COMPETITION AND MARKETS AUTHORITY
RETAIL BANKING MARKET INVESTIGATION

Notes of a consumer stakeholder roundtable
held at Competition and Markets Authority, Southampton Row, London
on Tuesday, 8 December 2015

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

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

FOR THE STAFF

Joanna Benison	- Inquiry Director
Adam Land	- Senior Director of Remedies, Business and Financial Analysis
Min Lim	- Assistant Project Director
Kasia Reardon	- Internal Communications and Publishing
Sarah Shannon	- Assistant Director of Economics
Bill Roberts	- Assistant Director of Remedies, Business and Financial Analysis
Sophie Simons	- Assistant Director, Legal
Matthew Tregear	- Economist
Chris Whitcombe	- Economist
Robert Woodard	- Economist

OBSERVING

Helene Oger-Zaher	- Financial Conduct Authority

FOR THE CONSUMER STAKEHOLDER ROUNDTABLE

Mervyn Kohler	- Special Adviser, Age UK
Joe Lane	- Policy Adviser, Citizens Advice
Fraser Sutherland	- Policy Officer, Citizens Advice Scotland
Caroline Barr	- Financial Services Consumer Panel
Dominic Lindley	- Financial Services Consumer Panel (dialling in)
Rebecca Langford	- Policy Manager, Money Advice Service
Tim Keyworth	- Economist, Which?
Richard Piggin	- Campaign Manager, Which?

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: A very warm welcome to all of you. Thank you very much for coming here. It is very important for us in this process that we hear the voice of the consumer very strongly.

Let us start off with introductions. I am Alasdair Smith. I am the chair of the CMA banking inquiry.

Q. (Ms Benison) I am Joanna Benison, one of the two inquiry directors.

A. (Mr Piggin) Hi there. I am Richard Piggin. I am the Campaign Manager at Which?

A. (Mr Keyworth) Tim Keyworth, economist at Which?

Q. (Mr Roberts) Bill Roberts. I work on remedies at the CMA.

A. (Mr Kohler) Mervyn Kohler. I work for Age UK.

Q. (Mr Hoehn) Tom Hoehn, inquiry member.

Q. (Mr Land) Adam Land. I head up the remedies function here at the CMA.

Q. (Ms Simons) Sophie Simons, assistant director of legal at the CMA.

A. (Mr Sutherland) Fraser Sutherland from Citizens Advice, Scotland.

Q. (Ms May) Jill May, inquiry member.

A. (Mr Lane) Joe Lane from Citizens Advice.

Q. (Ms Lim) Min Lim, assistant project director, CMA.

A. (Ms Langford) Rebecca Langford from Money Advice Service.

Q. (Mr Whitcombe) Chris Whitcombe, economist, CMA.

THE CHAIRMAN: Can we have introductions from the back, please?

Q. (Ms Benison) We have a guest.

Q. (Ms Oger-Zaher) Helene Oger-Zaher from the FCA. I am here as an observer only.

Q. (Ms Reardon) Kasia Reardon. I work in the press office at the CMA.

Q. (Ms Shannon) Sarah Shannon, assistant director of economics.

Q. (Mr Woodard) Robert Woodard, economist at the CMA.

Q. (Mr Tregear) Matthew Tregear, economist at the CMA.

THE CHAIRMAN: From the Financial Services Consumer Panel, Caroline Barr is coming, but she told us she is going to be late. Dominic Lindley from the Financial Services Consumer Panel is going to listen in to the meeting on the phone, if and when we manage to get the phone established.

Joanna is going to run the meeting, keep us in order and try to keep us on schedule. So, Joanna, over to you.

Q. (Ms Benison) Thank you very much. Welcome and thank you very much for coming. We really appreciate your time. Today's discussion is scheduled for about 2½ hours. Despite the slight delay, we will try to keep it on track and, obviously, within that time, we will try to break for a short break as well.

The objective of today's roundtable is really remedies-focused. However, we will welcome any points that you would like to raise with regard to our provisional findings.

The structure of the conversation was sent to you in a short presentation. Given the time, I am not planning to walk you through the presentation right now. Just very briefly, we set out in a very high-level summary what our provisional findings were. As you can appreciate, the focus of today is really trying to understand how we can best support consumers to navigate the banking industry and help them to choose the best products for them. That is at the heart of our provisional findings and very much at the heart of our remedies.

One point I wanted to make about remedies is the fact that we very much look at them as a package. Ideally, we would not want only some individual remedies to be implemented; we would like to see a package of those, because only then do we believe that we can make a difference. That package, from the consumer perspective, from the personal current account customer perspective, is structured around the consumer journey; looking at how they are, first of all, becoming aware of what products there are, and also interested in actually searching for new products; then how they are able to access information, assess it; how they manage to compare between the providers and finally act on it. The discussion today will very much be along that consumer journey.

So, inevitably, we will be talking about individual remedies but I just wanted to make sure that I made a point about the importance of the package.

We would also like to hear your views. Any new remedies that we have not thought of and you consider important for us to look at, please do share them today. Also, we pointed out in our remedies notice certain actions that we are not, at the moment, minded to pursue. However, obviously, this is a consultation process and we would very much like to hear your views about those as well.

Talking about the process, very briefly, which is on slide 3; as you know, we have reached that important milestone in our investigation which was the publication of provisional findings and remedies notice. We are now in the middle of consultation. We are running a number of roundtables like the one today. We have already had a number of those with the banks, with the providers of the banking services. We will also have another roundtable next week with the SME representatives.

In the meantime, we will be working very hard on developing the remedies and that will culminate in publishing the provisional decision on remedies which is currently scheduled for February.

Following that, we are due to complete this process; our statutory deadline is on 5th of May next year and that is when we are planning to complete. Following that, is the time for remedies' implementation.

Caroline, welcome.

A. (Ms Barr) Thank you.

Q. (Ms Benison) We mentioned that you would be a few minutes late.

A. (Ms Barr) Thanks.

Q. (Ms Benison) Just a few administrative points. You will notice that the roundtable today is being transcribed. The transcript will be published but, before we do that, it will be made available to yourselves to check for accuracy and correctness.

With that, I think this is all I wanted to say at the beginning. Are there are any questions before we start? If not, then we can start.

Tom will kick us off with a few questions around our remedies related to awareness.

THE CHAIRMAN: Just before we do, can we just note that Dominic Lindley should have joined us by phone as well. Dominic, can you hear us?

A. (Mr Lindley) Just about, yes.

Q. (Ms Benison) Okay, great. Thank you. Welcome, Dominic, and welcome, Caroline.

THE CHAIRMAN: Okay. Dominic, we cannot guarantee you will hear everything but we will do our best. Tom?

Q. (Mr Hoehn) Thanks. I have the pleasure to soon kick off the discussion of remedies. I will start with remedies that focus on the beginning of the journey of an engaged customer that may lead her or him to consider switching to another banking current account provider.

We have two remedies. One is the use of prompts to customers to review their banking arrangements and review providers at certain times. The other one is around the increase of awareness of the potential benefits, the costs savings or increased rewards from switching.

Let me start with the use of prompts. We are very interested to hear from you what you think of the general approach to use triggers to prompt consumers to review their banking arrangements. There are event-based figures. There are periodic reminders that could be sent out. There is a question of who will do it in what form. So, I am interested in your views.

To start off, what are your views about the use of triggers? And what are the key triggers, in your view?

Anybody want to go first? Yes, please.

A. (Ms Barr) I think one of the key triggers for consumers when it comes to PCAs is when they get hit with charges, usually for being overdrawn, and they are unexpected and higher than they would expect them to be. So, getting them at all is unexpected and they are far higher than they would expect them to be. Your study found that overdrawn customers were just as likely to search for an alternative account but far less likely to switch.

Q. (Mr Hoehn) That is an event-based trigger. Is there general agreement? Or are there other views around the use of periodic triggers, for example?

A. (Ms Langford) A possible issue with periodic triggers is people may start to ignore them. If it is just something that is always in the background, people may stop paying attention to it. Whereas, if it is something that is event-based, if something has happened to them that is making them engaged, for example, with charges at the time, a trigger at that time might be more effective.

A. (Mr Kohler) It is interesting to see what is going on in the switching process in other industries as well. It is only over the last couple of years or so that the energy companies have been obliged to give customers an annual statement of what they have used and what it has cost them. Because it is still a new process, it has not really had a great deal of salience yet. I think that that probably is part of the way forward. We could be looking at an annual statement from banks, for example, to individual customers, saying, "You have been using the service. This is what we have charged you for different aspects of it. This is what we have rewarded you with in terms of rates of interest" and so on and so forth, depending on how much activity has been across that account. Give people the opportunity on, I suggest, an annual basis to at least review what has happened to their account and to dig out last year's and see whether they can remember what the situation was then.

It is not going to be a sudden change of consumer behaviour but it would seem, to me, to be an interesting drip, drip. It would run with what I think is going to be happening across energy. The Government's ambition, as you know, is to have people switching practically everything in their lives in order to try to drive up standards of consumer service. So, more on that space, I guess.

A. (Mr Piggin) I think what we would say is that, if this remedy is to be pursued, then the first thing that you should be doing is testing these things to see which is the most effective. That should be an absolute given.

As Caroline said, some of these triggers already do exist. Customers with high overdraft charges, when they do receive an overdraft charge, that is a trigger for them to change their behaviour. Unfortunately, as we have seen, it does not often lead them to switch. So, some of these triggers already exist and are not as effective as we might hope. We would expect some extensive consumer testing to find out which are the right triggers, the salience of them, the frequency of them, how they should be delivered; all that side of things should definitely be considered as part of this, taken forward.

Q. (Mr Hoehn) Would the same apply to changes in terms and conditions; that would be a natural trigger?

A. (Mr Piggin) The key changes in terms and conditions, absolutely; bank IT glitches, when there are problems that go wrong, you would see that as a trigger as well, potentially.

Q. (Mr Hoehn) Caroline?

A. (Ms Barr) The FCA's own research has shown that annual statements do not make any difference to consumers' behaviour. They are historic, and consumers tend to see it as just another document that has arrived from their bank which goes straight in the bin and does not get acted upon. So, annual statements in this market have been shown not to work.

We have also conducted some consumer research recently which we will be sharing with the CMA next week when they come to see us. It is not public yet but one of the things that we have found is that many consumers, not all but many want to stay with their bank for reasons that are unrelated to cost. They believe that their loyalty will be rewarded. So, they might be prepared to pay more in return for better service down the line, for example, if they get into financial difficulty or if they want a loan or if they want a mortgage. So, they value their long-term relationship and are unlikely to want to switch even if their bank does not provide the best charges or the best service. This is not a market where people are actively looking to switch. They think there is a genuine benefit to being loyal.

Q. (Mr Hoehn) What about more frequent statements that show what the charges are, what the benefits are, and then include a button, or whatever it is, to look at alternative providers; would that bring the two – the periodic trigger and the event that may lead them to consider changing – closer together?

A. (Ms Barr) You are ignoring the consumer behaviour aspect here. They do not want to be spending their lives switching bank accounts.

Q. (Mr Land) I suppose there is a question about spending your life and doing it once or twice in your life, I guess, and we are looking at what would --

A. (Ms Barr) Once or twice in your life is not going to change competition in this market.

A. (Mr Lane) Notwithstanding the limitations of getting consumers engaged and then the limitations, once a consumer is engaged, making the process to switching, thinking about the type of information, I think one of the crucial things is that a lot of the focus is on providing information about past behaviour and past outcomes. I think it is rare -- people make optimistic predictions about what their situation will be in the future. They are likely to make any -- if they have been charged £112 over the last year, that might not have a massive impact on their decision about the future. They want to compare what their price next year will be. That is very difficult unless you get some sort of disclosure about things like average costs.

So, am I able to say the average consumer on a £25,000 income with HSBC pays £100 relative to an average consumer on my income with Barclays pays £60, therefore it is very likely that "I will be" £60 better off next year rather than "I would have been"? That has already gone. That is dead money. I cannot make a decision about how better off I would have been.

Q. (Mr Hoehn) That is an interesting point; so, more forward-looking statements or information that is being provided.

What about the source of that prompt; who should be responsible? Should it be the banks themselves that send out period reminders or event-based triggers to consider current account arrangements? Or is there a scope for a third party or third parties to engage with customers and get them more engaged?

A. (<u>Mr Sutherland</u>) One of the problems with the overdrafts is the difficulty to understand what that means in real terms, in terms of the cost. Caroline picked up on that heavy overdraft users were just as likely to compare but less likely to switch. That is because, if you look across the different banks, some will charge interest rates, some will charge fees per day, some charge fees per month. It is really confusing for the consumer to say, "If I moved to this bank, then I would be better off". It is very confusing for them to understand. Even the competitors, to get that customer, are not really helping that customer come to them if they are one of those overdraft users.

A. (<u>Ms Langford</u>) In terms of who should be giving the prompts, I think it is good if the bank can give the prompt, people need assistance to understand what accounts are out there and which ones might suit their need, our position is that you need an impartial guidance provider to help people through that process. It is not easy. There are a lot of different types of accounts out there.

Also, optimism bias. Overdraft charges incurred in the past, even on a month-to-month basis, "That was me last month. This month I will be better"; the same thing happens with, "Next year, I will manage my money better". People need to think through how they spend their money and how they might continue to do that in the future.

A. (<u>Mr Piggin</u>) I think banks are well placed, given that they have the customers' information. I think we need to be wary about how that information is presented by the bank and an unintended consequence of a customer who is engaged with their bank on lots of different levels actually being grateful for the bank for highlighting the fact that they have had a problem or been charged something and actually then uses that as a reason for staying with their bank, because their bank is being nice and transparent with them and letting them know. And so, there is the other way that you can look at it, depending on how the bank, or whoever, presents this information.

A. (Mr Lane) I think a bank could work closely with third parties and use a single portal to say -- if you are on the phone to a bank and they said, "You have incurred a £12 charge. We can put you through to an independent guide. We can direct you straight through" or, if it was an online communication, "Click here for web chat with an independent guidance". So, thinking about those consumers who, if we are not able to vastly improve the type of information, and even if we are -- the large proportion of consumers who do not feel confident making those decisions can, without dropping out of the system, be directed to someone to help with those decisions.

A. (Mr Lindley) From my point of view, I think that the notifications need to identify some measurable savings that the consumer could make and then give them an easy way to access that. Also, I think it might be better if they came from third parties like Which? or MoneySavingExpert. One of the problems with if the notification comes from the bank is that might actually make people trust the bank more. I am reminded of one annuity company that decided to put in its communications at retirement that they do not offer the best rates and people might strongly benefit a lot from shopping around. That actually made people less likely to shop around because they trusted that company more. So, I think it would be better if the notification came from third parties.

A. (Mr Kohler) I think Dominic has made an important point there because, a lot of third parties have not really engaged with this issue themselves before either.

I do not disagree with the research. Consumers do not necessarily think switch is an automatic action to take vis-à-vis their bank account. But, increasingly, advisers like Age UK, for example, like Citizens Advice – everybody on the Advice side can speak for themselves – we have neither had the tools nor, indeed, the volition to actually get into the business of trying to offer help and advice to consumers. So, although the research to date says there is not much point in plying people with information, I think that if, somehow or another, we pursued this line of thinking about getting the intermediary advice-giving agencies more engaged, we might be able to make a little bit more tangible progress and make a little bit more sense to the consumer.

Q. (Mr Hoehn) Let us pursue this a little bit. This is around the use of different forms of communication as well. There is online, social media, all these platforms that could be used more effectively to prompt people to look at the arrangements and also consider the benefits of switching.

A. (Mr Sutherland) There is potential in some kind of best deal campaign. Currently, the Citizens Advice network every year run an energy best deal campaign that tries to encourage people to shop around and to help them look at the market and see what the best deal would be for them. You would have to look at each individual consumer because, obviously, for one consumer, a packaged bank account might be the best for them because they would use all the products that would be associated with that and would be cheaper than them buying it individually. For another consumer, it might be all about how much the overdraft costs. It would have to be helping each individual consumer to work it out for themselves.

Q. (Mr Hoehn) What about CASS? Is CASS in a good position?

THE CHAIRMAN: Before we leave that, if third parties are going to do some prompting, they have got to have information about who to send prompts to. Do you think consumers will be relaxed about getting a call from a third party, saying, "We have got information about your use of your bank account that suggests you might gain from reviewing your banking arrangements and maybe switching banks"?

A. (Mr Sutherland) I do not think anyone around this table would ever do it by a phone call, for a start, because there is such a bad reputation of cold calling.

Q. So, how would you do it?

A. (Mr Sutherland) It would have to be through publicity campaigns and, I think, a lot of consumers asking for the help. That would be through, in our experience, running campaigns in local communities and getting people to come to local Citizens Advice Bureaux.

Q. But a campaign is different; a campaign is not a prompt because then the individuals' circumstances do not come into it.

Q. (Mr Whitcombe) How could banks help you engage with their customers? I guess we are saying that they do not necessarily respond to cold calls very well. We are noticing that banks are developing apps and online portals that are helping the banks engage with their customers. With these new technological developments, how could they use these technological developments to help you get access to their customers, if you want to engage with them about where to get the best deal for them, for example?

A. (Ms Barr) I think you have got a prior problem here, which is what you were alluding to before; the customers do not have a clue how much they are really paying under the free-if-in-credit model. Your problem is how do you explain to a customer in terms they understand that you have foregone X amount of interest and, under the model of account you have got, whether it is packaged, which is really complex, or vanilla, you pay for overdrawn and you do not get any interest. What is your comparator? What is your next-best product? Or what is your better product under -- the field is so complex here. I do not know how you would demonstrate, in the first place, that a customer would be better off. What are the benefits of a free-if-in-credit model to the customer? And how do you explain to the customer why that account over there is better than this one over here?

THE CHAIRMAN: We are going to come onto that.

A. (Ms Barr) I think that is the one you have to bottom out first before you talk about how you prompt people, because, if you cannot actually get to the bottom of that one, then we are having a pointless discussion.

Q. We are going to come onto that. Tom, you wanted to ask about CASS.

Q. (Mr Hoehn) Yes. We are looking at the awareness-raising campaign. CASS has been marketed for two years. What is your view on CASS as a mechanism? Would more advertising by an organisation with some reputation, with a remit to make switching easy -- are they well placed to do that?

A. (Ms Langford) I think the issue with advertising campaigns is that the effect can be short-lived. People need to be in the position where they are thinking about switching. An advertising campaign in the background might raise awareness of the brand but whether it would actually prompt people to make a switch if they were not already thinking about it or in a position where it was something that they thought they might do -- it might help with some of the issues around trust and not understanding the process. Whether it would prompt anyone not already thinking to switch -- and whether they would end up making the right decision for them. If they just went on a switching site and said, "It looks like this account might give more money because it has an introductory bonus", whether that, in the long term, would be the right account for them is questionable.

A. (Mr Kohler) I think Rebecca is absolutely right. If a prompt is successful and prompts somebody to think in terms of switching, what they need to do, first and foremost, is to work out where they stand at the moment. That comes back to the question of annual statements or something or another like that, does it not? So that, okay, I feel as if I am being ripped off. This is outrageous what the bank is just proposing to do. But how much is it actually costing me and, therefore, what do I look for in alternative offerings in the market? You are not going to get any action at all, even if the prompt is a fairly tangible one in terms of a change in interest rates or terms and conditions and so on.

A. (Mr Lane) In terms of campaigns, I really agree that they are very expensive and, often, ineffective, just having a brand-awareness campaign. I think the real question is why are we suggesting that the third sector should be running an advertising campaign for one of the biggest industries in the country? If I ran a company and I wanted to advertise my product and get people to switch to it, I would do my own advertising campaign.

So, I think, asking the question why -- the fact that people are not providing that information in a convincing enough way, in a way to attract new customers, is itself a symptom of a lack of competition for the right sorts of customers in the right way. It is sort of an apology for that; we realise you guys are not going to compete properly by providing proper information, so, we will try to do an average job because we are not as well resourced, and we will try to perform a quasi-commercial function of running some sort of advertising campaign. That is missing. Why is it not there in the first place? Why is somebody else not running that advertising campaign?

Q. (Mr Hoehn) I detect some scepticism about the use of advertising campaigns and around CASS. Is that shared by you as well?

A. (Ms Barr) Yes, definitely. Several points. The first one; if switching is going to be the metric of success, have you measured that those who have switched have benefited from doing so? I do not think we have evidence that everybody who does switch benefits from doing so. We said earlier there could be an introductory offer. There could be interest being paid and people think that is attractive but then do not discount the charges that are made on the account. So, how do you measure whether switching is beneficial and is, therefore, the right metric?

Also, your report found that CASS was, largely, doing a good job. For customers who have bills to pay and income to come in, largely doing a good job just is not good enough. It has got to be absolutely 100 per cent fail-safe. I do think consumers are put off by the fact this CASS service stops after, I think, one year. So, what happens then? The customer still has to take action. Part of our research showed one of focus group members said, "I took the £50 for changing to a new account and then I found that this bank was just as bad as my old bank. The hassle that I went through to get everything put in place, it just was not worth a candle because, frankly, they are all as bad as one another".

Q. (Mr Hoehn) You make a very good point about measuring success. Because we are at the beginning of this journey considering switching, how do we measure the success of a prompt; whether it is an advertising campaign, whether it is an annual statement, whether it is a monthly statement; whatever it is that the remedy will do or how it will be implemented, how do we measure the success of that prompt remedy?

A. (Mr Keyworth) At the beginning you quite rightly pointed to the remedies being a package. The success would, presumably, be judged in terms of the extent to which the remedies as a package address the problems that you have identified in the market. Those problems involved weak competitive pressures generally and heavy overdraft users in particular being particularly harmed by that process. So, presumably, the question of measuring success would have to go back to the extent to which the problems you identified and those harmed customers were better served.

Q. (Mr Hoehn) Sure, but we have 15 remedies. If we want to test them all -- I suggest we should go out and test -- is the only one way of measuring success, at the end of the day, more satisfied customers, more switching? Is that all we can do? Is there something else we can do before that?

A. (Ms Langford) With the prompts in particular, randomised control trials are really important. The FCA have just recently published a general insurance market prompt study. We helped them test a few different things. We found most of them did not work. It is quite nuanced, when it comes to these small nudges, what can work and what cannot, in terms of down to changing a couple of words. So, you really do have to test quite a few things to work out what works best.

Q. (Ms Benison) Do you have more questions, Tom? Because, we need to move on. Inevitably, there were a lot of comments from participants regarding the comparability and how easy it is to access them -- any more questions, Tom? …

Q. (Mr Hoehn) I just wanted the reaction of others to what Rebecca said about using these randomised control trials. Is that the way to go? Do you agree or not?

A. (Mr Piggin) We would agree, absolutely. As I said at the start, I think the testing in randomised controlled trials is proving to be an effective way of doing that. So, yes, we would support the testing of these different remedies, if this is taken ahead.

A. (Mr Kohler) Before we move on to another chunk of this discussion, there are a number of other things which I would just like to put on the table for a second. At one level, you have got the situation where the retail branch network is shrinking. So, there is a very obvious prompt if your local bank branch that you have been faithful to for the last 25 years is closing and so on and so forth. But, from the consumer point of view as well – and I am conscious here of living in an ageing society – you might, as you get older – and we all expect to carry on living well into our nineties and beyond – be losing your hearing acuity or your visual capacity. You might be interested in switching to get a service which is not necessarily telephone-based or goes beyond something that you use on the internet. There are different aspects of the retail banking experience which I think we will have to look at in the context of an ageing society and people's abilities in practical and physical terms – or even in cognitive terms since, sadly, dementia is age-related as well – to deal with in what we would, probably around this table, regard as a normal transactional context.

Q. (Mr Hoehn) Do you want to move on?

Q. (Ms Benison) Yes, if we could, please. Adam will take us …

Q. (Mr Land) I have to apologise for not being Ed Smith but only he can manage that. So, what I am going to do now is pick up from where Tom has left off, essentially. I think you have to suspend disbelief and start from the presumption where customers have become engaged by one or more of the prompting remedies that we have discussed or by advertising from banks and so on.

We have managed to succeed in increasing engagement interest in this market to start with. Customers are then in the market and they have a choice between different products on offer. The question then that we are looking at is how can customers make good comparisons so that, if they do switch, they are switching to a better product for them rather than either just then, "This is too difficult", and not taking that next step or ending up in a worse place?

I think we have already highlighted probably two of the challenges to there. The first is around the fact that everybody pays a different amount for their banking services as a rule. There are your charges as related to your usage and that varies by people. So, different products are probably better for different people, which Fraser picked up. The second area which Caroline started to highlight, and which we are very interested in, is then there is the issue about service quality. Price is not the only thing that matters to customers, and so how can that be factored into customers' decisions?

So, those are the two challenges we are looking at. What I propose to do is just to start around one of the areas that we have been looking at, which is around what is called Midata, as one way of dealing with that first issue. I would then like to broaden it out partly to pick up some of the issues that that is quite a technological solution, and broaden it out to look at whether there are other things which do not require so much technology savviness, and then move on to the service quality. So, if you want to make a point about one of the later points, we will get there, but do that.

So, first, I just wanted to talk a bit about Midata, really. Something we have been using, essentially, enabling to help us make comparisons is this technology which essentially enables a customer to take its data from a bank, provide that to some price comparison service and get a comparative quote from what it would have cost them to take out the banking service to run a current account with a different provider on their structure.

That is the model. We have identified a number of ways in which it could be improved and which we have set in there. I would be interested in the views around the table first around that type of solution; getting a bespoke price based on historic data using technology, essentially. That is the first area I would be interested in views.

A. (Mr Lane) I think the Midata initiative is a fantastic opportunity. I think there are huge ways that can be taken forward. I think an interesting model would be when I get my Tesco receipt and it says "You would have saved £1 in Asda. Here is £1". If I logged on to my NatWest online banking could that Midata be live and tell me over the last 12 months if I had been banking with HSBC I would be £15 better off, "Here is £15" or, if that is not the business model, "You would be this much better off. Click here to switch"?

Then I would also refer that back to the question again as why do supermarkets do that and not banks? I would also refer to Dominic's point of is one of the business reasons that supermarkets do that is trying to build trusted relationships, and the bank also might look to do that. I think there are probably dangers within that, but I think that data that does exist now could be used a lot more competitively by the banks now that they hold it.

Q. (Mr Land) Other views?

A. (Mr Lindley) From my point of view, you need a common standard for the APIs so it is easy for third parties to tap into that data. The problem with Midata is it is almost like a download, upload process which makes it quite complicated.

There is already a service out there called Money Dashboard which I use. The only problem is you have to enter your security details into the Money Dashboard site and then it pulls your usage data from all of your bank accounts. So, those kinds of services exist but there will always be concerns about security. Also, technically speaking, I am probably breaching my bank's terms and conditions by putting my security details into another site. So, anything which can be done in an anonymous form so those security concerns are taken care of.

Part of the problem with some of these things is that, again, consumers need to not only know how they have used the account in the past but also how they might use the account in the future, which is very difficult to predict. Even taking a simple process like authorised overdrafts, it used to be quite simple to compare because you just looked for the account with the lowest interest rate. Now, because some charge fees, some charge interest, you have to know how long you use your overdraft for, how much and how regularly. So, even with Midata and APIs, it is still going to be quite complicated for consumers to predict on a forward-looking basis.

A. (Ms Barr) And, as your own research found, people underestimate their usage of overdrafts.

Q. (Mr Land) Yes. One thing that Midata-type solutions help is at least you have got one fact-based data point to challenge over-optimism bias. That people can always say, "Next year is going to be different" is over-optimism bias. It goes beyond that. So, I can see that the past is not a perfect one.

Are there other views around using this type of technology and improving what is currently available, the Midata thing; and particularly if there are other views about confidentiality, data security as a potential barrier to using a Midata-type solution?

A. (Ms Langford) Anything that makes it easier for people to understand how they use their bank account and makes it easier to compare is great. The issue is how clunky it is to use. An obvious example is payday loan companies and how mobile-friendly they are; how easy it is to use. Something as easy to use as that would be good. If you could log onto your mobile banking via a short passcode, click a button and then be able to click another button to upload that to uSwitch or another site, that would be ideal because people do often do these kinds of life admin jobs on the go now. We are finding more and more people using mobile -- on the mobile for service because most people are accessing our site that way.

Q. (Ms Benison) Given what we said at the beginning – and particularly, Caroline, you made a point about the consumers not even wanting to consider and putting aside our prompts and they are still not prompted – could we possibly envisage a situation where Midata has moved to another stage where the data is available to all the providers in the market and they actually bid for the customer rather than customers having to do something themselves? Would that be possible with that consumer?

A. (Mr Lane) Is this the reverse-auction remedy? Is this literally someone would tell me, "You have been switched" or, "We want you. We will save you this much"? How would it work in practice?

Q. (Ms Benison) Not necessarily, "You have been switched" but, "You could benefit by switching". So, you get that information rather than having to do it yourself.

Q. (Mr Roberts) One execution of this would be the consumers who wish to go in for that would post their details or access to their details on the website and providers would make them offers. I think that is what you mean.

A. (Mr Lane) I know there is a scheme, I forget what it is called, but there are savings schemes that work like that, where you sign up. I know in the States they have them. You sign up, numerous banks, and they divvy out the deposit, and you get the best interest rate without having to make a decision. I think that would be amazing but I do not see how it can exist in a competitive market because that has to be a collaboration between -- I do not know.

A. (Mr Sutherland) It also puts it just purely on price and the consumer may not want to go to that provider because they might have read that their computer system crashed last week; "They will offer me the best rate but I do not trust their security".

A. (Ms Barr) Or their capital adequacy.

A. (Mr Piggin) I do think you would have to get over some consumers -- we are moving towards issues around data protection and sharing their information online. I know, Adam, you said at the start we were moving away from this and making some assumptions, but the analysis also shows that those customers again that are adversely affected by competition are those who are less financially literate and also less engaged in new technology and using new technology. So, this solution would not address those.

Q. (Mr Land) Yes. I think we are moving on to my second and third questions, which is rather pleasing.

We will go into the second one. We have looked at a relatively technically sophisticated approach and I think I am getting some quite positive responses; if we can make Midata less clunky, then you could see that as being part of the solution.

The other area that we are thinking about is whether there are approaches which could get you an approximation or a good approximation of the value for money that you might be getting from different providers without having to submit all your data in a block into a website. A couple of thoughts are floating around here.

The first would, essentially, be inviting customers to enter basic data about their account usage, possibly something that could be included on a summary or that could interact with an annual summary and then say, "I have paid this much in utility bills and this has been my average transaction balance". There might be three or four pieces of information which could get you broadly into the right ballpark for what different providers offer and then put that into a more standard price comparison website; use that to make a comparison. That would be one idea.

The other idea that is around – and this nudges into service quality – is some form of traffic lights. Tesco, I think, have proposed, "Could you get five or six indicators of the value for money of different current accounts and then depict them more imaginatively than lots of tables with percentages in them?" which is how these things might do.

So, we are interested in views about whether there are intermediate technological -- whether there are solutions which could get customers broadly in the right place without having to go all the way through a Midata-type thing where you are sharing your personal data with lots of people. Interested in ideas or thoughts.

A. (Mr Sutherland) You could use measurements; that system of highlighting certain things. It is just a question of what would each of those things be.

Q. (Mr Roberts) To take an example, maybe put some flesh on it, the characteristics -- we are talking about a summary rather than the actual data, therefore, it might only look at a handful of indicators. For PCAs, that might include your average cash balance that you hold in your current account; how much you have raised for an overdraft; the number of transactions that you have got on standing order, say, to utility companies. Let us say it would be four indicators on a dashboard that you would enter rather than delivering your actual transaction history in all its glory to a website.

A. (Mr Keyworth) Is the difficulty -- what you have found is that the people who have most to gain from switching and the people who are most harmed by the current arrangements have much more complicated arrangements than that. It simply would not really capture the drivers of the unarranged overdraft charges and the drivers of those costs. It is difficult to see how that would really offer much. Those that it might best suit would be those that currently, I think, on your estimates, would have pretty limited incentives to switch anyway.

Q. (Mr Roberts) One of the dials on the dashboard could be unarranged overdraft charges.

A. (Mr Keyworth) Understanding what the actual implications of a particular charge rate are for you depends on understanding what the deal is that you are actually in at the moment, which depends both on the charge and on where your overdraft level is, and on how your bank interprets that level and provides access to funds over and above and applies those charges which are sometimes discretionary. The context for those users that are most affected seems much more difficult to simplify and make straightforward comparisons across offerings for them. So, it is not obvious that that kind of simplified four or five key things would offer much or would be reliable, really, for …

Q. (Mr Land) Shall we stick on this point around overdrafts? A Midata-type solution, we are saying that could work for people who have got some cash balances and you are trying to work out what you are getting the best deal for.

Then there is a challenge here around overdrafts, unauthorised overdrafts and so on where we are saying what you pay is really quite specific to the day of the month on which you went overdrawn and the precise amount of time that you remained overdrawn and so on. That could make quite a big difference and that is not necessarily going to be the same next time you go overdrawn as last time you go overdrawn.

Another invitation to develop your thoughts there or other thoughts about the overdraft comparison, and on overdrafts in particular then and whether there are measures in that space that we should be thinking about.

A. (Mr Lane) Is there a precedent from any other markets that would oblige banks to make sure that everybody but especially those people in those complex situations are at least on the best deal for them within that bank? So, if I have gone into an unauthorised overdraft four times, should my bank be compelled to say, "Because of your income, you could organise an overdraft and it would have saved you £50. Sorry, we did not give you the best deal we could have"?

A. (Mr Keyworth) Our view on that is that the complexity of the unarranged overdraft as a thing is, in itself, unnecessary. It reflects a time gone by when banks gave you, for example, cheque guarantee cards that meant that the customer could go away, write loads of cheques that the bank had pre-guaranteed. So, there was real risk that the banks had to manage that customers might behave in ways that involved unauthorised usage of credit. We are simply not in that circumstance any more. The extent to which banks are exposed to unauthorised usage of overdrafts is extremely limited. Their ability to manage those risks is much less limited. Most payments are subject to authorisation processes.

That means that unarranged usage of overdrafts is almost always authorised by the bank. It is an arranged overdraft. They have agreed to give it to you. The only difference is that they have multiplied the cost of it, potentially, by 15 or something like this, taken that you might go from £6 per month to £6 per day. That just happens to be because the line is here. The complexity around that seems to be a huge driver of the problems that you have identified in a context where 14 per cent of PCA revenue comes from unarranged overdraft charges. We recognise what you are trying to do and think it is very desirable in terms of the general shift in the efforts towards switching, but these customers have been identified as those, notwithstanding the huge prompts that they already get all the time, much less likely to respond to them. We see the particular practices around this unauthorised overdraft usage as directly problematic in and of themselves.

Q. (Mr Land) Other views on this area?

A. (Mr Lane) I think that is completely right. The discrepancy between those few types of charges for different types of customers is just completely unjustified.

A. (Mr Kohler) Joe posed a very specific question a few minutes ago to which I think there is a specific answer. That is that, in the energy industry, your energy provider, your energy supplier is obliged to tell you within their portfolio of products what would be the best deal for you. So, if you are getting your gas from British Gas and you happen to be on a complex tariff which is costing you more than one of their other more simple and straightforward tariffs, they are obliged to tell you. That seems to be a way of helping a customer to actually understand the market that they are in a little bit better.

A. (Mr Lane) Yes.

A. (Mr Sutherland) Would it not be useful to have some kind of standardised method of charging for overdrafts that was easily comparable for consumers so that everybody used the same -- in maybe the ways that they did, gone by, where they all charged interest on the overdraft amount, instead of this situation where we have got different ways of charging depending on who you bank with which makes it --

Q. (Mr Land) We have slightly randomised differences, essentially, at the moment, is what you are saying?

A. (Mr Sutherland) It makes it really difficult for the consumer to know what is the best deal.

A. (Mr Lindley) From our point of view, on the unauthorised charges, in many other sectors these kinds of contingent charges are restricted by regulations to just the additional administrative costs incurred. So, if you take mortgage arrears charges, they are legally restricted to additional administrative costs, whereas, no one would ever suggest sending consumers who had gone into mortgage arrears information about alternative arrears charges with different lenders. That would never work. But yet, on unauthorised charges, we expect these transparency solutions to work instead of just trying to put the regulator back the position it was before the OFT lost the bank charges case and just say -- someone should determine once and for all what are the net additional costs incurred by the bank when people exceed their overdraft limit, and then unauthorised overdraft charges should be restricted to that level.

It would be good if the CMA could do more analysis on the cost structures, and also in comparison with other kinds of short-term credit. Certainly, in some circumstances, unauthorised overdrafts can be more expensive than payday loans. From a cost structure, it is not immediately apparent why that should be; why it costs the bank more to provide unauthorised overdrafts than it does, say, Wonga to provide a payday loan. It indicates they are charging way above marginal costs.

Q. (Mr Land) I think we have had a good run around that. Joanne, did you want to --

Q. (Ms Benison) Just one question, in particular to Tim, in terms of, if we were to address the unauthorised charges, for example, capping the charge, would there be any unintended consequences that you can think of?

A. (Mr Keyworth) I think, with this remedy, as with the others that you are considering, that there are issues to work through. Obviously, there is a potential for unintended consequences when you engage in this kind of area. So, I think the question would be identifying what they might be in terms of, I guess, if it gave rise to -- I think it was raised previously about if it could increase the likelihood of non-payment of particular items. Although, of course, lots of items are not paid at the moment and they incur also an inexplicably high charge as an unpaid item cost. Then, looking at why these relatively straightforward issues around managing the boundary cannot be addressed in other ways.

So, yes, there are potential issues but it does seem important to explore them and find ways that do not have this sledgehammer charging approach as the mechanism for addressing it.

THE CHAIRMAN: We can certainly see the case for exploring them but one of the big risks to explore is if you remove the financial incentive that banks have to give people unarranged overdrafts then they might do less of it.

A. (Mr Keyworth) Yes.

Q. So, the customer on the dark night sticks their debit card to a petrol station machine and the bank refuses to pay because they do not have an arranged overdraft and --

Q. (Ms Benison) Or have exceeded it maybe.

THE CHAIRMAN: "Why should we take the risk of extending additional credit to this character?"

A. (Mr Keyworth) Yes, but, at the moment, it is just extremely unclear, is it not, essentially, in that there is a line that is reached when the funds or the overdraft facility is insufficient and, at the moment, it seems that when that line is reached may not actually be transparent to the consumer. At a cash point it may be. The implications of hitting the line, going over the line, going over the line if the item is paid but then it gets not paid, all of that is a whole mishmash across the different types of payments.

You use a Visa debit card; the payment does not go through; you do not pay anything. You just have to find some other way of paying; maybe a credit card or whatever. You use a cash point; as you say, they might give you access to the money and, unbeknownst to you, that gives rise to a whacking great charge. Where is the transparency in that? A direct debit happens to go through; if they have put it through, it takes you over the limit; you get whacked for it being paid. If they do not put it through, for some reason you get whacked for it not being paid. There is just a whole mishmash of things that give rise to very substantial charges.

We are not saying that there is necessarily a one-line answer but that mishmash seems to be at the heart of the very high charges that are being generated.

Q. We have had a very clear message from you in your written submission and now in this discussion that we have had here, and we are going to consider these issues very carefully.

Q. (Mr Land) I have got one last issue to explore in this tranche, and then I will hand back to Joanna, which is around service quality. Caroline, you started talking around this in terms of what you might almost call the "halo effect" of people having a perception of loyalty and quality of service to the people that they are currently with. I think we are all conscious – and it has come up as well – that price is not necessarily the only thing that people are looking for from their bank or even, necessarily, the most important thing. So, I am interested in views, ideas, thoughts about (a) what those dimensions of service quality are that are most important to customers and then, secondly, how it would be possible to put financial services providers on a bit more of a level playing field so as you move away a bit from, "My bank is all right but all these other people, they could do anything" and, if everyone in all our own banks thinks that then, probably, there is some scope for improvement.

So, I am interested in views generally about how you measure service quality and then how you might go about facilitating accurate comparisons in service quality.

Go for it.

A. (Ms Barr) Again, we have done some research recently on bank culture which touches a little bit on service. One of the resounding messages we are getting from that is how consumers feel that they are not treated as individuals by their banks and what they would like is, if they are in financial distress or something goes wrong in their personal lives, that they get treated as an individual by the bank; that the bank behaves as though it has got a relationship with you because you as a consumer feel like you have a relationship with your bank. So, they understand that you have got to be efficient as a bank, it is very transactional mostly; but there are times when that is not the case and it is those times that they want the service quality to be there. They do not know that it is not there until they have a problem. That is when they get the charges. That is when they get handed off from one person to another, from one department to another, and they are given a scripted response by a call centre when, naturally, what they want to do is have a conversation with somebody who can solve the problem and not be passed on from one person to the next.

It is a lot about accessibility, whether it is through phone or branches. There is a generational difference here. Older people, people over 30 want to feel they can trust their bank, that the bank will do what it says it is going to do in its advertising and its marketing. For the under thirties, they want to be trusted by their bank. They do not have a credit history. They find it very hard to get any traction on personal loans and mortgages because they do not have a credit history. You cannot get a credit history until you have got a credit history. So, there is the issue of banks using a rather blunt tool of credit scoring in order to serve the credit side of its business without taking into consideration that people are individuals and, again, want to have a relationship with their bank and be treated as an individual.

Q. (Mr Land) Thank you. Still on aspects of service quality, are there other aspects that we should be looking into?

A. (Mr Piggin) There are the Which? customer satisfaction tables and the ratings that we do and others do, I think trust is a key issue; complaints handling; customer service; the sales culture within banks – these are all things that we look at – treatment of customers in financial difficulty, absolutely.

There is an interesting progression that we have made and we would like to suggest in terms of engaging customers at the heart of this. Actually, if you are asking, "What do customers want from their banks?" this is what banks should be asking; they should be asking their customers what do they expect; what do they expect from them; what do they expect them to deliver.

Potentially, going further, you look at customer challenge groups in the water sector, for example, and even looking at how a customer group or customer voice can hold that bank accountable for the expectations that they have set. Is that something that we could involve getting consumers much more heavily engaged in their own banks? First steps should really be for the banks to ask their customers what service do they expect of their bank; what sort of things do they want their bank to be doing; how their bank should be behaving, and then enabling those customers to hold them to account for that.

Q. (Mr Land) That moves on to the mechanism on service then. One model is to continue thinking along the lines of comparisons and comparative tables. And then, this idea is probably less about the comparison across banks but more about slightly culture and accountability in driving service quality; so, that you can see the potential benefits of that or this does not necessarily make it easier for anyone to work out that bank B is better than bank A.

I am interested in views about ways in which we could help customers find who is offering the best service across the different indicators.

A. (Ms Barr) Again, this comes back to different individuals, different consumers wanting different things from the bank. What is acceptable to one consumer is totally unacceptable to another or desirable to another.

A. (Mr Sutherland) You can look at, as one measurement but, obviously, it depends on what the consumer is interested in -- is complaints data. The FCA already collect that and publish it. You do not see banks going out there and saying, "We are the least complained-about bank". Why not? Supermarkets, for example, always pride themselves as advertising the premium brands as being the good customer service. They have got those figures there and they could use them to their advantage in saying that, "We deal with the complaints the quickest" or whatever, or, "give the most satisfaction".

A. (Ms Barr) The consumers really want the bank to deliver what they say it is going to deliver. I do not know how you measure that. When they suggest brands that do that, they are talking about Apple or John Lewis. So, John Lewis actually is not always the cheapest but, if you have a problem with your product, John Lewis does exactly what it says it is going to do and more. Apple, similarly, has a strong brand because it delivers exactly what it says it is going to deliver. Customers think of good service or a good culture is when the bank delivers what it says it is going to deliver. So, when a bank advertises itself as being rather paternalistic, "We are with you all the way", and then does not actually deliver that, that is a disappointing outcome and that is considered to be poor. I do not know how you develop a set of metrics that actually measure …

A. (Mr Sutherland) Another key advertising component at the moment is about being based in communities yet, at the same time, closing lots of branches, which really, I think, annoys a lot of consumers, because they see all these adverts; Royal Bank of Scotland, for example, will show you all the adverts of their van going round the Highlands and how they are based in all the local communities in the Highlands and Islands, and yet they are closing all the branches there. It cheeses a lot of consumers off.

A. (Ms Barr) There is a dissonance between the marketing and what is delivered. The question is how can you expect consumers to go working out what the difference is if they are allowed to market themselves in a way that, really, betrays their trust further down the line?

Q. (Mr Land) The final angle on this and then I think -- sorry.

Q. (Ms Benison) Can I just pick up on --

Q. (Mr Land) Yes.

Q. (Ms Benison) Caroline, you said that the customers want different things. That is probably true to any products and service. How do we overcome that? If we wanted to indicate to customers, on the quality measures, how different banks compare, is there anything that we can do to overcome that?

A. (Ms Barr) That is what I am saying. No. If you are based in Cornwall, you may have a community there that is very happy to wait for 12 minutes in the branch and wants to have a very long, detailed conversation with the cashier, whereas, in a London branch, they might want to be in in 30 seconds. That is not the point. The point is whatever the bank says it is going to deliver is what it should deliver. So, if it says, "We want a long-term relationship with you", it has got to deliver that relationship through the good times and the bad. So, when you are in financial distress, for example, when you need a mortgage, when your savings account suddenly becomes obsolete or outdated, they should not be waiting for the consumer to walk into the branch and do something about it. What they want is for the bank, actually, to do the right thing and say, "We should not be putting you on a derisory rate and hoping you do not notice or cannot be bothered to do anything about it".

I do not know how you measure whether a bank is living up to what it says it is going to do, because they are all offering a pretty mediocre service. They are all taking a huge amount of money off people in financial distress. Most of them are not paying any interest on credit balances. So, what is it, actually, that they are offering that they say they are going to do; none of them?

A. (Mr Lane) I think it is really interesting, your point that that is probably the same as most other markets, about types of quality; people want different things from all consumer markets. I think that is true and I think you would not say that about the costs of banking against other markets. You would say the costs of banking are really very different. I think that is an important distinction to make, especially in terms of the action that needs to be taken. Actually, on costs, it is very different and probably needs different remedies to most consumer markets, whereas, on service quality, people want an individual service and you have got to hope that that is delivered as a product of competition, not an input to competition. You do not want to be at a situation where you are mandating performance of banks because what you want the market to deliver is exactly what you cannot mandate; it is that individualised and responsive service.

Q. (Mr Hoehn) There are surveys that ask consumers not just, "Are you satisfied, yes or no?" which is a very crude way of measuring quality, but, "Did the service that you wanted meet your expectation?" That score out of ten is, in my view, quite a meaningful score and it has been used by professional services firms to evaluate their performance.
Another one is the Net Promoter Score that banks themselves use, "Would you recommend the bank to somebody else?" your friend, another family member. These are quite powerful indicators, certainly in my view. Do you share that? The use of Net Promoter Scores, if they were published, for example, on the basis of an independent survey, would that force banks to improve their scores if they saw their scores going down?

A. (Ms Barr) To a degree, but then again, if the bank in question has gone after people with high credit balances and less in the market for those who are financially distressed, then they are going to have a pretty strong Net Promoter Score because people do not tend to notice that they are not being paid credit interest. Then you might get someone who does get in financial distress looking at the Net Promoter Score and saying, "That sounds good. I will put my money there" or, "my lack of money", and they will be disappointed.

A. (Mr Kohler) Tom, I think you are right. I think you are onto something here. This marketplace is, perhaps, more analogous to the encouragement we are all being given now to shop around for health services. We can go and choose our own GP. You do not go looking for information to compare GPs; that one issued X number of prescriptions for antibiotics last year and this one that number of antibiotic prescriptions. You are looking at something which is much more reflective of a personal relationship, a satisfaction with the practice surgery and so on and so forth. So, I think somewhere in that market we might have the possibility of seeing whether there are lookalikes which can be pasted across.

Q. (Mr Land) I have got one final question and then I think that I will hand it back to Joanna. Again, looking at other markets, the other thing I was fairly unsuccessfully looking for, mobile phones, the other day -- we will not go there. The other aspect that people make a lot of use of in comparisons these days are online reviews or endorsements or five-star ratings or whatever that are given by customers. Do the people around this table see benefit in that, in trying to facilitate that? It is less scientific than the process Professor Hoehn was talking about but what do people see about the pros and cons of trying to facilitate those personal accounts, personal reviews within the sector?

A. (Mr Lane) Do you not think if people thought that was an important source of information it would have happened already?

Q. (Mr Land) Yes. So, there may not be any -- for a remedy to facilitate that --

A. (Mr Lane) I just think if people -- I think, the number of things on the internet, if there was a demand, you would imagine there would be a supply. Maybe people are being lumpen and do not know what they want, but it feels like it would have been created if it was --

Q. (Mr Land) So, you think the remedy is probably better to focus on something that only Government and regulators can do, which is good quality, factual information that can feed into the mix and then let the market provide the best answer? Rebecca?

A. (Ms Langford) I wonder if the fact that people do not talk about money is relevant. For other goods and services, they are perhaps more likely to talk about and share their experiences. With money, people do not talk about it. They do not like to share information about their finances. So, if somebody had had a bad experience with a bank when they had gone overdrawn or they were in financial difficulty, I think it is unlikely that they would be willing to share that.

A. (Mr Sutherland) I wonder if people would want to go online and rate their bank. It is one thing to rate a hotel that you have stayed in but it takes a particular type of person to go on and say, "Five stars for Bank of Scotland".

Q. (Mr Land) My favourite online reviews are Homebase power tools. That is fantastic. Who does that? Sorry, apologies to go onto that. They are very detailed, very thorough; you know all about it. I love them.

Anyway, thank you very much. I think that we could --

THE CHAIRMAN: Just on the analogy you cannot resist, with hotels and restaurants, most people who do restaurant online reviews have eaten in more than one restaurant. The difficulty about rating a bank is you might not have the comparative experience on which to base it.

Q. (Ms Benison) Thank you. Before we move on to how we can help people to actually act on the information which they will, hopefully, have at the end of this investigation, I would suggest that maybe we take a five-minute comfort break, and then resume and start with action and then complete the roundtable. Thank you.

(a brief adjournment)

Q. (<u>Ms Benison</u>) Okay. Thank you for coming back. Without further ado, we will move on to the next topic which is all about acting and how we can help consumers doing that. Jill will kick us off with a few questions.

Q. (<u>Ms May</u>) Thank you. I would like to look at a few specific ideas which might make it easier for customers, having been engaged, reviewed the information; ways in which we can make it easier for people actually to switch.

Firstly, coming back to this cohort, which we have talked a lot about this morning, of overdraft users – not necessarily unarranged overdraft but, more generally, overdraft users – where there seems to be a sense that they are less willing to switch. One of the concerns they have is there is a risk, if they go to the switching service, that they may be left without the overdraft that they were wanting and they will be caught in a position where they have not got any overdraft facilities, or there is some risk there. We have heard different views as to whether this is actually a problem and whether there is a risk that you can be left high and dry without an overdraft. I would just like your views on ways in which -- not necessarily for the financially distressed super-high unarranged overdraft users but overdraft users more generally, how we might address their concerns that switching in itself is a special risk.

A. (<u>Mr Sutherland</u>) I think there would need to be a guarantee that you would still have that level; if you were moving from one Bank to the other, that the new bank you were going to was going to offer you the same level of overdraft as you were moving from. I think the concern for a lot of consumers is they are going to lose that; "I have got £700 I know I can play with every month. I moved to there and all of a sudden it is only £50".

Q. (Ms May) I do not think one can look at a situation where you could compel a bank to match an overdraft because, clearly, it would depend on their own assessment of the customer's credit rating. Therefore, in applying to a new bank, there is a risk that the bank will not extend the same level of overdraft charge. Clearly, though, providing that decision as to the right level -- the overdraft level that is being offered is quickly and succinctly and clearly communicated before there is any push of the button; that would address at least the certainty issue. Ensuring that the level of overdraft is matched will depend very much, I suspect, on the customer's individual relationship with the past bank and its behaviour and how that level has moved over time.
Is it your belief that customers are concerned, your stakeholders are concerned that, in switching, they will not get the level of overdraft or there is a risk they may not have even certainty about the overdraft level when they switch? Or is that not something that has been picked up?

A. (Ms Barr) Intuitively, I would say I do not know that is the case but I think that is one of the reasons. I think also, if you have got to the point where your overdraft situation has become quite serious, sustained, maybe you have gone overdrawn without prior authorisation, that is usually because you have lost your income or you have had a financial shock. You may have no confidence that you are going to get out of that situation anytime soon. Therefore, the risk of changing and then you get into a worse situation because you have not resolved your loss of income or the financial shock, the repercussions of that are still there, and the resolution to the financial shock may be a personal loan and you think you are actually better off going with the bank that you are already with because you have already got this relationship with them that you value as a consumer -- might be the better way to go.

Q. (Ms May) And there is probably some logic in that.

A. (Ms Barr) For the consumer there is.

Q. (Ms May) Yes, and probably for the bank as well in that, if you are financially constrained, you have not got your income, you are, inevitably, going to be less likely to get something that is as attractive, probably, with a new provider. There is a suggestion that having some sort of overdraft eligibility tool on either individual banks' websites or perhaps translated into a price comparison website might be a helpful tool to give people some early indication on a soft credit-check basis what might be available if they were to change. Any thoughts as to the practicality of that; whether that would be helpful; something we should be looking at?

A. (Mr Sutherland) I do not know if that would allay people's fears though, because it is coming back to the point that Caroline made before about CASS. They really want that guarantee that they know they are definitely going to get that. If you are doing a soft credit check and they say, "Mr Sutherland, you might get £200 but let us wait and see"; once you have moved all your direct debits, and then they say to me, "Actually it is £50". So, I think what they really want, if they are in that situation, is the certainty that they are going to get …

Q. (Ms May) Yes. So, an indicative offer would only be indicative. Until they have actually got the writing on the piece of paper, there is a risk.

A. (Mr Sutherland) Yes.

A. (Mr Lane) Can people not be given that information before they make the decision to switch?

Q. (Ms May) As I understand it, having heard various banks' submissions, the argument is that you get certainty as to your overdraft and then you have to push the button to switch and the seven-day period starts. But there does seem to be a little bit of uncertainty over this, and, certainly, there is some perception that there is a risk that you can switch and then not end up with the overdraft. I think it is something we are trying to bottom out.

A. (Mr Lane) Yes. I guess there are two issues. The first is the perception of risk and the second is how the process actually works. I think lots of people would have encountered, or certainly we have encountered that perception that it is more difficult for someone with an overdraft to switch. That might discourage them from actually engaging in that process. I think your evidence said overdraft users were more likely to search and less likely to switch. So, there is something either in the process or a lack of knowledge about how the process works. But I think you have got to deal with those two separately, because it might be that they do get the information and it is actually just about making sure that the fact they would get that information is clear. Again, that comes down to one of these tricky amorphous awareness issues which we do not really know how to solve.

A. (Ms Barr) Can I just pick up on the point about whether this is a real or perceived thing? If you have had a financial shock, lost your income for a bit, your credit score goes downhill quite rapidly. These are quite responsive credit scoring systems we have these days, as I understand it. You may have missed a direct debit. You may have missed a personal loan repayment. You have maybe had a couple of unauthorised transactions as well. Your ability then to get an overdraft at a new bank is severely impaired. This is why I come back to the credit scoring being a very blunt instrument. It may well be that the banks have very slick systems and we offer you the overdraft, but, if your credit score has already gone off a cliff, then no bank is going to offer you what you have just been enjoying.

Q. (<u>Ms May</u>) Is there any sensible economic way one might allay that? Because, clearly, as a new bank, I am not going to be necessarily very interested to try to bend over backwards for somebody in the situation you have just described. Is there something that you would propose to make it easier for that distressed person?

A. (<u>Ms Barr</u>) All you can hope is that a bank would stop the credit scoring system, understand the individual circumstances here – going back to customers want to be treated like individuals when they are in that sort of scenario – and say, "There was a reason for this. There was a shock or a drop-off in income. They are about to get their income restarted. Everything is going to be back to how it was three, four, five months ago". But banks do not want to do that. There is a reason they pay for these automated systems, and they want to use them. They do not want to come out of those systems. I used to work in banking. You do not go against the computer. If the computer says, "No", then that is it.

Q. (<u>Ms May</u>) So, you have a stain on your record which, in fact, is fully remedied but will always impact your --

A. (<u>Ms Barr</u>) It will not always impact. It will impact for a period of time. By the time it is not impacting, you have moved on from the point where you are so thoroughly fed up with your bank that you actually are prepared to change.

Q. (<u>Ms May</u>) That is interesting. I think Joe's point is one we are taking on board. There is a lot of misunderstanding about the way the switching service works and the risks associated with it. We do need to look at how we provide confidence to customers that certain aspects are not risky.

Just looking at other areas where customers have expressed misgivings about the risks of switching and how we might allay them; somebody mentioned that the guaranteed period for redirections is only a year. I think, in fact, CASS are changing that as we speak and I think it is now three years. There were some further sophistications which will mean, for some payments, it is indefinite. We did look at, if we were to mandate, say, a minimum period of five years, whether that would improve confidence in the service. Any thoughts on whether a longer period of redirection is something that concerns your stakeholders?

A. (Ms Barr) We have suggested in the past that it be made indefinite but I do not know if that is …

Q. (Ms May) I think it is certainly in the frame that, for where a customer continues to have redirections, the period of continuing redirection is extending. If they have a period with no redirections, then there is an argument to cut it off or the database just becomes bigger and bigger. Any thoughts on whether this is something that is material and we should …?

I am going to move on to something that has been suggested as an alternative, just to hear your reactions. We looked at account number portability. Some parties argue strongly that this would make a material difference to confidence in switching and would drive a more active market. There are others that say this would be disproportionate and costly and risky. Any thoughts as to the importance to customers if they could take their sort code and their account number with them?

A. (Mr Lane) I do not think anybody has an emotional attachment to their sort code or account number. I think people do not want those. They want, potentially, a unique identifier which they can transfer between. I think getting stuck on that it has to be your sort code and account number -- I do not know if that distinction ever got bottomed out. There was an issue with getting account code portability but not sort code portability. So, the impact would be negligible anyway. I think it would be really beneficial to have the feeling that you were moving your individual data, your individual account to another provider. I do not think that needs to be through the sort code system -- through the account number system.

A. (Ms Barr) We have discussed this at length. We have got mixed views. I think, overall, as you say, if the sort code is stuck then it is of no benefit whatsoever. If you have a personal identification number which could be all of that and that can just travel with you from bank to bank, then I think that would be worth doing. My understanding – and, Dominic, you may want to come in on this – is that there has never been a full cost-benefit analysis done of that.

A. (Mr Lindley) Yes, and I think that is what is most disappointing, from our perspective; is that everyone always says it is too costly but no one has ever looked at the costs and the benefits. Because, there are significant benefits to some form of account number portability for those who pay money into your bank account; that is employers, that is loads of small and large businesses and, of course, Government. All of them incur costs when people change their bank accounts, which could be eliminated through account number portability. I do not think anyone is wedded to an exact model, but models are already being developed which look very like a number which is linked to your bank account. So, if you look at some of the new mobile payment apps that are being developed, like Pingit, that explicitly links your mobile number to your bank account, so that is the identifier used. That, presumably, did not cost a vast amount to introduce but yet all the banks still say that account number portability would be too expensive. Of course, until anyone does a cost-benefit analysis …

If you go back telephone number portability, of course, at the time, in the late nineties, BT was saying that was very expensive. What the regulators did do was a proper independent cost-benefit analysis to prove that, actually, it had lots of wider benefits was not that expensive.

Q. (Mr Land) What is the incremental benefit of account number portability over and above having confidence that your payments in and your payments out will continue to be redirected indefinitely, for the sake of argument? What is the additional factor that having the portability of the number brings you, Dominic?

A. (Mr Lindley) I think, if you move several times, then are your payments going to be redirected through several different accounts? Of course, if you are going to continue to get notifications that your payments are being redirected, that in itself will cause some hassle. Whereas, single account number portability is simple; it moves everything over instantaneously at zero cost to you and zero cost to all of your people who are paying money into your account or taking money out. So, it is a much simpler way than just having longer-term redirection.

Q. (Ms May) Okay. Looking at other areas where people have said that it represents a reason not to switch or a concern; the idea that, when you switch, or for a period thereafter, you can ask of your old bank for them to provide you with, we have suggested, up to five years of transaction data for use when you want a new product or whatever it might be; are there any thoughts as to whether that is a constraint on switching? I think a number of banks say that, for a modest fee, they already do this; up to seven years, a number have said. It is not currently standardised. Any thoughts that, if we were to ensure that, as a customer, you could always have access to past transaction data, that would make any difference at all? Not one of great excitement.

A. (Ms Barr) I honestly believe consumers get so much information, not just about their bank but about every other product and service that they receive, they are not going to go trawling through it and doing an analysis. They are just not going to do it.

A. (<u>Mr Kohler</u>) No, I am not sure whether it is a barrier in the switching process or anything like that, but I know the issue for a lot of older people is the difficulty of accessing past transaction data or the surcharge involved in getting it if you are having a row with the Inland Revenue or that sort of thing and you need to be able to show on paper what you long ago junked or which you only ever got in electronic form in the first place. So, there is an issue there, Jill. I am not sure where it fits in the switching process but …

Q. (<u>Mr Roberts</u>) I think it also arises in the case that you might wish to apply for a mortgage, having switched banks, and you would need a number of years of past transactions.

Q. (<u>Ms May</u>) I am not sure you would need a number of years, actually. It is a much shorter period.

A. (<u>Ms Barr</u>) About a year.

A. (<u>Mr Keyworth</u>) You might need 12 months.

Q. (<u>Ms May</u>) Yes. I think what the data -- from what we understand, a number of banks do, for a fiver or, in some cases, a tenner, provide it on demand anyway. But, to your mind, it is not something that is pivotal in this consideration?

A. (<u>Mr Keyworth</u>) It is likely to be one of those --

A. (<u>Mr Lindley</u>) Can I raise another issue?

Q. (<u>Ms May</u>) Sure.

A. (<u>Mr Lindley</u>) It is not so much the transaction data that I would be concerned about. It is the fact that, in my existing internet banking, I have got a list of 20 or 30 people that I pay on a regular basis. If I was to switch account, I would have to re-enter all of that detail. It is almost like an ability to move over my address book when I switch phones. I have got lots of details in there that, at the moment, I would have to manually re-enter. So, it might not be so much a big printout of transaction data; it is something to do with your address book or something like that.

A. (Ms Barr) And you can add to that your continuing payment authorities, which you may want to run away from.

Q. (Ms May) Which I am coming on to. Just understanding your point; you are saying people who you routinely pay but not by standing order or direct debit?

A. (Mr Lindley) Yes.

Q. (Ms May) Okay. So, people where you discretionarily pay.

A. (Mr Lindley) In all the business customer accounts now -- I have got 15-20 people in there. I would have to manually move them over myself when I was making new payments from my new account. It is a bit like an address book.

Q. (Ms May) Yes, I have got the same.

Q. (Mr Land) I suppose that has changed in the past decade. That is much more prevalent in the online banking world when, previously, you would have given these people cheques or received cheques from them.

Q. (Ms May) Yes. Now, you have your little list of your children or whoever it is.

Q. (Mr Land) Now, actually, you have got these ad hoc payees and that is half …

Q. (Ms May) Let us come on to continuous payment authorities; whether there is something we can do to ensure that, through CASS or in some other way, there is no risk that you find you have moved to a new account and payments which you thought were going to automatically transfer, because they are CPAs and they are not direct debits, do not, and there are any risks attached. From what we understand, it is a very modest proportion of people who do have CPAs.

Any thoughts as to whether this is an issue and how we could work with the card providers? Are there any solutions to this if it is a big problem?

A. (<u>Ms Barr</u>) It is not a small number of people.

Q. (<u>Ms May</u>) What is your understanding? We have heard different views.

A. (<u>Ms Barr</u>) It is the majority of people have set up a CPA in the last year, is our understanding.

Q. (<u>Mr Roberts</u>) It is about 7 billion a year in payments go through CPAs.

Q. (<u>Ms May</u>) That is not the point I was asking though. What proportion of customers? We heard it was a very small proportion of customers. You are saying most of us have CPAs, do we?

A. (<u>Ms Barr</u>) The banks do not know when a CPA has been set up. They cannot tell you, because it just occurs as any other card payment.

Q. (<u>Ms May</u>) Is there not a unique indicator? I thought there was --

A. (<u>Ms Barr</u>) You get an authorisation code, but it is a relationship between the consumer and the merchant and the bank has no role in that relationship. So, as long as the consumer has signed a contract or signed the terms and conditions with the merchant that they can continue taking payment, or with the debt management company or the debt collection agency, then they are authorised to take payment.

Q. (<u>Ms May</u>) From your Visa card?

A. (<u>Ms Barr</u>) From the card that you have attached to that account. You can go to the bank and ask them to stop payments, and the bank can do that.

Q. (<u>Ms May</u>) If you know what they are.

A. (<u>Ms Barr</u>) If you know what they are, and if the merchant does not then change its name to something else and continues taking money.

Q. (<u>Ms May</u>) Someone put it to us recently that banks could identify which are

CPAs and, therefore, that, conceivably, you could have a situation where you switched, you were prompted to, say, "And what about this lot?" I have to say I do not know enough about the mechanics of it. But, to your mind, it is a material issue?

A. (Ms Barr) Yes.

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

A. (Mr Keyworth) These are all the sorts of issues – the same with the data one – that are probably often not a big deal but then they arise and then you discover --

Q. (Ms May) Become one.

A. (Mr Keyworth) And then you get charged by someone else for not having done something that you thought was automatically going to happen. It is just those kinds of teething issues with the process that can be important for some people.

A. (Mr Lane) It also does not even have to be an issue. I just has to be a question, because enough potential problems or tricky questions are enough to put people off a decision. So, that discrepancy between the searchers and switchers is where these uncertainties enter people's minds. I think trying to solve each individual problem with anything less than a stamp of certainty will not solve the collective problem of it is just these unknowns people perceive about that process.

A. (Mr Sutherland) I think it would be really useful if banks could identify to consumers what was a CPA on their statement or on their online banking. There is a whole load of other issues with CPAs not associated with switching. At the moment, one of the big problems is it is just listed as a debit card transaction. It would be really useful --

Q. (Mr Land) Ideally, you would transfer the one that pays your telly licence and leave the one that pays Wonga, I guess, in this world we are in …

A. (Mr Sutherland) I think more about subscription perhaps and stuff like that, that they get commonly used for as well.

A. (Ms Barr) Yes. The incentives on the banks are for people to use CPAs rather than direct debits because of the indemnity arrangements.

Q. (Ms May) Okay. Something for us to look at, I think.
Just looking at partial switching and partial switching under CASS and the fact that, if you partially switch, you do not get the same guarantee because it is an elective process where you decide what you are switching. Anything we can do to encourage partial switching; look at how one might get more comfort or, indeed, a guarantee through that process? What are your thoughts on partial switching and maybe sending it to multi-banking as something that we should be looking at?

A. (Mr Lane) What with partial switching? I am not really aware.

Q. (Ms May) I think it is where you open a new account but you were to keep the old account open and you decide which payments you are going to move over to your new account. There is a partial guarantee as to what you switch. It is not a complete guarantee because, up to a point, it is for you to decide what you move over. It is something that, again, has been -- worth encouraging partial switching; it is then try before you buy; it gives you an understanding of different providers' levels of service and capabilities. But there are those that say, because you do not get a full switch if you partially switch, then they are put off doing it. But, exactly how it works, having not done it myself, I am …

A. (Mr Lane) Can you not do that anyway? You can just go into a bank account and open a new account.

Q. (Ms May) Yes, without CASS, but there is a partial switch service through

CASS.

A. (Mr Lane) Yes.

Q. (Ms May) Any thoughts at all?

THE CHAIRMAN: Or you could think of a version of partial switching where you open a new account, use CASS to transfer everything that CASS transfers, but it does not close down your old account. So, you have your old account left open but, essentially, dormant if CASS has transferred all your payment instructions.

A. (Mr Lane) Yes. I think it is probably a valuable option for some consumers. Is there a danger that there is an unintended consequence of adding in another uncertainty, of saying, "We are switching you but we are not quite sure how it is going to turn out, so we are leaving your old account open, just in case"? It feels like they are not in control of the process, like, "We are not fully sure of the implications of switching", so will have --" keep your fingers in both pies.

Q. (Ms Benison) I think the underlying reason for considering that option as a remedy is acknowledgment that switching, obviously, in itself, would be beneficial but not easy to achieve. So, are there any other ways of creating an engagement in the market like, for example, multi-banking which, although does not create as strong an incentive for banks to behave as full switching, still provides some competitive dynamic? If that was to be the case, then we looked at CASS being that service which provides an ease and confidence for customers when they switch completely; should that not be extended to partial switching and, therefore, multi-banking, and provide the same level of guarantee? That would still be the customer's choice, Joe, to your point, not the bank's choice. If you decide to close the previous bank account, that is fine. If you elected to keep it open, that is also possible, and, for the transactions you want to transfer, you would still have the same guarantees as in the full switching. That was the thinking behind it.

A. (Mr Keyworth) I suppose the significance of it depends on the motivation for multi-banking. If the reason that you are keeping the old account open is because you have got concerns over the switch, then bolstering that method is a rather --

Q. (Ms Benison) Yes. From our consumer research, it indicated that the motivation for consumers is mostly related to different reasons for having -- and different purposes for different accounts.

A. (Mr Keyworth) Okay.

Q. (Ms Benison) So, they actually wanted to have multiple accounts. Therefore, the remedy that we are talking about would encourage or would make it easier for them to do that.

Q. (Mr Roberts) I think there are also some very specific advantages that some people have put to us with doing that, which is that, obviously, you retain your debit card with the old account, so the CPA problem disappears. You have still got your relationship with the old bank, so the overdraft issue is not as great as it was. But, it is more complex for people to figure out.

Q. (Ms Benison) There is an element of try before you buy, potentially. That goes back to our conversation about quality and how important it is, on one hand, and, on the other hand, it is only experienced when you do experience it. So, that would, obviously, allow people to experience different banks as well.

A. (Mr Piggin) You would imagine that, if someone is still choosing to keep their existing account though, they are not suffering significant harm as a result of having that significant account. So, it is more for those active, engaged consumers who are looking for just a better deal even though the deal that they are having at the moment is not exactly penalising them in whatever way; would seem sensible.

Q. (Ms May) Absolutely. Lastly from me, in the context of ensuring that CASS effectiveness is optimised and whatever necessary is done to ensure that it is properly promoted, it has got consumer benefit at heart -- the missions and objectives of CASS. Currently, one member, one vote. I cannot remember, is it 26 members or thereabouts? The idea being that -- is there a different way in which one might look at the governance of CASS, maybe put new representatives on some sort of oversight board; change the governance so that the motivation to ensure that it was optimised was not in any way or could not in any way be compromised by the particular preferences of its members? We have heard different thoughts about it. Any views as to whether that might be something we should look at? Or is there a sense that, broadly --

A. (Mr Lindley) From my point of view, you should look at the governance of CASS. But, you should also look at the governing structures you are going to put into place over the implementation of some of the other remedies.

One of the problems with some of the transparency remedies that have been recommended in the past by people like the OFT is that the implementation details are handed over to a group run out of the BBA or some other trade association. I think it would be good to think about the governing structures of CASS but also the governing structures you are going to put in place to supervise and test some of the other remedies to make sure that we get what is most effective rather than what suits the largest banks.

Q. (Ms May) Thank you. Any comments on CASS governance before I hand over to Alasdair? Thank you very much indeed.

THE CHAIRMAN: Okay. I am doing the sweeping-up job. First of all, Dominic, since I am quite far away from the phone, can you hear me all right?

A. (<u>Mr Lindley</u>) Not really. It is quite --
Q. Okay. I will move.
Q. (<u>Ms May</u>) Do you want to swap with me?
THE CHAIRMAN: No, it is okay. I want to ask about two categories of remedies. One is remedies that we have considered and discussed in the remedies report but have indicated that we are minded not to pursue. I use the term, "we are minded not to pursue" to emphasise the fact that, on everything, the agenda is still open.
The second topic is to ask you whether there are remedies that we seem not to have considered but you think we should have considered.
Let me take the ones that we have considered and discussed but have indicated we are minded not to pursue. One type of remedy of that kind would be a price-control remedy. We have already here discussed the possibly of imposing some kind of price control on unarranged overdraft charges; for example, the Which? suggestion that we not control the level but remove mandate so there would be no differential between arranged and unarranged overdraft charges. That is a very interesting suggestion. I think we have probably aired it quite a lot this morning already. Unless there is anything else that anyone wants to add to the discussion, we are just going to take that away as something that, although we have indicated in the remedies report that we start off with the presumption that competition remedies are better than regulatory remedies and, if we can make competition work, that involves less intrusion into the relationship between businesses and their customers, nevertheless, if we can be persuaded that competition cannot be made to work and we ought to look at a regulatory remedy, we will look at it.
The other big category of remedies that we have considered but are not minded

to pursue are related to free-if-in-credit banking. Perhaps I should say that, while we have indicated in the provisional findings that we do not find that free-if-in-credit banking is, in itself a barrier to competition, neither do we find ourselves in a position where we want to defend the free-if-in-credit model as the right model. It provides a pretty good deal for quite a lot of customers. It has problems of the kind that we have been alluding to earlier. If some of the measures that we are proposing led to increased competition for customers with high credit balances – and there is quite a lot of that competition already – or increased competition for customers with high unarranged overdraft charges so that they got a better deal, it might be that the economics of the free-if-in-credit model would crumble under competitive pressures. We are quite relaxed about that.

What I want to ask here is more about measures that might be aimed at directly getting rid of free-if-in-credit banking. One which has been suggested to us by Virgin Money is that we mandate the payment of interest on credit balances. We think that the effect of that would be that the economics of free-if-in-credit banking would be affected so radically that banks would have to introduce other charges. So, they would be paying positive interest on credit balances at a rate to be determined and would probably respond by introducing monthly charges or transaction charges. That would be the end of free-if-in-credit banking. I think Virgin Money are quite open about that; that is the objective. Any views on that? Is that a line that any of you would like us to pursue?

A. (Ms Barr) I think you have to be careful of the unintended consequences of that. If the response of the banks is then to ramp up the overdraft charges, then you are just going to hit the very people who are already being hit but just by a greater degree; the cross-subsidisation just moves to a different place.

A. (Mr Lane) I think you could end the perception of free-if-in-credit banking without ending the current delivery of the current price mechanism. In terms of the type of information banks provide to consumers, when we discussed how they could use Midata to provide you with better information about the costs incurred of your bank account, I think that could include foregone interest. Nobody has a free bank account, even if you are in credit. You are paying the bank to store your money, but you are not told about that cost. I think you do not have to implement a new charging structure; you just give people better information about the costs they are incurring.

Q. That is something that has been suggested, specifically by TSB, that we mandate the provision of monthly statements which include foregone interest.

A. (Ms Barr) They can do that now. We have been told by analysts in the city that the banks can provide that information now. There is no cost to that other than printing it.

Just going back to what I was saying, we do not want them to push the charges all onto the overdrawn. The only way I think you could make the interest payment mandatory is if you also cap the charges they make on overdrafts, otherwise, that is exactly where it is going to go.

Q. So, you think it would go there rather than on monthly fees for everybody?

A. (Ms Barr) Yes. Dominic, you might disagree with that. Feel free to.

A. (Mr Lindley) I think what is interesting, from reading some of the banks' internal documents about their pricing structures, is they always shove up the unauthorised overdraft charges because only a few people pay them and it does not affect their competitive position. So, if you are going to have price control of interest, then you are obviously going to have price control of every single charge for a current account. I think what would be better is, if you are going to have some form of price control, then it should be on contingent charges and it should be on areas where there is discontinuous pricing; small changes in behaviour feeding your unauthorised overdraft limit impose large costs on the customer which way exceed the marginal costs for the bank. Do more analysis of the cost structure of current accounts and then consider capping the contingent charges, because we all know that transparency is not going to work to introduce some competitive discipline over those charges.

Q. Can I come back to the monthly statement of foregone interest which I think we really think of as a kind of prompt remedy rather than a pricing remedy? So, potentially, it is on our list. It may not be very prominent in our list of prompts, but, implicitly, it is there. Do you think that giving people a statement of their foregone interest would encourage people to shop around, look for better value bank accounts?

A. (Ms Barr) They are more likely just to open a savings account with their current provider, I would suggest. I do not have any evidence for that but, intuitively, that is what I would suggest.

A. (Mr Lane) I think, if you can get live data of the costs of what you are paying for your bank and across all charges, in terms of the prompts suggested, I think that is the most powerful one in terms of pushing people towards at least weighing up their options; not only a push towards weighing up their options but also the ability to weigh up their options much more accurately.

A. (Ms Langford) Yes. We found that a lot of people do not really understand interest rates at all. We asked them to do really simple interest plus calculations, and a lot of people could not do it, particularly younger people and people in old age. So, there is an issue there.

Also, you would need some context with that figure. I do not think it would be enough just to put the interest that you have foregone on your account if you could not easily find out what that average in the market was or what the highs and lows in the market were.

Q. Yes. Those of us who have learned about opportunity cost and economics 101 find the idea of foregone interest quite an intuitive one, but not everybody has had the benefits of that experience.

A. (Mr Lane) They can give you the comparison though. They can say, "The cost of your bank account was X. There is another bank account which you could have which would be Y". It does not have to be presented as foregone interest and charges separately. It can just be a simple consumer --

Q. (Mr Roberts) I think that is the question; do people want it in absolute terms or comparative terms?

THE CHAIRMAN: Bill is right. These seem to be alternatives. You can go down the Midata or the price comparison route and say, "You are in a free-if-in-credit bank account. An alternative to look at would be a current account that pays interest and has a monthly charge". Midata tells you that, actually, you would do well to switch. Or you can say, "No, we are not doing a comparison. We are just telling you you have got foregone interest of £10 this month".

A. (Mr Lane) I want to know all the time. I want to go onto my app and I want it to tell me, "You paid £40 for your bank account. An HSBC account is only £20".

Q. I will tell you the problem I have. If I have a free-if-in-credit account and I receive a statement of foregone interest and I think, "Would it pay me to switch to an interest-bearing account?" and I find out what the monthly charges and what the interest payment is on the not free-if-in-credit account, and I then want to do a comparison, the first thing that you do in making that comparison is you throw away the foregone interest sum because, do the sums, it does not enter into the calculation. You are giving people a piece of information that, actually, is positively unhelpful in making a comparison. So, personally, I am a little bit sceptical of foregone interest but it is on our list and we will look at it.

A. (Mr Piggin) That is also looking at it just as a current account market in isolation when there are other options, not looking at savings options and savings accounts and comparing in that way. I do not think consumers would just see it as a current account to a current account; they would consider savings accounts and, similarly, other forms of credit as well, rather than just a simple current account versus another current account. That is where the comparison or the information around foregone interest could be presented in a different way. It might not prompt someone to switch current accounts but could prompt them to open a savings account, for example.

Q. (Ms May) That is an interesting observation; it would prompt more efficient money management; not necessarily as between different providers but more thought -- and, as interest rates rise – which, one day, they will, I imagine – then it will become even more pertinent.

A. (Mr Piggin) Yes.

THE CHAIRMAN: Yes. Right now, I think last month I got a communication from my bank indicating that the interest rate on a savings account that I have has gone down from 0.5 per cent to 0.25 per cent.

Q. (Ms May) I have got 0.1 per cent, which is still --

THE CHAIRMAN: It did not lead me to review whether I was leaving too much money in my current account, I have to tell you.

Okay, that is helpful. The other big heading of remedies that we considered but are currently not minded to pursue is what are called structural remedies; in common parlance, "breaking up" some banks. As you will know from our report, the view that we took on that was that the problems in this market are to do with customers sticking as lack of competition rather than the bigness of banks per se, and that, having a larger number of banks, each of them with sticky customers they did not have to compete for very hard, is just dividing up the problem rather than solving it. Any views on that? Anyone think that we have been too timid and should have …?

A. (Mr Lane) I think all questions of a lack of information are symptoms of a lack of competition. I think, in competitive markets, people provide accurate information which encourages customers to use their services. If you are ever asking the question of, "Why are they not providing clear information?" or, "How can we help banks advertise their services better?", then I think you are admitting that they are not competing with each other in the right way. That might be a structural thing on numbers of banks, but it might also just be that the banking product tends towards a culture of oligopoly or whatever.

Q. But Caroline earlier said that people actually do not want to compare their banks. They would rather just get --

A. (Ms Barr) I did not say all people. I said there is a large number of consumers who do not.

Q. Okay.

A. (Ms Barr) As your reports show, one in five actually took the trouble to search, but a lot of them – mainly those who were overdrawn – did not, could not or would not. For the one in five that searched, you have got to make it as easy as possible to do so.

Coming back to what Joe was just saying – and this has been playing on my mind all morning – you are trying to get consumers to provide the remedies for an industry that does not compete on the same basis as any other retail-type industry or even insurance industry -- a product. They do not provide any information up front that can help a consumer make a good decision about the product that they are buying. They only find, further down the line, that it does not do for them what the bank said it was going to do. They are not competing at all.

I really do not know the basis for competition in this market. I could not explain it to you. We are trying to get consumers to switch between all the so-called competitors in this market when there really is not much difference between any of them. The fact that they can all compete on that basis is really worrying.

Q. I think that takes us into the area of remedies that we had not considered, because I too have been reflecting during the morning's discussion on some things that you, Caroline, said at the beginning, about it is a market in which consumers are not -- just repeating myself -- many consumers, at least, are not very active consumers.

A. (Ms Barr) No, I disagree with that, fundamentally. It is not that they are inactive; they are making a positive decision to stay for, in their own mind, a very good reason.

Q. Yes, okay. They are making a position decision to stay with their bank. What they want is they want a better deal from their existing bank rather than to shop around. That is the position that they are in.

A. (Ms Barr) Rather than to have to take the risk of switching and things going wrong.

Q. Yes, rather than shopping and switching. That seems, to me, quite a fundamental criticism of our approach, which is fine. I have no difficulty with that. Our approach has been there is not enough searching, there is not enough comparison, there is not enough switching and, if we have more engagement,

more searching, more switching, the market will work better. You are saying, actually, a lot of consumers are not particularly interested in going that route and our focus should have been different -- of, somehow, making banks give a better deal to their existing customers without them having to go to the trouble and risk of looking at switching; yes?
A. (Ms Barr) Yes.
A. (Mr Lane) I think take a step before that; why do they not offer the better deal?
A. (Ms Barr) That is the thing, yes, exactly.
Q. Yes, that is exactly where I am going. If that is right, what would be appropriate remedies if that is the picture of what is really wrong; that what we really should be looking at is looking at finding ways for the banks to give their customers a better deal other than encouraging more searching and switching because that is not the right the way to go?
A. (Ms Barr) Dominic, do you want to come in on this one?
A. (Mr Lindley) I think, starting off with the contingent charges capping, that is the most obvious one. If you want to aid comparison, then there is going back to mandating that everyone charges interest on authorised overdrafts so it is much easier to compare like with like. Then, of course, finally, if switching is your preferred remedy, you need to look at the quality of switching decisions, because, if people are switching from better value to worse value products, then, actually, people switching are getting a worse deal. I do not think there has been any research done into the quality of switching decisions in current accounts. A big piece of evidence that convinced me that switching was not really working in the energy market was that something like a quarter to a third of people switched to a more expensive tariff. We do not know what that percentage is in the current account market.

Q. Okay.
A. (<u>Mr Lane</u>) I would add to that that there is an energy best deal equivalent if we are thinking about regulatory rather than structural remedies to that lack of competition. I think you could have a banking best deal.
Q. Would that be a banking best deal with -- your current provider would be required to tell you if you could --
A. (<u>Mr Lane</u>) I think you could work through the models and practicalities of doing it, but that would be one way of doing it.
Q. Tom?
Q. (<u>Mr Hoehn</u>) Can we just look at innovation as a way of dealing with the competition issues we have identified? Somebody, at the beginning, was talking about the emergence of aggregators. Aggregators depend on the availability of data in order to pull things together; open APIs are hugely important. There may also be other new business models around banks that have entered – we have commented on those – and entry happens now. So, to what extent will business model innovation happen and increase competition, to what extent will technological change and, thirdly, the sharing of data, the availability of more data, lead to an improvement?
A. (<u>Mr Keyworth</u>) Can I just comment on that? One of the additional remedies that Which? has put forward concerns measures to support culture change and customer engagement as being more effective, with the notion that banks should be treating customers fairly and more reasonably in different circumstances.
I think one of the difficulties with solely relying on switching and, potentially, innovation-type responses is that their effect only goes so far. The impact, the implications of the effect of those changes, depends on the extent to which

banks can and do target the areas that are more inactive and less noticeable and so on. That goes to questions of culture and how you behave towards your customers. So, the unarranged overdraft charging issue is an issue of targeting the bit over here that people do not pay attention to and we know they will not go anywhere.

In a culture where banks behave in that way and that is understood the extent to which you can realistically expect innovation and switching remedies to address that I think is limited to quite a significant degree. I do not think it is an either, or issue. You want all of these desirable changes but, at the same time, this is an industry where, for a very long time now, widespread competition issues have been recognised and that is in the culture of the situation that we are faced with. I think that is where we see the need for more to try to shift that along.

THE CHAIRMAN: Any other remedies, interventions that you think we ought to have considered and have not, and have not discussed today?

A. (Mr Kohler) There is one I would like to put on the table. That is to do with the bundling of accounts. If you look at telecoms, it is almost impossible to make a rational choice between the different offerings because you have got television rolled up with broadband rolled up with mobile phone and so on and so forth, and all sorts of different packages under each of those headings. The same is increasingly the case in the energy industry where you buy your energy from a supplier who then offers you a discount or a free annual boiler service and, whilst we are there, let us throw in home drain unblocking and a few other domestic services of that kind and so on.

How far across the financial services, the banking industry, we see additional insurance products and so on added on to a current account I am not sure, but

I wonder if this is an issue going forward which would certainly constitute a barrier to being able to make a relevant and information-based decision to change. I do not know the answer. I am leaving it as a question.

A. (<u>Ms Barr</u>) Those are what we called "packaged" bank accounts. They have reduced in number, is our understanding. The Financial Ombudsman Service is very live to this and is sorting out compensation as we speak. Banks are withdrawing from that market because so many of the "add-ons", if you like, to the product were not valid for the person with the account. So, I think it would have been but I think, going forward, we are going to see fewer and fewer of these packaged accounts, I hope, because they are opaque and very difficult to understand the true value of what you are getting. But, yes, all the incentives were going that way.

Q. But there are accounts coming onto the market that are not packaged accounts that might have features which raise Mervyn's question. NatWest are currently widely advertising a rewards account that does not pay interest; it pays 3 per cent of your direct debit utility bills. I think I probably would find it easier to work out whether I want to buy BT TV on the back of my broadband than whether the NatWest Reward account gives me a better deal than Santander 123 interest-paying account. That is an argument for Midata, is it not; that, if you have got these complex products, you need good tools for enabling consumer choice?

A. (<u>Mr Lane</u>) I think there is also a remedies aspect. The issue with FOS, with the packaged accounts, was that, if they could show that you got some benefit from your packaged account, even if you had 25 products attached to that which did not give you any benefit and you notionally paid for, they could say, "You are still paying for our service" even if it meant you ended up paying £10 a month for what would cost £1.99, phone insurance or whatever. Whereas, where there is a distinct benefit, I think you are right, the question is more difficult for the consumer. It is less extreme than the packaged accounts which are, essentially, just a scam product where no benefit is taken from most of the aspects of the product.

A. (Mr Sutherland) I wonder if I can add another thing; if you had looked at how much of the branch availability or the branch network that a bank has, how that impacts on how much of the market they hold. I know the figures that you produced for Scotland in terms of concentration between the banks seemed to map very closely with who had the big branch networks. If that is having an impact on people not switching because they want to use a bank that they can access -- because, I know, from your research from speaking to consumers, a big part of them choosing their bank was that they could somehow access a physical branch. So, if there is no branch in the area except for the one provider, is that consumer just going to use them. Some of them will do everything online. For a lot of people, that is not really an option. So, is not being able to access a physical location a problem for competition, from a consumer's point of view? I do not know if anyone else has thoughts.

A. (Mr Piggin) Just to come back to the packaged accounts and the different types of accounts and the innovation involved in that, I think it is less about the product because there could be some features that would be beneficial for some consumers so, it is less about the fact that there is innovation there; it is more about how it is presented and how it is sold. I think that is where the issue is rather than the product itself and the innovation that is behind it. It is the transparency, the complexity, how it is sold and how it is presented that is where the issues come from.

Q. Fraser, the issue that you raised, I think the view that we have taken in our report is that the banking markets that we have been looking at are mostly national markets. There is a bit of a question about SME loans and other products that are personalised to the consumer, but mostly they are national markets in which all consumers get, broadly, the same conditions. Therefore, while branch closures might be a problem, we did not see them, primarily, as a competition problem.
A. (Mr Sutherland) So, it is less about the constituent nations of the UK and it is more about comparing the consumers who live in rural areas or more remote areas of the UK compared to people who live in big cities who have lots of choice. If I live in Wester Ross, I have only got the option of RBS because they are the only ones within 40 miles. Or, if I live in an island community, there is very little choice. Because I do not have the figures, I do not know how much that impacts on that consumer's decision, but I suspect, speaking to people in the Citizens Advice Bureau, all the personal loans are with that bank, the people who come in for advice, because they will only interact with that one bank.
Q. But, if their personal loans are being given on the same criteria and the same terms as people in the cities, then is that a competition problem?
A. (Mr Sutherland) But they do not have the choice, or they exclude themselves from the choice because they want to access it physically, face to face.
Q. I cannot resist the observation, and perhaps only I can say this, I am always interested in the fact that this is often raised as a particularly Scottish problem.
A. (Mr Sutherland) I think it is a big issue in Northern Ireland as well …
Q. And in the rest of the UK.
A. (Mr Sutherland) Yes.
Q. The proportion of the population that is urbanised is higher in Scotland than in

England. So, actually, if there is a problem with rural populations, there is a bigger problem in England than in Scotland.
A. (Mr Sutherland) I am sure it is.
Q. (Mr Land) I am glad you said that.
THE CHAIRMAN: But it is a real problem.
A. (Mr Sutherland) I am just aware of it because we have such a good network that is spread for the Citizens Advice Bureau in those rural communities, so I get a lot of people complaining at me from the rural communities.
Q. And, being serious, the issue in Scotland is not that there is an unusually high proportion of rural population but that it is very, very dispersed over sparsely populated areas.
A. (Mr Sutherland) Yes.
Q. If there are no other issues, that brings us to the end of today's discussion which, I have to say, speaking for myself, I have found a really useful discussion. I think we have covered a lot of areas. A lot of important issues have been brought out. We have had a different quality or different kind of discussion from the discussions we have with providers, which is why it is important for us to meet consumer representatives, because the different perspective is a very valuable one and one that we take very seriously. As colleagues have said at various points in the discussion in the morning, we will be looking very seriously and with a genuinely open mind at the various issues that have been raised today. So, thank you very much.
Joanna, is there anything we need to say by way of conclusion?
Q. (Ms Benison) No, there is nothing else to add; just thank you again, and thank you for being so disciplined, so my role was not difficult at all. Thank you very much for that.

A. (Mr Kohler) Great. Thank you for the opportunity.
THE CHAIRMAN: And Dominic, if you are still there, thank you very much for your participation.

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 is 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?