined to look at other platforms, any of the new ideas that are coming in? I saw today that Worldpay is going to extend loans to small SMEs. How does one energise that market and enable SMEs to realise there is a broader competitive offering out there?

A. (Mr Ennis) Before you get there you have to define what a decline is. So you can have an approval on a different set of terms where you can give guidance on a structure that might be more appropriate.

Q. (Ms May) Or a lower amount.

A. (Mr Ennis) Or a lower amount. A decline, you can define it in very different ways.

A. (Mr Stinton) You will be aware of the data that is produced through the offices of the BBA, though, which indicate that decline levels are very, very low and that actually acceptance in Northern Ireland, specifically, has been growing in excess of 90 per cent. There is also Professor Griggs' mechanism whereby SMEs can appeal with their bank. From that perspective, again, I am not sure of the magnitude of the issue.

A. (Mr Crimmins) That is reasonably well advanced and fairly well embedded. It originated in the Better Business Finance initiative referred to earlier. We have had Professor Griggs over with us recently and we have been running an independent appeal process for some time now. As part of that, where an SME is declined, we appeal that decline internally and then we offer them access to, or we signpost them to alternative sources of finance.

Q. (Mr Hoehn) This kind of discussion assumes that there is a sequential process going on here. You open a bank account, you are an SME, and then some time later you may need money and need a loan. It is separate decision but to what extent are these actually interlinked? If I were to open up a business I may already think ahead and think about the need for a loan, so to what extent do you wrap in the opening of a bank account decision with consideration of eligibility for a bank loan at some stage in the future? Are they packaged to any extent?

A. (Mr Ennis) They are not packaged, but I think there is an assessment of customer needs that looks at the suitability and requirements of the customer and then guides them towards appropriate products if they are part of suite that you can offer.

A. (Mr Donnan) I think it is fair to say on the SME side that when a customer opens a current account they are looking beyond it to the wider relationship and capability that they build. It is not always the occasion that they think, "Will this bank lend me £50,000 in six months?" They are saying, "Is this an organisation or an entity that I can build a relationship with, who will look after me well and serve whatever needs I have in the future?" I am not sure I am directly answering your question. I do not think it is necessarily packaged up.

Q. (Mr Hoehn) But it is not unrelated?

A. (Mr Donnan) Yes, it is not unrelated either. It is a relationship you want to build as you would with any partner in your business, whether that is a professional firm or whatever. It is what you want to build for the next period of time for your business because it is an important partner in your business.

Q. (Mr Hoehn) So information about eligibility for a loan could be something that could be useful already at the BCA opening stage. I am speculating here a bit, just floating a few ideas.

A. (Mr Donnan) It maybe links back to what we were discussing earlier which is how reliable could that be? For example, if it was a start-up business and you wanted to know the eligibility at the start-up, you are then going back into the business plan and lots of other things. It would be very hard just to say that a customer will be eligible for a loan on day one. It is probably more challenging for SMEs than it would be on the personal side.

Q. (Mr Hoehn) It is easier once you have a track record and then you can say, “No”?

A. (Mr Donnan) Yes.

Q. (Mr Hoehn) “What about other products that you are eligible for given that we know each other”. That is easier, that process. So it is, to a certain extent, sequential.

A. (Mr Coleman) Turning it around as a bank to which an SME may be coming who already banks somewhere else, clearly, as a new bank, access to some core information via a credit reference agency, or whatever, about that business would be useful information to have available to us. Again, provided the customer is happy to give us consent, as their new bank, to go and obtain that information via the CRA. As has already been said, that provides some core data, some core information that allows you to start forming a view around credit-worthiness, preparedness to lend, et cetera. There is a lot of other documentation required before you get to the point of saying, “Yes, we are happy to allow you to do that”.

A. (Mr Stinton) They are both very valid points. One, I think gets, at the difference between what is the SME’s demand for credit, and the other is what is our appetite for credit? Typically, in that account opening phase that conversation where you are looking at business plans and what are your prospects and desires for growth, it would tend to be less about is credit available and more about what is your journey going to be.

A. (Mr Coleman) I think something you have mentioned in your remedies, this loan eligibility indicator for example, which would be useful in some cases and I can certainly see a place for it. There is a downside to that in that that again could be a very blunt tool. It is not a credit assessment tool. A business going to that, putting in some basic data and getting an answer back that they are ineligible for whatever reason, would dissuade them, obviously, from going near that bank to talk about finance.

In our experience it is only if you are sitting down with a customer that you might be able to convert something that on the face of it might not look doable or viable, but through discussion and other information being made available could actually make a marginal case viable.

Q. (Ms May) There was a suggestion that for relatively small amounts, £10,000, £20,000, or even up to £25,000, there might be some more merit in it?

A. (Mr Coleman) Yes, at the lower end, but for anything more complex or more sizeable we would see problems in the effect that that may have to dissuade the customer from even approaching a bank to talk about their needs.

Q. (Ms May) Any other thoughts on that?

A. (Mr Stinton) Well, I think most banks would give the message, "Talk to us if you need more credit" because every decision is going to be based on an assessment of affordability. So, from that perspective the answer is, "Well, come and talk to us if you want credit".

Q. (Ms May) Yes, any automated answer is going to err on the side of caution.

A. (Mr Stinton) Absolutely.

A. (Ms Press) I think particularly in the business start-up arena that could actually stifle growth and entrepreneurship because typically that will never go through an eligibility calculator because there are so many other factors in that piece.

Q. (Ms May) Just off script for a moment. If one of your business plans is significantly to increase your lending to SMEs, therefore of necessity accessing new customers, what would make a difference to being able to achieve that, to getting in front of people who do not have a BCA with you? How could one make that more effective? How can we help you?

A. (Mr Donnan) How do we sell ourselves to customers?

Q. (Ms May) How could you get in front of would-be clients with whatever information you need to enable you to compete against the incumbent bank? Is there anything that we have not thought of?

A. (Mr Ennis) I think there is a range of things you can do there. There are propositions. We mentioned start-up and focussing on that sector and raising awareness of what you do as an organisation for start-ups. Then there are other sectoral propositions you might take. You have heard here about agri being a very prominent sector in Northern Ireland.

Q. (Ms May) So you would promote yourself as being the bank for agribusiness.

A. (Mr Ennis) And some of the banks here, including ourselves, have specialist agri expertise within their organisations, and that is then a promotion of you understanding that sector and what you can do in that sector.

Q. (Ms May) We touched briefly on intermediaries and the role they might play, and I think with other parties we have looked at, whether it is the accountant or some advisor, there might be a prompt annually at the time the accounts are signed, or whatever it might be, to consider banking arrangements. Just to reflect on, "Have we got the right bank for the job?" Possibly when some finance requirements are coming up. Is there anything we can do to work with intermediaries to improve the level of awareness and competition in the market?

A. (Mr Coleman) I think the main reason is they are sick of the sight of banks knocking at their doors. We see it as a key channel, if you like, in terms of getting our message out to businesses, be they professional, be they accountants, solicitors, et cetera. I think that channel is well and truly marketed.

Q. (Ms May) You think it is saturated?

A. (Mr Coleman) Yes, absolutely.

A. (Mr Donnan) I think directly from the bank or industry-recognised bodies is probably a more effective way than relying on other third party intermediaries, would be my gut feeling. They have credibility as well and independence, particularly if you are using industry bodies, et cetera.

A. (Mr Ennis) Agreed, and I think if you look at the Federation of Small Businesses or a chamber of commerce or the CBI, they have all done fairly extensive work on access to finance over recent years and brought those findings to the marketplace and that has helped and created a conversation around it and helped improve awareness. The banking industry has responded accordingly.

Q. (Ms May) Picking up how we might use the initiatives in data sharing to make this a more open market for new providers and for SMEs looking at broader ranges of financial providers, and picking up the whole open API debate and the report for HM Treasury on open data and data sharing for banks, which I think is part of the same debate, are there any thoughts on data sharing and what we might do to build on existing Treasury initiatives to establish commercial networks whereby information can be shared between banks and providers?

A. (Mr Stinton) That is a hard one, because I think there has been an awful lot of development over the last five or six years. I mean, the Better Business Finance website that we talked about earlier is really the outcome, or a physical manifestation, of a collective industry effort to be more accessible and get the message out there.

I remember at the time that the BBA worked with the local Chamber of Commerce in terms of running training sessions with local businesses, saying, "These are the things you need to do when you are approaching your bank and looking for credit". The subject of accessibility has developed immensely, I think, in collaboration with the broader banking industry, not just the banks around this table.

Q. (Ms May) If we think that Midata API sharing will potentially bring great improvements to the individual consumer IN the PCA market, do we think that will also have a material impact on the SME financial landscape?

A. (Mr Stinton) When you ask what are the things that SMEs consider as really important, in a lot of the surveys I have looked at, service and relationship management and things like that feature ahead of price. From that perspective we do have a tool which shows customer satisfaction with their banks. Do we need to market that tool or make the results more accessible? Possibly. I think in my mind the key intervention here is when the business decides that they want to make the switch, what data will they use? There are some sources now, the Open Banking Working Group which is being developed now will encompass BCAs. So all of a sudden not only is there access to customer satisfaction information, but soon businesses will be able to look at comparable language describing different services and so on. From my perspective, I think that is quite an array of tools. The question I have about any further data sharing is just what level of consent are you likely to get from SMEs, because there are legitimate concerns and security.

A. (Mr Crimmins) There is possibly one other. It is not directly related to banking but in terms of the lending landscape, particularly in the UK, if you look at the crowdfunding model with the kind of growth this has experienced. There are some questions about the long-term sustainability of that growth. The very model where an SME, particularly a start-up, is prepared to share its data openly as part of that process. So that is a small but growing threat for SME access to finance, particularly in micro start-up business. On the issue of data sharing, on the issue of SMEs prepared to make that publicly available, there is some evidence in the UK that it is starting to work.

Q. (Ms May) What is the experience in Northern Ireland?

A. (Mr Crimmins) There is very little, if any. In the Republic of Ireland there are a couple of operators trying to get off the ground, but I think it will be pretty difficult locally, just given the size of the market and the ability to scale that and the acceptance of local SMEs to be a bit more open and transparent.

A. (Mr Bridle) The British Business Bank had a launch in Northern Ireland maybe about six months ago --

Q. (Ms May) Other crowdfunding.

A. (Mr Bridle) -- with some of the new platforms and they were able to bring forward a few case studies, but invariably the sort of money that was involved was very, very small.

A. (Mr Crimmins) It is very small. It suited that micro model.

A. (Mr Bridle) Yes, so it was a personal loan type size as oppose to what you might consider a business loan.

Q. (Ms May) All right. That is helpful.

Q. (Mr Garland) Is there anything preventing SMEs from making their loan requirements available to a platform and then crowdsource, banks and other financial institutions can bid to meet that loan requirement?

A. (Mr Crimmins) I think, fundamentally, that will come back to the SMEs acceptance of sharing data, sharing information. Do you expose your business plan to your competition? Do you expose your data and information and everything else, potentially, to your competitors?

Q. (Ms May) It will be a secure system and it is not public.

A. (Mr Coleman) The declined lending platform obviously requires an initial discussion with a bank which leads to a declined application, and then some information in relation to that proposal is put via a finance platform provider out into the wider finance world. But it is not quite the example you are looking for. It results from a negative outcome in terms of declined lending.

A. (Mr Crimmins) I suppose the question is then before you get to a decline process is there a way whereby an SME could, within a secure environment, put the application up on the platform, to test the appetite of investors.

Q. (Ms May) That is absolutely the point, yes.

Q. (Mr Garland) The barrier to that FOR the SMEs is their willingness to share in a secure and honest manner.

A. (Mr Donnan) And that if they do not get a taker are there implications for their business? It is an SME demand side challenge.

A. (Mr Ennis) There are a whole range of factors that a bank will take into consideration in any credit process, qualitative, quantitative factors that I do not think can be met purely by a share of information.

Q. (<u>Mr Garland</u>) Some banks may have different risk appetites.

A. (<u>Mr Ennis</u>) You might get this false negative response. Another SME, you would be perfectly happy to do the business because there are other factors.

A. (<u>Mr Bridle</u>) Another dimension would be to consider the competition, if you like, to the private funders from the public sector in Northern Ireland. There is a history of soft funding which comes from the government and its various agencies, a myriad of growth funds and publicly funded schemes as well that are competition, if you like.

Q. (<u>Ms May</u>) Has there been a significant take up?

A. (<u>Mr Bridle</u>) I think most of the funds would say there has been over the last few years, and maybe 50 - 60 per cent through a five-year programme.

Q. (<u>Ms May</u>) Does that reflect a lack of availability from other sources, not so much now, but a few years back?

A. (<u>Mr Bridle</u>) There is probably a legacy with some of that. We have discovered some instances where a business has availed itself of this funding when actually they probably would have got better terms and conditions from a bank.

A. (<u>Mr Donnan</u>) Some of it is also complementary to the bank finance as well. It can be a mezzanine type of finance, so it can be a blended solution for the customer.

A. (<u>Mr Ennis</u>) A bit like the crowdfunding issue, Northern Ireland has room for improvement in developing other sources of finance another than equity and debt, or peer debt. The mezzanine market, there has been some efforts in there, private equity, et cetera. There is a need for more alternative choices and innovation.

A. (Mr Stinton) It would be fair to say that the issue there has been as much about addressing SME perceptions of what finance looks like. There is a reliance from SMEs on traditional banks.

Q. (Ms May) Okay, well that is very helpful. I think that is probably SME lending paused, at least for now.

Q. (Ms Kent) I have denied you your lunch long enough. If we could reconvene at half past.

THE CHAIRMAN: Well, the alternative would be to have a ten minute break to start lunch, and actually to restart the meeting at 1.15.

(Lunch break)

THE CHAIRMAN: I want to move on to remedies that in the Remedies Notice we identified as remedies that we are not currently minded to pursue. They came under a number of headings, one of which is major structural remedies and one of them is about free if in credit banking. The major structural outcomes are to do with free if in credit banking as well. So some comment here to look at free if in credit banking. The areas where you make money out of your personal current account customers is largely customers with overdrafts and customers with large credit balances. Those customers contribute much more revenue than customers who are genuinely getting free banking because they do not have overdrafts and are not paying very much by way of foregone interest because they do not have large credit balances.

Some people see that as giving rise to distortions, giving rise to inequities, and have suggested that charges to overdraft customers should be controlled or capped or that there should be compulsory payment of minimum interest rates on credit balances in current accounts.

Now, we as the competition agency start off, perhaps it is too strong to a say a presumption, as being against price controls and price regulations, but we certainly regard them as having a high hurdle because those sorts of interventions often have undesirable effects. We start off in the hope that increasing competition, for example for customers with overdrafts, for customers with high credit balances, is a better way to get a more competitive market. That is a position that we are potentially taking, but if any of you have views about what the effects would be of say capping overdraft charges we would be interested to hear them.

Can I just mention that one interesting version of that has come in in a submission from Which? who are suggesting not exactly a cap on overdraft charges, but a rule that says you do not differentiate between unarranged and arranged overdrafts in charges. So whatever charges that are associated with an arranged overdraft, those should be the charges of unarranged overdraft holders pay as well. You treat them in the same way. Do away with the distinction.

Any thoughts on whether it would be sensible for us to control overdraft charges?

A. (Mr Donnan) I would start from the position of price control overall As you have mentioned it is not necessarily the right thing for a market to operate with price control and that we should compete on a whole range of aspects. I would come back that we allow competition to play through competition on all aspects, price and non-price.

I think you are already seeing competition in the market, whether that is on level of fees or structure of fees, or whatever, in terms of simplicity and fairness. Again, it is not just about the level of fees, but it is also about how they are generated and when they are generated. I would support your view that these are areas that should be dealt with primarily through a competitive market and I think you are seeing different positions taken by different providers on things like credit interest, et cetera, as part of their overall proposition.

Q. Well, I think it is fair to say that on the credit interest front we see quite a lot of competitive developments in that area.

A. (Mr Donnan) I think even on the overdraft fees that are arranged or unarranged there is a range of charging mechanisms and different ways of approaching this amongst the providers in the marketplace. So you have seen change and developments there and I think you will continue to see that as you would in a normal competitive environment.

A. (Mr Stinton) Yes, and the evidence would show that different models have appeared. You have your daily charging model and your event-based charging models. My personal opinion would be that the imposition of any minimums or maximums really just creates upper and lower limits to which everybody will go. It is an interesting concept to have the same pricing structure for unarranged overdrafts as you would have for arranged. I would suggest that that might create a situation where unarranged overdrafts do not happen. That in itself, I do not think is a particularly good outcome for those customers that rely on them from time-to-time.

A. (Mr Bridle) If it did happen I think the risks of moral hazard, might be significant in terms of customer behaviour.

Q. Could you expand on that?

A. (Mr Bridle) Just an initial thought. If there is any suggestion, from a customer perspective that you can go over a limit in an unauthorised fashion, the temptation for a segment of the market may be too great to avoid.

Q. (Ms Kent) I think Which's argument is that historically one can see the difference between an arranged and unarranged overdraft, where the majority of payments are through the cheque guarantee card. The bank need to be able to control customers, having offered a guarantee card, but in this day and age, most transactions are not through that. And that actually it is the bank who authorises the payment that takes you into the overdraft level. And that by authorising that payment, is not the bank effectively extending your line of credit? Therefore, why do you have a different set of charges? And for most banks, a higher set of charges, where the bank has already taken the decision on whether or not to authorise that payment into -- that effectively extends your credit. What is the difference? I think that is Which's argument?

A. (Ms Press) That is well understood and I think -- and an agreement but there has to be an acknowledgment that actually banks have a distinction in their own regulatory frameworks, in respect of overdrafts that are authorised and unauthorised. It is not just whether there is a technical limit on the account. There are regulatory challenges around how much a bank has in terms of excess tolerance, risk profiling, grade profile.

It is more that it is not an opportunity just to levy punitive charges; it reflects potentially a higher cost of funding. And it could potentially result in customers' payments not being honoured as they might previously have been. I think there needs to be careful consideration generated in relation to that particular point.

THE CHAIRMAN: One provider; Virgin Money, has suggested that there should be compulsory payment of credit interest on all current accounts, which we assume would effectively mean that banks would have to charge monthly fees. That if you are paying interest on all credit balances then the economics of the current account would require monthly fees. I am asking the question, would that realistically mean the end of free-if-in-credit banking? The compulsory payment of interest? We should recognise that it would be coming pretty close to requiring the levying of monthly fees in reality, is that right?

A. (Mr Stinton) It would fundamentally change the economics of how those accounts work so if there was an imposition of a mandatory cost, well then yes, there would have to be some sense of how you pass that back to the consumer, either per month or per transaction.

A. (Mr Coleman) Or else banks would consider reverting back to transactional-based pricing, because at the minute, you effectively can consume as much as you like in terms of transactional banking. Use it once a month or a hundred times a month it costs you nothing. Clearly, if costs were generated through transactions some customers would pay more some customers would pay less, if you went down the transactional banking route or transactional charging route.

Q I am not hearing any of you being particularly attracted to this idea either?

A. (Mr Donnan) I think if you have to do that then it is choice and flexibility in an overall proposition. I am not sure that that would enhance competition in the marketplace, which is the outcome you are looking for. I think that that in itself would fix nothing in terms of competition.

A. (Mr Stinton) I suspect it would create a major issue with customer satisfaction as well. I think there are so many customers that benefit from this type of account; it is another choice. Its existence does not seem to have prevented the introduction of reward and packaged accounts and the different types of models that we see now.

Q. [✂]

As we have said in our Provisional Findings report and by implication the Remedies Notice, we have looked quite hard at free-if-in-credit banking and do not find evidence to support the story that somehow it is an anti-competitive institution that somehow needs to be sorted out.

It does not mean that we support free-if-in-credit banking as the right model. If there is enough competition in the market and it is not the right model it will get competed away. If you guys have to compete hard enough for people with credit balances, loan accounts or whatever and if we succeed in getting more competition for customers with overdrafts then the economics of the free-if-in-credit model might crumble away and the model might evolve away.

We see no reason to protect it, per se, but we have not been convinced by any arguments or reasons deliberately to get rid of it either.

A. (Mr Bridle) Have you looked at other markets where it does not exist?

Q. Yes we did indeed and one of the interesting things is the UK is the only market in which this particular model exists, but the UK is not unique in levels of switching between accounts. We happened to do one case study of the Netherlands, which does not have free-if-in-credit banking, and has the same low levels of switching as the UK market. I think that is general.

A. (Mr Donnan) I think it does in some way distort how customers see the value of their account or the value of switching potentially. It is not that it does not have an impact on the market, but I can see that there are perhaps other ways to address this. Imposing a minimum monthly fee would introduce price controls and would distort wider market forces. So I think from our perspective free-if-in-credit does distort customer behaviour to a degree.

Q. Well along that line TSB has suggested something that customers should get a monthly statement that includes a statement of their interest foregone.

A. (Mr Donnan) I think it is interesting to tell a customer what they could have got even if though they were not necessarily entitled to it. If you take packaged accounts and different types of account; how would you record on the statement for a packaged account what the customer might have earned in terms of a wide range of potential benefits this gets quite complex.

Q. I have asked TSB if I have a free-if-in-credit account and my wife has a reward account and she gets a statement at the end of the month telling her the interest that she has actually received on her reward accounts, and I have a statement saying the interest I have not received on my account. How do we put these two together and work out which one of us is getting the better deal? You need to think quite hard about how to do that calculation.

Which is why, going back in the conversation, giving people good price-comparison tools seems to be a much more proactive way of nudging people towards price-comparison tools and this seems a better way of helping them work out whether they are on the right account, rather than trying to give slightly esoteric information about the underlying cost structure of the free-if-in-credit model.

A. (Mr Donnan) I guess, as we discussed earlier it is not just on price but on the wider quality piece as well and it is better to be more transparent and more relevant to customers.

A. (Mr Coleman) On the free-if-in-credit model, looking at it from a consumer outcomes perspective, given that somewhere in the order of 80 per cent of customers currently avail of that model and do not pay any transaction charges. The foregone interest case is another argument but they are getting the whole plethora of banking services for free, in cash terms. Presumably if that model is altered, there will be winners and losers and I would have thought there would be more losers than winners.

The winners would clearly be those with very high credit balances, people would receive an element of interest on it but in pure numbers terms, I would have thought the majority of consumers are likely to pay in return for a relatively small amount of interest. Now, it would be up to them to do the sums, but from an outcomes perspective it might not be what consumers would actually want to see.

A. (Mr Bridle) If we were back in the 1980s with interest rates at 18 per cent or something like that it might be a completely different discussion, because in absolute terms the numbers involved even from some of those customers who do pay are relatively small compared to what their weekly expenses are or whatever.

Q. The other high-profile remedy that has been suggested and we have provisionally decided not to pursue, and I need to always emphasise the word "provisionally", everything is provisional at this stage, +would be to break up a bank to create more competition. Again, for reasons which we have argued in the report, and I will not go through them here, we decided that that was not the best way to tackle the problems which we saw in the market. If there are any volunteers for the chopping block you are welcome.

A. (Mr Ennis) If you wish to break up another bank, I mean, feel free.

A. (Mr Donnan) This would be costly and disproportionate to the concerns identified. The remedies rightly focus on customer demand and stimulating greater customer engagement.

A. (Mr Bridle) As well, in a regional market like Northern Ireland, in reality, there are only a limited number of banks that can make an economic return.

A. (Mr Stinton) We agree with you on this one.

Q. I have been looking forward to a strong challenge on the SME that we have been too cautious. In answer to your question, we did get quite eloquent evidence from RBS and from TSB rather than Lloyds on those problems. Those two cases show that banks divestments are peculiarly difficult because of the relationship between banks and their customers and the complexities of IT as well. When I heard it said that we should have gone for a quick structural change ...

Are there any remedies that we did not consider, even to turn down, that you think we have missed? Is there anything that if you had been running the bank inquiry, you would have looked at as a way of making the market more competitive?

A. (Mr Ennis) Not per se but I think connected to the last question, in terms of encouraging the smaller banking organisations and dealing with some of the remedies that we been talking about today, you have got to be mindful about the various FCA programmes or Treasury programmes or CASS initiatives that are adding potentially to the burden for smaller banks, in terms of technology or regulatory environment which is not very encouraging.

For the CMA to feed some of your recommendations into bodies that are already working maybe on some of these remedies in a different way to avoid a duplication, to avoid maybe some conflicts that arise from different parties seeking solutions to some similar issues.

Q. Well I have not forgotten the earlier discussion in relation to APRs and Midata that the technical challenges of doing things, involving the IT systems of smaller established banks is an issue that has come up in different ways in our investigation. It is good to have that reminder of that issue. We will keep that in mind.

Talking of smaller banks, there are a couple of issues, which are still on our agenda to do further work on for our final report. One of them is the issue of prudential capital requirements where banks with IRB status have different capital requirements than banks that are operating with the standard approach to risk modelling. That gives rise to quite substantial differences particularly in the area of domestic mortgage lending. We are planning to do some more work on that. We do not need to spend time on it now, unless there is anything pressing that anyone wants to say, but, if there are issues that you want to raise with us on that; on the effects of prudential regulation as a barrier to entry for new and smaller banks or expansion of smaller banks then it is an issue we are doing some further work on.

We are also going to look at the effects of the change in bank taxation. The new version of the bank tax being introduced which some people have told us is going to be a barrier to smaller banks, who were not subject to the previous bank tax but will be caught by the new one. Again, that is something on which we have committed to say something in our final report. Are there any reflections on either of those issues here?

A. (Mr Donnan) On the capital requirements, we work closely with the PRA, they obviously have an interest in this as well. It is important to have a level playing field would be just one point to note.

Q. Well, everything we have done so far, and will continue to do, has been in close collaboration with the PRA.

A. (Mr Bridle) Perhaps also to note would be that potentially in a few years' time Northern Ireland will have a lower corporation tax regime, than the rest of the UK, but the banks will not be included as beneficiaries of that.

Q. They will not?

A. (Mr Bridle) No, they are excluded specifically through the legislation.

Q. Is there any risk? That is, I confess, news to me. I knew about the change in the corporation tax rate. If you switched your tax domicile to Belfast that does not help; you are still …?

A. (Mr Bridle) Well as far as the banks are concerned the profits of the banks will not be taxed at the proposed 12.5 per cent from April 2018. Other businesses in other sectors will.

Q. But is there a potential for a competitive distortion there; that non-bank providers of financial services will be in a stronger position than those of you who are classified as banks?

A. (Mr Bridle) That is a good point which I am not sure has been given due consideration.

Q. (Ms May) Does it apply to building societies as well?

A. (Mr Bridle) Yes, as far as I am aware.

THE CHAIRMAN: Well that is actually a useful wrinkle for us to think about when

thinking about the bank tax; we need to think about whether there will be implications of the Northern Ireland corporation tax change.
Getting towards the end but you would not expect us to finish without giving you the opportunity to talk about the Northern Ireland Order, which we are reviewing. The first thing I would like to ask about that is do you think that it still has an effect on the market. Putting that question the other way round, if we simply remove the existing Northern Ireland Order, what would be the effects on the banking market? You have nothing else, we have not replaced it with a UK wide undertaking, we have simply said times have changed.

A. (Mr Coleman) We provided a submission to you on this issue bank in June, I think it was we wrote to you. I think our conclusion in looking at it was that the majority of the requirements of the Order, might been have subsumed effectively into other pieces of regulation or codes or things like Banking Conduct of Business Sourcebook and Lending Code et cetera that have come along subsequent to 2008. The key one that still remains is the provision of the switching information, the annual reminder that seems to be unique to Northern Ireland. That appeared to us to be, in effect, the only additionality that the Order brings to Northern Ireland. Given the discussion we had at the very start of this morning, if that is a good thing to be doing for Northern Ireland consumers, it feels a good thing to be doing for all UK consumers. Either make it UK-wide or remove it altogether if you feel it is not helpful to your overall objectives in terms of encouraging switching. That is our summary of it. As I say, you have more detailed submissions from us.

Q. That is the only thing in the Northern Ireland Order that you would see as having sufficient potential effect to maintain and therefore to have on a UK-wide basis?

A. (Mr Stinton) Well you could argue that some of the components of pre-notification and how the language is used could add value in the rest of the UK. It seems slightly odd that we would have additional requirements placed on us operating in Northern Ireland when bigger banks based in Britain do not have those same obligations.

From my own perspective, the question is should some of those terms be used elsewhere in the UK. What would be interesting actually is what would happen if the PCA Order was lifted and we stopped pre-notifying customers of charges and things like that. I do not know that any of us have tested that.

A (Mr Donnan) I think the pre-notification now is caught up potentially by the changes introduced by the OFT. It would be worth checking but I think that is actually UK-wide now as well --

A. (Mr Stinton) The whole process that sits behind it in terms of additional switching messages that go out.

Q. (Ms Kent) I was just going to mention the overdraft three month period.

A. (Mr McComb) I guess the only question that I would ask is, is the provision of a three month free overdraft a barrier to some other challenger banks maybe entering the market.

A. (Mr Donnan) Tesco, in their submission, said that treating Northern Ireland differently from other parts of the UK raised barriers to entry. If you want to encourage new entrants into the Northern Ireland market, it is more likely if the regulatory framework is the same as GB, as a bigger market. That would make new entry more likely because they would not have to adapt their offering specifically for a smaller market. Those would probably be the most substantive from a market perspective.

A. (Mr McComb) Christiane, you are referring to the Articles C8.2 and 3, I think, on the overdraft -- within the switching process. Again, our view on that it is arguably caught up in the CASS process in any event. Again, we do not believe it is something that is required. We believe it is more or less covered.

Q. (Ms Kent) The free overdraft period?

A. (Mr Coleman) Again, I think a lot of the developments in CASS and some of the other remedies that are proposed, potentially negate the need for the free period. The key thing for consumer outcomes is will I get an overdraft and will you follow through on it, provide it. The free thing is a nice element of that. One other element that covers there is if banks make mistakes for consumers in that process and it generates fees that consumers should get that back. That is very good practice. Whether the overdraft is free or not is a secondary issue.

THE CHAIRMAN: Tim, is there anything else that you need to cover in relation to the Northern Ireland Order?

Q. (Mr Ker) No, I think it is covered. You somewhat answered this but insofar as there is a choice between it being applied in UK-wide terms or simply just lifted from Northern Ireland, which aspects of the Northern Ireland Order would you put into those categories? Is there any that you would say our view is that they should just be removed, they do not work, or our view is they might work but there are a problem because they are just in Northern Ireland.

A. (Mr McComb) Going back to the discussion we had earlier. I think there was something from what I have seen in last month's confidence figures in Northern Ireland that would suggest to me that some of the Northern Ireland Order remedies do actually work in terms of awareness and confidence. I think you would want to investigate that before you make decisions. I think that is probably the first thing.

I am not sure it is not a big cost to issue the switching leaflet. It is not a big cost for everybody to stick a BBA approved leaflet into customer correspondence on a more regular basis. That is not a big issue. That is something that should be across the board. At the end of the day it goes to every account holder, therefore it is going to create some form of awareness rather than spend £7.5 million a year on TV adverts that some people might see. I think it is a simple remedy that could be pushed out.

Sorry, I do not want to jump on -- because you are maybe going to come to it but there is a problem, I believe, with the SME undertakings and switching, because the SME undertakings are very specific around breaking the switch down into different elements and setting SLAs around each element. It includes things like balance transfer or funding, which are not available on a partial switch.

The old TODDASO service used to support the SME undertakings has been taken away; the CASS service and the partial switch, in particular, does not support the tracking of those SME undertakings. In fact, there is no ability on a partial switch, which most SMEs and businesses will use for a balance transfer. I do think that needs to be revisited because it is very difficult for banks to comply with that the Undertakings, using the CASS partial service.

THE CHAIRMAN: This is not specifically a Northern Ireland issue is it?

A. (<u>Mr McComb</u>) It is not.

Q. It is?

A. (<u>Mr McComb</u>) Well it certainly is from my awareness. I am not sure if it applies to any of the UK banks. I do not think it does, but we have to comply with the CASS service, which is a UK-based system.

A. (Mr Stinton) The key point about the PCA Order I suppose would be the interest free overdraft. It should apply to all UK banks.

Q. So the message is there might be a case, in some cases, a strong case for keeping some elements of both the Northern Ireland Order. If there is a good case it should be UK-wide and if it is not a good case it should not be there.

A. (Mr Stinton) Absolutely, yes.

A. (Mr Donnan) I do not think it is a case of it not working by the way; it is that the world has moved on and lots of other things have taken aspects of it. Indeed the remedies here will overtake some other elements, if you just wrap into a fresh arrangement.

Q. Is there anything else that you wish we had covered and want us to have a word about before we finish? We have covered our agenda. I do not want to go without anything else being brought to the table, or anything you want to raise?

Well if not, thank you very much indeed for what has been for us a very useful discussion. We have covered the range of issues that we wanted to cover with you. I hope we have a very clear picture of your views, including getting some very interesting insights into things that might be different in Northern Ireland from the rest of the UK, which is very important for us. And some possible insights that we might have for the UK market from the particular experience of Northern Ireland so all these things are extremely useful to us, and we are very grateful to you all for taking the time to come and meet us. And perhaps I ought to add on to that because we are very conscious of the burdens that this kind of investigation imposes on all parties, large and small, that we are grateful for the continuing engagement and productive collaboration we have had from you throughout the investigation, and we hope it will continue through to the end.

Q. (Ms Kent) I will just cover the next steps. As you know this is being transcribed and we will circulate the transcript. At the moment we are planning to publish the transcripts but obviously you will get a chance to review the transcripts before they get published.

As I also mentioned at the beginning this is obviously part of a whole series of roundtables, that we are holding as well as a whole series of other engagements and meetings et cetera. The next milestone, other than publication of the transcripts from all these roundtables which will be posted up on our website, is the provisional decision on remedies.

Thank you all.

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?