# LLOYDS BANKING GROUP PLC

# CMA RETAIL BANKING MARKET INVESTIGATION

# Verification of CMA's pricing analysis and results from an alternative approach

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## 1. SUMMARY AND INTRODUCTION

1.1 This note summarises the results of LBG's analysis of prices using disaggregated transaction-level data ("**transaction data**") and the verification of the CMA's pricing estimates made using aggregated monthly data ("**monthly data**"), together with some additional analysis of customer value over time.

1.2 The results of this analysis show that there are significant inaccuracies in the CMA's estimated prices for each customer, which are based on monthly data and rely on several assumptions about daily account usage, compared with using actual transaction-level data. These inaccuracies, combined with other changes that are necessary to correct for errors in the CMA's methodology, have a material impact on the absolute and relative 'average' prices per provider for some providers.

1.3 These inaccuracies do not materially change the CMA's findings on the gains from switching, and the identification of a material number of customers with significant gains. The distribution of switching gains explains the need for the CMA's remedies in the PCA market, and that these should be targeted at improving engagement for the customers with the most to gain from switching.

1.4 The attempt to calculate average prices per provider does not add to the CMA's understanding, given the lack of robust comparisons. The CMA should not use this analysis in its Final Report.

### Pricing analysis is a significant step forward in understanding PCA market and need for remedies targeted at overdraft customers

1.5 By using a large sample of actual customers, the CMA has taken a **significant step forward towards a better understanding of pricing** across the PCA market. The CMA calculated prices for each of these customers for every PCA product in the market. This has helped to understand the distribution of gains from switching by comparing each customer's existing price with the lowest cost alternatives available.

1.6 **The gains from switching are real and significant enough to suggest that there is a group of customers who could save a significant amount by switching.** The CMA found that 5 million customers could gain on average £21 per month by switching. But the CMA's average gains from switching overstate this, because for 28 million customers the gains from switching are less than £5 per month and are unlikely to motivate them to switch, given the low absolute price and relatively small gains. The CMA's analysis is based on the monthly data, and should be revised using transaction data. LBG is only able to calculate the gains for switching using the revised prices for its own customers, which shows a similar distribution with around [10-20]% of customers having the potential to gain £10 or more per month.

1.7 **The CMA also attempted to calculate 'average prices for each provider',** and used these to find that "recent entrants and expanding brands (including brands owned by the larger established banks) tend to offer lower average prices and banks with the highest market shares tend to have the highest average prices….and did not find any general tendency of higher quality offsetting higher pricing".[1]

1.8 The revised pricing analysis, combined with significant pricing changes (up and down) by a range of providers in recent months (e.g. Santander, Barclays, RBS and Co-operative Bank), shows a very different picture. **This suggests that competition for 27 million in-credit customers is strong and increasing and that all providers are under ever increasing pressure to raise their game and improve price and quality.** The Santander price increase is very important because it has been the most successful provider in attracting switching customers since CASS was launched and this suggests that its pricing was unsustainable. But many higher-priced providers have had to cut prices to stay competitive. Tesco appears to have the lowest average prices in the revised pricing analysis - the CMA will need to consider whether these lower prices are sustainable because it is one of only a small number of providers without a branch network or because it is following a similar acquisition strategy to Santander with low initial prices which will then be raised.

1.9 There is less evidence that this **competitive pressure is as intense for overdraft customers and that is where the CMA should focus on customer engagement remedies** and should be confident if it does that the same competitive pressures will lead to similar outcomes quickly – the in-credit/reward competition has happened relatively fast in response to CASS and will only accelerate with the proposed remedies.

1.10 **The evidence on gains from switching demonstrates the need for trials to target those customers with the most to gain.** The CMA's remedies are not appropriate or necessary for every customer, and risk reducing the power of prompts and communication remedies for customers with low gains. This suggests that some remedies that are not targeted, such as monthly bills, are unlikely to be effective.

### There are three steps to revising the pricing analysis

1.11 LBG has revised the pricing analysis by taking three steps:

(a) **Using the right data.** LBG has used transaction data – LBG's verification analysis shows that using monthly data is inaccurate and changes the price of most products significantly. LBG has also added an estimate of returned items and paid item charges and corrected for the significant increase in Santander's price by £3 per month. Some price cuts, such as the cashback available for the RBS Reward Account and the recent launch of Co-operative Bank's Everyday Rewards, have not been included in the time available.

(b) **Comparing the right prices.** LBG has used the approach the CMA used in its BCA price analysis to calculate an average for multi-product providers. This compares the product that each customer would be most likely to choose ("most likely comparator"), rather than using a provider's existing mix of customers to determine average prices per provider. This is also consistent with the CMA's

[1] CMA Provisional Findings, paragraphs 43 and 44.

inclusion of switching incentives in the prices, which reflects the value to customers switching to new products.

(c) **Comparing like-with-like.** 'Average prices per provider' do not make economic sense and are too simplistic. Prices should be compared between products and providers that target the same customer segments.

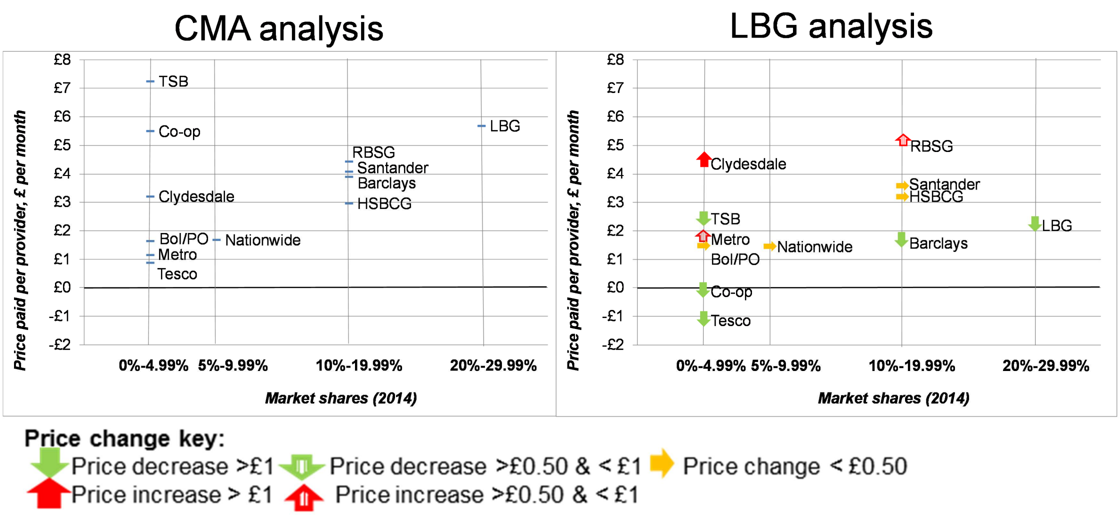
**The first two steps change the assessment of 'average prices per provider'**

1.12 LBG has recalculated the 'average price for each provider' correcting the CMA's analysis by using the more accurate data and comparing the right prices. **These corrections change the CMA's results for average prices for some providers significantly, as shown in the chart below.** The impact of more accurate estimates of interest- and-fee free overdrafts and buffers and tiered interest rates means that some providers see an increase in average price (e.g. Clydesdale) and some see a fall (e.g. Tesco). The price for RBS also increases, but this does not take into account the recent price cut offered through its Reward product.

1.13 **Using the most likely comparator means that the average prices per provider are lower,** which reflects the prices that switching customers would actually compare and switch to. For example, customers comparing Barclays would be more likely to choose Blue Rewards than is assumed in the CMA's approach. Santander's increase in its monthly fee is largely offset by a reduction in the underlying estimated price from using the more accurate data and comparing the right prices.

1.14 **The CMA should be clear on the impact of making these corrections.** The CMA will then need to revisit its analysis and conclusions on the relationships between price and size/tenure and satisfaction; as shown below, the relationship between price and size is even less apparent when these changes are made.

**Figure 1** Comparison of average price paid and market share for each provider using CMA and LBG prices



## The final step is needed to compare like-with-like

1.15 **It does not make economic sense to compare 'average prices' for providers that serve different customer segments.** The figure below illustrates why prices need to be compared on a like-for-like basis. In the airline example, an overall 'average' for each airline would include routes with different characteristics (i.e. long-haul or short-haul), and the 'average' for each airline would not be comparable. The way to assess relative like-for-like prices would be to compare those routes in which both airlines overlap.

1.16 In the case of PCAs, **an overall 'average' for each provider includes customer segments that a provider may not serve or target** – this is exactly the type of comparison that the development of APIs and midata is trying to move away from. The only way to assess relative prices is to compare products across those segments that both target.

**Figure 2** Illustration of approach to comparing prices


Note: Examples ignore other differences that would need to be considered such as passenger class or overdraft usage.

1.17 The CMA used credit turnover (**"CTO"**) and direct debits ("**DDs**") to segment customers in its analysis. This is helpful, but is too narrow to understand the different target segments in the PCA market. For example, **Martin Lewis uses balance as the key dimension for comparing prices in his analysis** of Santander 123's increase in its monthly fee (see Annex 1). The value of balances makes up around half of total PCA income in the market, but is not evenly distributed between products, providers or CTO bands – this is why it is important to consider different balance segments.

1.18 The table below shows the relative ranking of brands using both the CMA's and LBG's approaches for average price paid per provider. The CMA presented results for an overall average for each provider and in a single customer segment (with CTO of £1750 and 2

DDs. LBG has used four segments based on both CTO and balance –more granular segments and other dimensions including direct debits, overdraft usage and transaction volume could also be considered.

**Figure 3** Ranking of prices using CMA and LBG analysis

| | CMA analysis | | LBG analysis<br>*Average prices paid per provider by CTO/credit balance segments, £ per month* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *CTO:* | *<£1500 p.m.* | *£1500+ p.m.* | *<£1500 p.m.* | *£1500+ p.m.* |
| **Brand** | **Average** | **£1,751+** | **Balance:** | **<£3000** | **<£3000** | **£3000+** | **£3000+** |
| Nationwide | 1 | 1 | | 6 | 7 | 11 | 7 |
| M&S Bank | 2 | 3 | | 3 | 4 | 14 | 13 |
| Tesco Bank | 3 | 2 | | 2 | 2 | 2 | 3 |
| Metro Bank | 4 | 4 | | 5 | 8 | 12 | 12 |
| Post Office | 5 | 6 | | 4 | 6 | 15 | 14 |
| HSBC | 6 | 8 | | 8 | 11 | 13 | 15 |
| Clydesdale & Yorkshire | 7 | 9 | | 12 | 12 | 6 | 8 |
| **Halifax** | **8** | **7** | | **9** | **3** | **4** | **5** |
| Barclays | 9 | 10 | | 7 | 9 | 10 | 9 |
| First Direct | 10 | 5 | | 11 | 5 | 9 | 11 |
| Santander | 11 | 11 | | 16 | 16 | 3 | 2 |
| The Co-operative Bank | 12 | 12 | | 1 | 1 | 7 | 10 |
| Royal Bank of Scotland | 13 | 14 | | 13 | 15 | 16 | 16 |
| **Bank of Scotland** | **14** | **13** | | **14** | **13** | **8** | **4** |
| TSB | 15 | 15 | | 10 | 10 | 5 | 6 |
| **Lloyds Bank** | **16** | **16** | | **15** | **14** | **1** | **1** |

1.19 The **CMA's analysis** found that the price rankings for the *high CTO (£1751+ DDs: 2+), segment* were very similar to the *average* per provider for nearly all providers. In this segment Santander was the 6th most expensive in the market (out of 16) despite being the most switched-to provider with a high credit interest offer; and Lloyds Bank was the most expensive, even though Club Lloyds has amongst the highest credit interest and a £100 interest- and fee-free overdraft for this segment.

1.20 **LBG's analysis** shows the importance of using the correct data, comparing the right prices and comparing like-with-like (using balance to segment customers):

(a) Lloyds Bank has the most competitive product in Club Lloyds for customers that have balances>£3000;

(b) Santander has the 2nd lowest cost for customers with CTO>£1500, and would have been the lowest before its price increase – Bank of Scotland is 4th; and

(c) Halifax is the 2nd lowest cost for customers with CTO<£1500 and balances<£3000, reflecting its position as the second most switched-to product in the market.

**The CMA should emphasise its analysis on switching gains and step back from average prices per provider**

1.21 It is difficult, and may not be possible, to make meaningful comparisons of average prices per provider between providers that each target different customer segments. **The CMA should step back from its existing provisional findings on average price per provider and average quality per provider in PCAs and BCAs as they are incorrect and present a misleading view of relative pricing.** If the CMA does attempt this comparison, it should be clear on the limitations and explain how prices vary across CTO and balance segments. The CMA can use its evidence on providers' strategies for target markets to inform the segments it uses in its analysis.

1.22 The CMA should instead **use its analysis of the distribution of gains from switching** to explain the need for its remedies in the PCA market, applying the same corrections to the data. It could also look at the distribution of gains from switching *for each provider* to understand relative pricing. The attempt to calculate average prices per provider does not add to the CMA's understanding given the lack of robustness of such comparisons.

1.23 LBG's analysis is intended to help the CMA in the next stage of its work on pricing. **It shows that the CMA's analysis and findings based on average price per provider are wrong and misleading.** These findings have had significant consequences for how commentators, including the media (which was specifically briefed on these pricing results) and consumer groups, perceive market outcomes.

1.24 The CMA should undertake and complete the correct analysis, as described above. Even if the CMA decides not to do so it must, based on the evidence it has presented, provide a more accurate description of the results, beyond noting that "they must be treated with caution", and **it must withdraw the conclusion that LBG tends to have higher prices and that there is a tendency for larger providers to have higher prices.**

1.25 Given the issues with this analysis and the sensitivity of results to the approach, the CMA should present its findings in a working paper before the Final Report is published so that LBG and others can comment. It is important that any issues with the analysis are not identified on or after publication of the Final Report.

## 2. HOW TO IMPROVE THE ANALYSIS OF PRICES

2.1 In its Response to the Provisional Findings, LBG explained why the approach and assumptions used by the CMA to calculate average prices per provider were not robust. The following approach still has some limitations, but improves on the CMA's current analysis and is much more accurate and robust. LBG has used this approach with its own customer data, and these results are set out in section 3.

2.2 LBG's approach involves three steps.

(a) using the right data;

(b) comparing the right prices; and

(c) comparing like-with-like.

2.3 Even with the steps above, there will remain some limitations in the analysis that will need to be considered when interpreting the results which are particularly relevant for overdraft users. **In particular, neither the CMA nor LBG's pricing analysis takes account of fee suppression or waivers of overdraft fees.** Most providers have policies on fee suppression for persistently heavy overdraft users. For example, LBG starts suppressing fees for customers that have been continually in their unplanned overdraft for 30 days. This means that actual fees for these customers and gains from switching are likely to be lower than the pricing models suggest. Fees suppressed by LBG amount to around [£100-150m] which is around [35-45%] of overdraft income actually received.

### (a) Using the right data

*Use disaggregated transaction-level data*

2.4 Using disaggregated data on the individual transactions of customers ("**transaction data**") will be more accurate than using aggregated monthly data ("**monthly data**"). This is because using monthly data relies on many assumptions, such as daily credit and debit balances and transaction sizes. Using transaction data avoids the need to make such assumptions.

2.5 LBG has only used data on its own customers which will affect the results; only the CMA can use a sample that is representative of all segments in the market. Further detail on how the price estimates were calculated is provided in Annex 2.

2.6 LBG has verified the accuracy of prices calculated using monthly data using the CMA's model against prices calculated using transaction data. **LBG's verification exercise has found that the cumulative effect of the missing data and assumptions is significant.**

2.7 Overall, prices estimated using monthly data are a poor match for those estimated using transaction data. The former only explains 38% of the variation in prices calculated using transaction data.[2] This means that any estimates based on the monthly data come with a significant degree of uncertainty.

2.8 The figure below shows the distribution of differences in price at the account-level for all customers. The results show that there are substantial differences in account costs between the two different data sources. The size of this difference varies by product. The median difference for 14 out of 23 products is less than 50p per month. However, there are substantial numbers of customers for which the differences are significant. For example, for 19 of the 23 products 25% of customers have a difference of £2 or more.

2.9 The verification is at an account-level rather than the brand level, so it is not based on the most likely comparator and is not comparable with average prices for each provider. However, the results show the accuracy of the monthly data for all products. The comparison for Nationwide FlexAccount and M&S Bank is affected by the inclusion of additional benefits in the monthly data, which are excluded in the transaction data.

**Table 1** Summary of absolute differences in monthly cost between monthly data and transaction data

*Note: P10 refers to the 10$^{th}$ percentile. P50 is therefore the median customer.*

| | Absolute difference in cost per month, £ | | | | | |
|---|---|---|---|---|---|---|
| | P10 | P25 | P50 | P75 | P90 | Max |
| *Barclays Bank Account* | 0.00 | 0.00 | 0.06 | 2.08 | 10.21 | 150.00 |
| *Barclays Bank Account with Blue Rewards* | 0.00 | 0.00 | 1.68 | 5.44 | 12.65 | 150.00 |
| *Post Office Standard Account* | 0.00 | 0.00 | 0.00 | 0.48 | 1.96 | 132.01 |
| *Clydesdale Bank Current Account Plus* | 0.00 | 0.00 | 0.24 | 3.50 | 9.93 | 205.62 |
| *HSBC Bank Account* | 0.00 | 0.00 | 0.03 | 1.42 | 6.12 | 132.44 |
| *Frist Direct 1st Account* | 0.00 | 0.00 | 1.15 | 5.00 | 8.78 | 159.67 |
| *M&S Bank Current Account* | 1.60 | 2.47 | 2.50 | 2.50 | 2.82 | 129.51 |
| *Lloyds Bank Classic Account* | 0.00 | 0.00 | 0.14 | 3.22 | 13.60 | 299.13 |
| *Lloyds Bank Club Lloyds Current Account* | 0.09 | 0.49 | 1.76 | 4.32 | 13.07 | 300.95 |
| *Halifax Current Account* | 0.00 | 0.00 | 0.17 | 2.50 | 9.08 | 205.13 |
| *Halifax Reward Current Account* | 0.00 | 0.00 | 1.08 | 5.00 | 23.46 | 205.13 |
| *Bank of Scotalnd Classic Account* | 0.00 | 0.00 | 0.14 | 3.22 | 13.60 | 299.13 |
| *Bank of Scotland Classic Account with Vantage* | 0.03 | 0.18 | 0.98 | 4.15 | 11.58 | 209.43 |
| *Metro Bank Current Account* | 0.00 | 0.00 | 0.00 | 0.04 | 0.79 | 55.45 |
| *Nationwide BS FlexAccount* | 2.80 | 4.09 | 4.17 | 4.17 | 4.42 | 147.26 |
| *Nationwide BX FlexDirect Account* | 0.03 | 0.11 | 0.44 | 1.21 | 4.62 | 103.09 |
| *RBS Select Current Account* | 0.00 | 0.00 | 0.17 | 2.80 | 9.44 | 181.50 |
| *NatWest Select Account* | 0.00 | 0.00 | 0.17 | 2.63 | 7.61 | 175.44 |
| *Santander Everyday Current Account* | 0.00 | 0.00 | 0.14 | 3.17 | 11.81 | 193.90 |
| *Santander 123 Current Account* | 0.20 | 0.79 | 2.15 | 4.89 | 11.04 | 199.01 |
| *Tesco Bank Current Account* | 0.02 | 0.06 | 0.28 | 1.01 | 2.96 | 131.34 |
| *TSB Classic Current Account* | 0.00 | 0.00 | 0.14 | 3.25 | 13.01 | 310.15 |
| *TSB Classic Plus Current Account* | 0.02 | 0.12 | 0.70 | 3.80 | 11.91 | 273.28 |

[2] Based on an R-squared of the differences in prices in the two datasets across the sub-set of products presented below.

2.10 The table below provides an overview of the difference between the monthly and transaction data in terms of the data and assumptions used. This explains why there may be differences between the two data-sets.

**Table 2** Comparison of data availability and assumptions in monthly and transaction data

| Data / assumption | Monthly data | Transaction data |
|---|---|---|
| **Unauthorised overdraft balance** | Assumes customer is either £10 or £100 over planned limit | Actual balance used |
| **Overdraft buffer** | Where the monthly average is over buffer, assumes all days were over the buffer | Actual time spent over the buffer used |
| **Monthly OD fees** | Included | Included |
| **Daily OD fees** | Included, but not tiered | Included |
| **Unpaid items** | Not included | Not included |
| **Paid items** | Not included | Not included |
| **Fee suppression** | Not included | Not included |
| **OD interest** | Included, but based on monthly average | Included, and based on actual balance |
| **Account eligibility** | Included, but not all eligibility criteria used and less accurate direct debit data | Included, but not all eligibility criteria used |
| **Credit interest** | Included, but not tiered as based on monthly average | Included, and based on actual balance |
| **Foreign transactions** | • Q4 scaled-up volumes<br>• Assumes £100 for each debit card transaction and £50 for each ATM withdrawal.<br>• Assumes all EU transactions | • Assumes all EU transactions<br>• Uses actual values and volumes |
| **Cashback** | Uses average per account for different account types | Applied to selection of identifiable transactions e.g. utility bills |

2.11 More detail on the implications of some of these differences is explained below.

(a) **Including overdraft balances**, both unauthorised and planned, means that actual debit interest and daily tiered fees can be calculated. This will improve the accuracy of results for products where fees depend on the level of balances or the interest- and fee-free amounts, such as First Direct and Halifax Reward. Currently the CMA's model only has days in overdraft, and therefore has to make rough assumptions on overdraft balances, how far customers are over their limit (either £10 or £100), and whether a customer is over their buffer. LBG noted in its Response to the Provisional Findings that some prices are very sensitive to these assumptions, with a 50% price change for Lloyds Bank depending on an assumption of £10 or £100 over a planned limit. Using transaction data would mean that the CMA would not need to make such assumptions.

(b) **Including daily balances,** rather than the monthly averages, means interest paid can accurately be calculated for products with tiered interest such as Club Lloyds and Santander 123. Other products – such as Halifax Reward – without tiered interest are currently treated more favourably under the CMA's current approach.

(c) **Including the actual value and volume of foreign transactions** means that assumptions are not required on the value of transactions, and the volume of transactions will accurately reflect the annual cycle of such transactions rather than being based on Q4 volumes only (as in the monthly data). However, even in the transaction-level data all transactions are still assumed to be made in the EU.

(d) **The value of cashback** is more accurate within the transaction data as cashback can be applied to a selection of identifiable transactions, such as utility bills. However, even with the transaction data, some cashback will be missed as it cannot be easily identified as eligible for cash back. This approach is still an improvement on the CMA's current model which uses an average cash back value per product. Such an approach ignores the distribution of cashback among customers and between customer segments.

(e) **Account eligibility** can be more accurately calculated with transaction data as the number of direct debits and standing orders can be identified. Under the CMA's approach, the number of customers eligible for some products is likely to be overstated.

*Include paid and unpaid item fees*

2.12 Neither unpaid nor paid item fees have been included in either the monthly or transaction data. Unpaid, or returned item fees ("**RIFs**"), are an important revenue stream for all providers. For example, Lloyds Bank generates [5-10]% of revenue from RIFs. Some providers also charge paid item fees ("**PIFs**"), fees paid if a customer makes a payment that takes them over a planned limit. Nationwide FlexAccount (which was the lowest cost product reported in the CMA's analysis) charges £15, equivalent to the charge for 3 days unplanned overdraft for a Lloyds Bank customer. Therefore, excluding these charges means that some providers will appear to have lower prices than they actually do. This could have a significant effect on prices for some providers.

2.13 LBG has included an estimate of RIFs and PIFs based on the publically available fees for each provider and an estimate of the volume of these fees based on LBG customer behaviour. However, there is scope for the CMA to use a more accurate measure based on the information it has on RIFs and PIFs as a revenue source for each provider.

2.14 The table below shows the estimated uplift in average price for each provider per month due to RIFs and PIFs. The uplift will vary across different customer segments.

**Table 3** Impact of RIF and PIFs on 'average price per provider'

| Brand | Average uplift in cost per month, £ |
|---|---|
| Lloyds Bank | 0.21 |
| Halifax | 0.00 |
| Bank of Scotland | 0.21 |
| Nationwide | 0.96 |
| M&S Bank | 0.00 |
| Tesco Bank | 0.40 |
| Metro Bank | 0.80 |
| Post Office | 0.31 |
| HSBC | 0.00 |
| Clydesdale & Yorkshire | 0.31 |
| Barclays | 0.17 |
| First Direct | 0.00 |
| Santander | 0.16 |
| The Co-operative Bank | 0.00 |
| Royal Bank of Scotland | 0.13 |
| TSB | 0.21 |

*Use the most recent market prices*

2.15 There have been a number of significant changes to pricing in the PCA market in recent months that are omitted from the CMA's analysis and are likely to affect its results. For example, Santander, which is the most switched-to brand in the market, has announced an increase in the price of its flagship Santander 123 current account from £2 to £5 per month. The CMA should use the most recent market prices so that the conclusions it draws can be more forward looking.

2.16 LBG has used the £5 monthly fee in its analysis of Santander and included the price cuts from RBS Reward. More recent price cuts from Co-operative Bank are not included.

*All account benefits should be treated on the same basis*

2.17 Account benefits are an important means of competitive differentiation that affect both price and quality attributes of PCAs, and the CMA is right to take them into account in its competitive assessment. They are also a key element of LBG's offer. However, the CMA's PCA pricing analysis in the Provisional Findings contained two significant flaws:

(a) the CMA included the benefits offered by some, but not all, providers; and

(b) where benefits were included, the CMA applied a face value to the benefit and did not account for the utilisation of the benefit.

2.18 This approach led to biased and unreliable results for some providers in the Provisional Findings. LBG welcomes the CMA's renewed attempt to update its analysis of account benefits. However, for the reasons set out below, LBG suggests that the CMA maintains a clear separation between pricing and account benefits to avoid the risk of continued misrepresentation of prices. (See LBG's separate response to the information request on account benefits).

### (b) Comparing the right prices

2.19 The CMA's method weights prices between products on the basis of the mix of existing products available for each credit turnover segment, rather than on the most likely comparator for each customer profile. For example, the model assumes that the 'price' of a Lloyds account for a Santander 123 customer with credit turnover of over £1,751+ is weighted against a Lloyds Classic account, rather than Club Lloyds.[3] This is a strong assumption to make and does not reflect the prices such customers would actually find were they to shop around and compare providers, in particular if customers used API-enabled tools such as midata. In reality, [35-45]% of switchers to Lloyds Bank across all segments move to Club Lloyds with balances that are [60-70]% higher on average.

2.20 The correct approach is to use the most likely comparison product for each brand for each customer. This will better represent the price that customers would be offered if they compared providers or switched to that brand. **This is the approach the CMA has taken in its analysis of BCA pricing and it should be used consistently.**

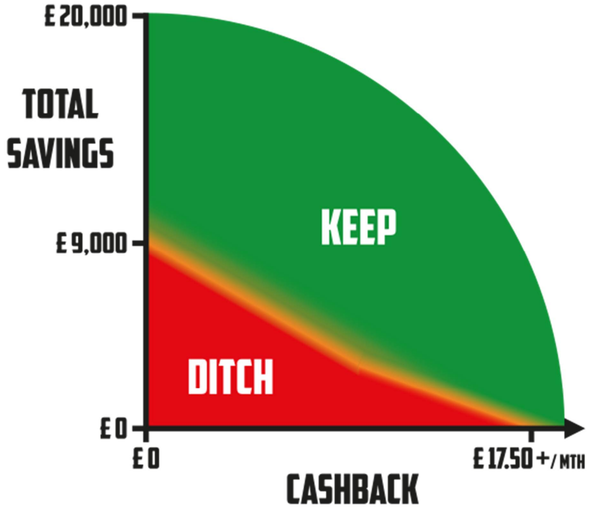
### (c) Compare like-with-like

2.21 'Average prices per provider' do not make economic sense and are too simplistic. Different products are designed in different ways to target specific customer segments and not others. This means few products or providers serve customers that are representative of the whole market. The CMA should not use 'average' prices per provider in its analysis, but should instead look across customer segments and draw its conclusions based on a complete picture of relative pricing in those different segments.

2.22 The CMA recognises the importance of segmentation in its analysis by using segments based on CTO and DDs. These are relevant dimensions and are used by most providers as eligibility criteria for certain products. But these segments are too narrowly defined and do not reflect other important segments in the market. Some products – including the Co-operative Bank's new Everyday Rewards – require customers to remain in credit and use digital banking. Products also target customers with higher balances. The figure below shows how Santander 123 targets customers by balance and cashback (earned through utility bills and mortgage payments), as calculated by Martin Lewis (see Annex 1 for full analysis).

3 This is the implied weighting from Table 6 in Appendix 5 of the Provisional Findings.

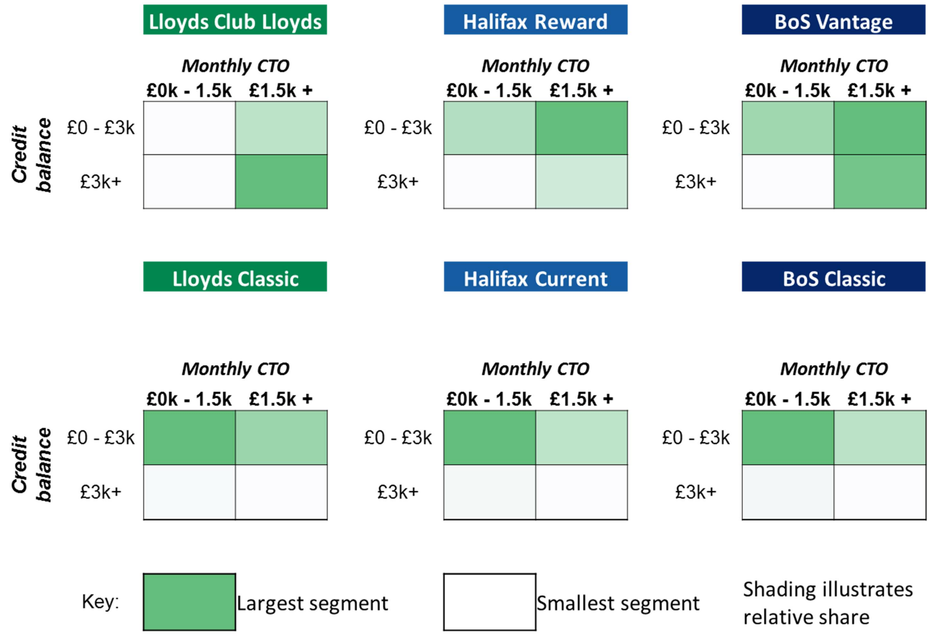
**Figure 4** Analysis of whether customers should "ditch or keep" the Santander 123 PCA




Source: moneysavingexpert.com, see Annex 1.

2.23 Products targeted at high balance customer segments will have a different mix of customers from those products that are not targeted at these segments. The figure below shows the different customer mix for LBG products. The price that customers of a particular product actually pay depends on the customer segment. If a product tends to have customer segments with higher balances it is not meaningful to compare its price with other products that tend to have customers in lower balance segments.

**Figure 5** Distribution of LBG customers by CTO and balance [redacted version]




Source: LBG tranche 3 data submission.

2.24 The CMA should include balance segments in its analysis, as well as its existing CTO segments. In LBG's analysis, four segments are used that correspond to those in the figure above – with CTO above/below £1500 and balances above/below £3000. This limited number of segments illustrates the importance of looking at these two segments, but the CMA may want to consider more granular segments across other dimensions.

2.25 Conclusions can then be drawn on which providers compete for which segments and what the relative prices are in each segment. This approach to assessing relative prices in each segment means there may not be a single answer as to whether a brand has high or low prices as this will depend on the segment. There is no shortcut to this segment-by-segment analysis as there is no meaningful way to calculate an 'average price per provider' across all segments.

## 3. PRICES USING AN ALTERNATIVE APPROACH

3.1 LBG has estimated average prices paid per provider for four customer segments based on a sample of LBG customers, following the approach described above.[4] The results show the importance of looking at prices by customer segment. There are significant differences in both absolute and relative prices both across different products within brands, and across different brands. The table below shows the characteristics of each of the four customer segments. The segments with lower CTO are heavier users of overdrafts and may not be eligible for all products in the market.

**Table 4** Monthly characteristics of each customer segment

| Customer segment | | | | | | |
|---|---|---|---|---|---|---|
| CTO | Credit balance | % of sample | Average credit balance | Average credit turnover | Average debit balances | Average days overdrawn (per month)t |
| < £1,500 | < £3,000 | [30-40%] | [£500-1,000] | [£0-1,000] | [£0-500] | [5-10] |
| £1,500+ | < £3,000 | [30-40%] | [£1,000-1,500] | [£3,000-4,000] | [£0-500] | [5-10] |
| < £1,500 | £3,000+ | [5-15%] | [£5,000-15,000] | [£500-1000] | [£0-100] | [0-5] |
| £1,500+ | £3,000+ | [15-25%] | [£5,000-15,000] | [£5,000-10,000] | [£0-100] | [0-5] |

### Results for average prices paid per provider

3.2 For each customer segment, the price paid for each brand in the market has been calculated using the approach outlined in the previous section. The transaction data did not contain information on paid and unpaid item fees and so an estimate of these has been added.[5] The table below shows the prices for each provider for each segment. Natwest and RBS have been combined as they have the same products.

4 The analysis was based on the same sample of LBG customers as shared with the CMA. LBG does not have access to data on customers from other providers.

5 See paragraph 2.13.

**Table 5** Comparison of five-year PCA prices paid by customer segment

| | CMA analysis | | LBG analysis | | | | |
|---|---|---|---|---|---|---|---|
| | | | *Average prices paid per provider by CTO/credit balance segments, £ per month* | | | | |
| | | | *CTO:* | *<£1500 p.m.* | *£1500+ p.m.* | *<£1500 p.m.* | *£1500+ p.m.* |
| **Brand** | **Average** | **CTO: £1,751+ DDs: 2+** | **Balance:** | **<£3000** | **<£3000** | **£3000+** | **£3000+** |
| Nationwide | -1.4 | -0.9 | | 2.3 | 2.2 | -0.3 | -1.4 |
| M&S Bank | -1.0 | -0.2 | | 0.9 | 1.7 | 0.2 | 0.7 |
| Tesco Bank | 0.9 | -0.3 | | 0.3 | 0.7 | -6.2 | -5.6 |
| Metro Bank | 1.2 | 1.6 | | 1.9 | 2.5 | 0.1 | 0.4 |
| Post Office | 1.6 | 2.4 | | 1.4 | 2.2 | 0.3 | 0.7 |
| HSBC | 2.9 | 3.2 | | 3.3 | 5.2 | 0.2 | 0.9 |
| Clydesdale & Yorkshire | 3.2 | 3.5 | | 6.9 | 5.8 | -1.9 | -1.3 |
| Halifax | 3.3 | 3.0 | | 3.4 | 0.9 | -2.6 | -4.2 |
| Barclays | 3.9 | 3.5 | | 2.3 | 3.2 | -0.4 | -1.2 |
| First Direct | 4.0 | 1.9 | | 4.9 | 1.7 | -0.8 | -0.6 |
| Santander | 4.1 | 4.2 | | 7.5 | 7.5 | -4.8 | -8.4 |
| The Co-operative Bank | 5.7 | 5.2 | | -0.3 | 0.7 | -1.4 | -0.8 |
| Royal Bank of Scotland | 5.7 | 6.0 | | 7.0 | 6.9 | 0.5 | 0.9 |
| Bank of Scotland | 6.5 | 5.6 | | 7.3 | 6.7 | -0.8 | -4.4 |
| TSB | 7.3 | 6.7 | | 4.6 | 4.2 | -2.4 | -3.7 |
| Lloyds Bank | 7.7 | 7.0 | | 7.4 | 6.7 | -7.1 | -9.1 |

3.3 These results reveal several insights into PCA pricing across different segments:

(a) Lloyds Bank has the lowest price in the market for customers with balances>£3000 and Bank of Scotland is 4th lowest when CTO>£1500 is also considered, but both have higher relative prices for customer segments with CTO<£1500. Halifax Reward is the 5th lowest priced in the market for customers with CTO<£1500 and lower balances<£3000. These relative prices are consistent with the level of switching to these brands.

(b) Santander 123, which is the most switched-to product in the market, was ranked 11th in the market in the CMA's analysis. For the higher balance>£3000 segment, Santander is ranked 2nd in the market in LBG's analysis even after the increase in its monthly fee to £5. Before its price increase it would have been the lowest priced for this segment, which explains why it has been the most switched to product since CASS was launched.

(c) Tesco Bank has a low average price across all segments. Its pricing is considerably lower than other products in the market. The CMA will need to consider whether these lower prices are sustainable because it is one of only a few providers without a branch network or because it is following a similar acquisition strategy to Santander with low initial prices which will then be raised.

(d) Some providers offer relatively low average prices in segments with balances<£3000 (e.g. Nationwide, Metro Bank and M&S), but not in other segments. This is to be expected given that, as explained above, different providers target different customer segments.

(e) The differences between each provider's average price for each segment are relatively small. The figure below shows the difference in average price per provider between providers for the largest segment of CTO<£1500 and balances<£3000. This shows that for customers of 10 brands, the average gain is less than £5 from switching to the lowest cost provider. Only customers of four brands could gain more than £5 by switching to any of the top 3.

**Table 6** Difference in average prices per provider for CTO<£1500 and balance<£3000 segment

| | The Co-operative Bank | Tesco Bank | M&S Bank | Post Office | Metro Bank | Nationwide | Barclays | HSBC | Halifax | TSB | First Direct | Clydesdale & Yorkshire | Royal Bank of Scotland | Bank of Scotland | Lloyds Bank | Santander | Natwest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| The Co-operative Bank | | | | | | | | | | | | | | | | | |
| Tesco Bank | 0.60 | | | | | | | | | | | | | | | | |
| M&S Bank | 1.21 | 0.61 | | | | | | | | | | | | | | | |
| Post Office | 1.68 | 1.08 | 0.47 | | | | | | | | | | | | | | |
| Metro Bank | 2.15 | 1.55 | 0.94 | 0.47 | | | | | | | | | | | | | |
| Nationwide | 2.53 | 1.93 | 1.31 | 0.85 | 0.38 | | | | | | | | | | | | |
| Barclays | 2.55 | 1.95 | 1.33 | 0.87 | 0.40 | 0.02 | | | | | | | | | | | |
| HSBC | 3.60 | 3.01 | 2.39 | 1.92 | 1.45 | 1.08 | 1.06 | | | | | | | | | | |
| Halifax | 3.62 | 3.02 | 2.40 | 1.94 | 1.47 | 1.09 | 1.07 | 0.01 | | | | | | | | | |
| TSB | 4.83 | 4.23 | 3.62 | 3.15 | 2.68 | 2.30 | 2.28 | 1.22 | 1.21 | | | | | | | | |
| First Direct | 5.21 | 4.61 | 4.00 | 3.53 | 3.06 | 2.69 | 2.67 | 1.61 | 1.60 | 0.38 | | | | | | | |
| Clydesdale & Yorkshire | 7.20 | 6.60 | 5.99 | 5.52 | 5.05 | 4.67 | 4.65 | 3.60 | 3.58 | 2.37 | 1.99 | | | | | | |
| Royal Bank of Scotland | 7.28 | 6.68 | 6.07 | 5.60 | 5.13 | 4.75 | 4.73 | 3.67 | 3.66 | 2.45 | 2.07 | 0.08 | | | | | |
| Bank of Scotland | 7.61 | 7.01 | 6.40 | 5.93 | 5.46 | 5.08 | 5.06 | 4.00 | 3.99 | 2.78 | 2.40 | 0.41 | 0.33 | | | | |
| Lloyds Bank | 7.68 | 7.08 | 6.46 | 6.00 | 5.53 | 5.15 | 5.13 | 4.07 | 4.06 | 2.85 | 2.46 | 0.48 | 0.40 | 0.07 | | | |
| Santander | 7.79 | 7.20 | 6.58 | 6.11 | 5.64 | 5.27 | 5.25 | 4.19 | 4.18 | 2.97 | 2.58 | 0.59 | 0.52 | 0.19 | 0.12 | | |

**Key**
Difference in average price

- <£2
- £2 to £5
- >£5

### Average revenue per provider shows where the value is in the market

3.4 The CMA's current pricing analysis focussed on **average prices paid per provider** across the market in terms of the monthly cost faced by customers. Looking at average prices per provider provides an understanding of how much customers are paying directly for their accounts.

3.5 However, this measure excludes a large proportion of PCA revenues (around 40%) made up by credit balances and interchange. Including this additional revenue provides a measure of **average revenue** per provider. Considering both average prices and average revenue per provider are required to understand where value lies in the market.

3.6 Looking at average prices paid per provider will underestimate the value to providers of having customers with high credit balances, for instance. Income from credit balances varies significantly between customer segments. For example, within LBG's book, Club Lloyds customers have an average credit balance of almost [£5,000-15,000] compared to [£2,000-5,000] for Classic customers. Ignoring these differences will distort relative prices between segments, may affect the weighting of different segments in calculating average prices per provider, and underestimate the revenue providers receive from high balance customers.

3.7 The CMA is correct that including these revenues will not change the relative prices *within* a customer segment. However, it does affect how the results can be interpreted, particularly by outside commentators. Negative prices paid which occurs when excluding value of funds is likely to compound concerns about customer understanding of 'free banking' and suggests some providers are loss-making.

3.8 It is relatively straightforward to add these revenues to the CMA's results to give a complete picture of absolute prices. LBG has attempted to do so and the results are presented below.

**Table 7** Comparison of five-year PCA revenue by customer segment

| | CMA analysis | | LBG analysis<br>*Average revenue per provider by CTO/credit balance segments, £* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *CTO:* | *<£1500 p.m.* | *£1500+ p.m.* | *<£1500 p.m.* | *£1500+ p.m.* |
| **Brand** | **Average** | **CTO: £1,751+ DDs: 2+** | **Balance:** | **<£3000** | **<£3000** | **£3000+** | **£3000+** |
| Nationwide | 5.1 | 11.5 | | 3.8 | 4.4 | 17.1 | 18.1 |
| M&S Bank | 5.5 | 12.2 | | 2.5 | 3.9 | 17.6 | 20.1 |
| Tesco Bank | 7.3 | 12.1 | | 1.9 | 2.9 | 11.1 | 13.9 |
| Metro Bank | 7.6 | 14.0 | | 3.4 | 4.7 | 17.4 | 19.8 |
| Post Office | 8.1 | 14.8 | | 2.9 | 4.4 | 17.6 | 20.2 |
| HSBC | 9.3 | 15.6 | | 4.9 | 7.4 | 17.6 | 20.3 |
| Clydesdale & Yorkshire | 9.7 | 15.9 | | 8.5 | 8.0 | 15.5 | 18.2 |
| Halifax | 9.7 | 15.4 | | 4.9 | 3.1 | 14.7 | 15.2 |
| Barclays | 10.4 | 15.9 | | 3.8 | 5.4 | 16.9 | 18.3 |
| First Direct | 10.5 | 14.3 | | 6.5 | 4.0 | 16.6 | 18.8 |
| Santander | 10.6 | 16.6 | | 9.1 | 9.7 | 12.6 | 11.0 |
| The Co-operative Bank | 12.1 | 17.6 | | 1.3 | 2.9 | 16.0 | 18.7 |
| Royal Bank of Scotland | 12.1 | 18.4 | | 8.5 | 9.1 | 17.9 | 20.3 |
| Bank of Scotland | 13.0 | 18.0 | | 8.9 | 8.9 | 16.6 | 15.1 |
| TSB | 13.7 | 19.1 | | 6.1 | 6.4 | 14.9 | 15.8 |
| Lloyds Bank | 14.2 | 19.4 | | 8.9 | 8.9 | 10.2 | 10.4 |

Note: Prices include revenues from net balances based on value of funds of 2.42%.

3.9 The results show the importance of including the value of funds. Even for Lloyds Bank, which has the lowest prices in the higher balance segments, the average revenue per customer is greater for these customers. For some providers that offer low pricing in the lower balance<£3000 segment, they can generate over four or five times more revenue in the higher balance>£3000 segment where they have relatively higher prices, Nationwide generates average revenue of **£3.80** in the CTO<£1500 and balance<£3000 segment, but **£18.10** in the CTO>£1500 and balance>£3000 segment.

## 4. OTHER ISSUES RELATED TO PRICING AND REVENUE

4.1 LBG has further comments on two issues related to pricing and revenue.

(a) first, LBG has undertaken analysis of changes in customer value over time since the Provisional Findings were issued. This is relevant for the CMA's understanding of the gains from switching and the targeting of certain customer segments; and

(b) second, LBG responds to points discussed at its individual hearing relating to market shares by value rather than volume.

### (a) Customer gains from switching do not persist over time

4.2 The CMA has provisionally found that some customers had a lot to gain from switching, over £250 per year for the heaviest overdraft users. However, this is based on a static assessment of the market and customer behaviour and assumes that a customer's behaviour is the same every year.

4.3 Customer behaviour and its subsequent value to providers, changes from year to year. This has two important implications:

(a) first, customers that have high gains from switching in one year will not necessarily have the most to gain in subsequent years. This is important as looking at gains based on one year of data is likely to overestimate customer gains over time, and remedies should be targeted at customers with persistent high gains; and

(b) second, looking at how a customer's value changes over time also shows that banks must continually compete to gain revenue. As well as trying to gain new customers, banks need to work hard to continue to generate revenue from existing customers. This is evidenced by both the account volume- and value-based attrition presented below. This means that looking at just external and internal switching volumes is likely to underestimate the amount of movement, in value terms, in the market.

4.4 LBG has conducted a dynamic analysis of customer value which demonstrates how customer value changes from year to year. LBG looked at a single cohort of customers with active accounts in 2011 and segmented them into income bands. The customers' income was tracked over time until 2014 to see how many customers moved up and down bands.

4.5 The analysis suggests that customer value changes substantially over time. The majority of accounts move down income segments over time or close, and customers are less likely to move up income segments. This is likely to overestimate any long term gains from switching for the majority of customers. This movement between income groups would also not be reflected in any external or internal switching volumes.

4.6 Across all income groups, [✂]% of accounts moved down an income group or closed their account by 2014, and only [✂]% of accounts moved up. Value based attrition was higher as [✂]% of accounts weighted by value moved down or closed.

4.7 Value attrition was greatest for the high income group. This suggests that high income customers are the most difficult to retain for banks. Figure 6 below shows the drop in income of the highest income group (£300+ per year) each year. There is a steady drop in the number of customers in the high income group each year, such that only [30-40%] remained in 2014. Whilst [10-20]% had closed their account, another [40-50]% had moved down an income group. This was only partially offset by movement of accounts the other way.

**Figure 6** Change in income each year for highest income group (£300+ per year)

[✂]

### (b) Market shares by value

4.8 LBG has argued throughout the investigation that it is important to look at value shares across the market, and not just volume.

4.9 Whilst the CMA has looked at market concentration by value, it should also consider other analysis in value terms, such as market shares when measured by value drivers. For example, credit and debit balances, account usage or credit turnover. To the extent that providers are targeting different customer segments, LBG would expect that this analysis would provide an interesting additional perspective on the market.

4.10 It is also important to understand how the value shares of the smallest providers have changed over time, and if and how these differ from volume shares. Understanding how quickly small providers have expanded when measured by value would provide an additional perspective on how the market is developing. LBG would expect that the smallest providers are likely to be gaining the most valuable customers in the market. The CMA could test this hypothesis with further analysis. This could help the CMA to provide an additional perspective to expansion in the market, rather than just focussing on volume shares.

## ANNEX 1: MARTIN LEWIS ANALYSIS OF SANTANDER 123

*This article was published on 5 January 2016 at www.moneysavingexpert.com.*

**Santander 123 fee's more than doubling – should you ditch it?**

Santander 123 is the UK's most switched to bank account – due to the high interest paid on savings, and cashback given on bills. Yet last September to much dismay from its customers it announced plans to increase the monthly fee by a whopping 150%.

Now that change is about to hit. On Monday (11 Jan) the Santander 123 fee rises from £2 per month to £5 per month (so £24 to £60 a year). This of course reduces everyone's returns, and many aren't happy, take the following tweets that I got over the last few months.

> @emmawaterworth1: "@MartinSLewis Just switched to this account three weeks ago so not impressed with the increase! Feel a bit cheated.
>
> @BJamesMason91: "@MartinSLewis A lot less I would imagine now! Only just moved as well. Tempted to move again!"
>
> @humphbecket: "@MoneySavingExp @santanderuk This means the 123 account will no longer be competitive so I will be moving come January."

So does it merit this vitriol? Of course no one likes fee hikes, but that in itself isn't a reason for leaving if there's nothing else better out there. So let me take you through it step by step.

Some of you may recognise some of the content here as I first blogged on this after the announcement last September. Yet I wanted to update it to show you how Santander compares to the best products available right now.

### What does the 123 account offer?

**There are two benefits of Santander 123, though very separate, the key to the account is combining them.**

Cashback on bills paid via the account. This can be a substantial amount – a fair proportion of people earn over £500 a year from it. It pays 1% on water, council tax and Santander mortgage payments (up to £10/month on mortgage), 2% on gas and electricity and 3% on phone, broadband, mobile and TV.

- However this only works if this is the account you pay all your bills from – so shift them to here. If you don't pay bills (e.g. parents or partner does) and it's not appropriate for them to be paid from your account, it's far less attractive.

  As for what alternatives there are – the nearest equivalent is NatWest's Reward Current Account pays 3% cashback on the similar household bills, for a £3/month fee, but doesn't offer any interest on the account.

- High interest on up to £20,000 savings. It pays 3% interest if you've £3,000 to £20,000 in it. While other top bank accounts pay higher rates of interest – some up to 5% – all the rest only do this on a maximum £5,000 in them (some far lower than that). The real gain from Santander is you can save far more at the top rate.

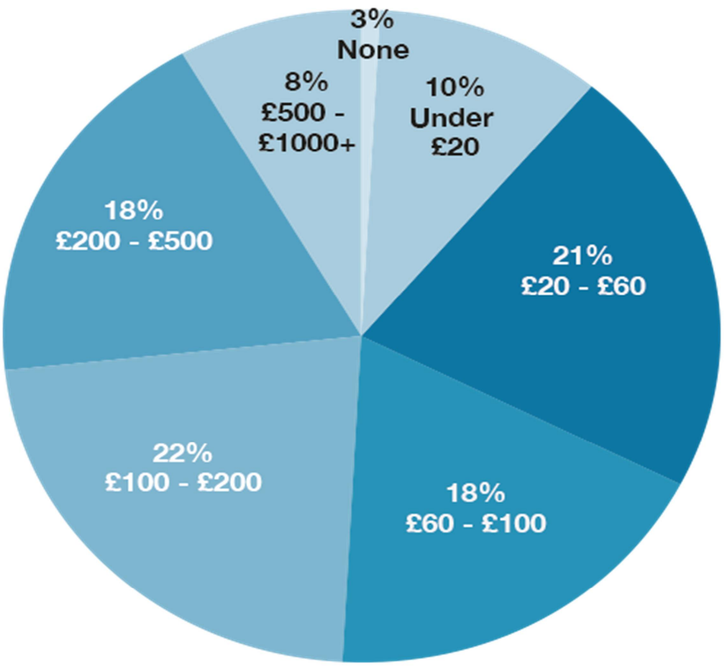
While 3% doesn't sound much, in this day and age it beats every normal savings account, and every easy–access cash ISA even after basic tax. Plus work it right (see how) and you and your partner can put £20,000 in an account each and then have a joint account – so that's up to £60,000 shared as a couple.

### Does it still stack up with the new bigger fee?

There are a number of ways to look at this, but I'll keep it simple. As the account is an outright winner on savings interest alone, if the cashback you get covers the fee, it's still worth it.

While I could do lots of calculations on this, the best way to assess it is just to ask existing users what they earn. So I asked, and since September over 2,600 have responded in my Santander poll.

**Poll results: How much cashback do you earn from a Santander 123 account?**




The numbers show 87% of people earn enough cashback to cover the current fee, only 66% do with the new fee. Yet still that's more than three in every five people.

The median average amount of cashback that the people we polled make is between £100.01 and £150 per year and one in five said they're getting over £300 cashback per year.

So, for the majority, the cashback covers the new fee and more.

### Looking at the savings rates in isolation

So we now know for most people the cashback alone covers the fee, yet if we now assume for some reason you made no cashback, is Santander 123 still worth it just for the savings interest?

**How Santander 123 after fee compares to other top easy–access savings**

| ACCOUNT | ON £5,000 | | ON £10,000 | | ON £20,000 | |
|---|---|---|---|---|---|---|
| | Basic rate taxpayer | Higher rate taxpayer | Basic rate taxpayer | Higher rate taxpayer | Basic rate taxpayer | Higher rate taxpayer |
| Santander 123 at 3% (after £60 fee) | £60 | £30 | £180 | £120 | £414 | £296 |
| Club Lloyds at 4% | £157 | £118 | £157 | £118 | £157 | £118 |
| ICIC Bank at 1.65% | £66 | £50 | £132 | £99 | £264 | £198 |
| Post Office at 1.51% | £76 | £76 | £151 | £151 | £302 (1) | £302 (1) |

Grey highlighted boxes indicate which account wins in each scenario. (1) Money would need to have accumulated in more than one tax year.

For basic-rate taxpayers, the cut off point where Santander is a clear winner, even with the higher fee is £9,000 or more. This is compared to the bank account paying high interest on the next largest amount (unless you're prepared and capable of playing the market by opening multiple accounts (see the Savings Loophole).

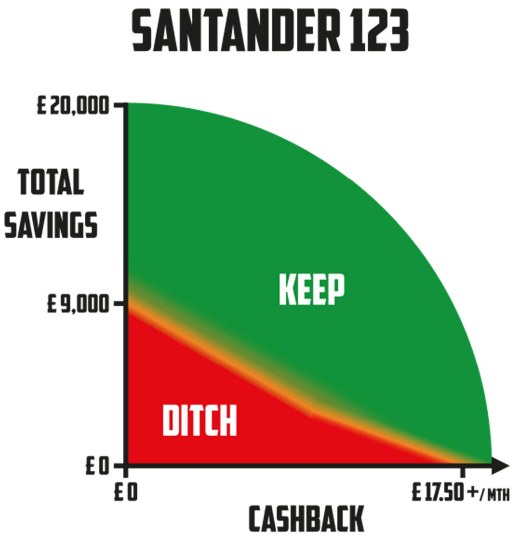
For higher-rate taxpayers, the top easy–access cash ISA from the Post Office does just scrape ahead of Santander on interest alone even if you can put £20,000 in it (which, would need two years' of ISA allocations to get).

Yet crucially from 6 April, all basic-rate taxpayers will be able to earn £1,000 tax free interest (higher-rate £500). That means for most people the interest from Santander will be tax-free. When that happens it beats everything else once you've around £8,600 in it. Below that and Lloyds wins. So even though the ISA beats it for higher rate taxpayers for now, that's only for the short term.

### So who should keep the account?

Few people who chose this account will either be earning interest without cashback or vice–versa; if you do, the sums above are pretty clear.

Yet most people get a combination of the two. If that's you, then I've gone ultra nerdy and drawn up a graph to help you decide at what point you should ditch or keep the account.




Going up the graph is the amount of savings you have and along the bottom is how much cashback you need to earn. If you're in the green – so you have savings over £9,000 and earn no cashback or have less savings but make a lot of cashback – then the account's a clear winner for you.

In fact, as a very rough rule of thumb, the account's still a winner if you have more than £5,000 of savings (£10,000 if a higher–rate taxpayer) and earn some cashback, even if it is not quite enough to cover the £60 annual fee. So while it is always frustrating when banks put their fees up, for most who chose it for the right reasons in the first place, Santander is still head and shoulders above anything else out there. If you are annoyed at the rise, the best thing to do is gnash your teeth, growl a little and weep for the wonders of the low fee that was, but be careful not to bite off your nose to spite your face by leaving to punish it.

If you are in the red then it's worth ditching as there are better options elsewhere. If you've no (or very small) savings, and make less than £150 cashback elsewhere, you may want to look at the short term gain of switching to an account that gives you a switching bonus. Here's a quick table of those.

**Top free cash bank switching bribes**

| ACCOUNT | INTRO OFFER AND OTHER BENEFITS |
|---|---|
| First Direct | **Free £150**, no.1 cust service, £250 0% overdraft, 6% regular saver |
| M&S Bank | **Free £100 M&S gift card** + pays £10 each month, £100 0% overdraft, 6% regular saver |
| Halifax | **Free £100** + pays £5 each month you're in credit |
| HSBC | **Free £120**, 4% regular saver |

## ANNEX 2: HOW PRICES WERE ESTIMATED

1. The analysis of prices was conducted on the sample of customers that LBG provided for the CMA. This sample includes 26,000 active accounts in total, including customers from each of LBG's brands. These customers are representative of the underlying customer mix. The analysis was conducted only for customers on non-packaged and non-basic accounts. The table below shows the number of customers from each brand in the sample that was used.

**Table 8** Number of customers used in analysis

| Lloyds Bank | Bank of Scotland | Halifax | Not used (packaged or basic) | Total |
|---|---|---|---|---|
| 7,722 | 3,778 | 6,620 | 7,729 | 25,849 |

2. LBG contracted Runpath Digital Ltd (Runpath) to calculate prices for each product in the market for each customer – around 4 million combinations. The Runpath team used by LBG was a separate team from that used by the CMA and did not have access to the data or results of the CMA's analysis. Runpath used two models to calculate prices for each customer/product combination.

   (a) The 'CMA model'. This is the same model used by the CMA for the analysis in its Provisional Findings. This model uses monthly data.

   (b) The 'LBG model'. This model uses midata files and applies the same Runpath algorithm that is used on the gocompare.com website.

3. LBG provided the data to Runpath for both models. The monthly data was the same as submitted to the CMA for its tranche 3 transaction data request. LBG provided the midata files for each of these customers to be used in the LBG model.

4. The calculation of prices for each product in the market requires a large amount of price information and idiosyncratic calculations for each product. Although every attempt has been made to ensure these results are fully representative of what each customer would pay, there may be instances where the calculations are not correct. **Some adjustments were therefore made to the Runpath output for some providers.** These adjustments replaced the model output for unplanned overdraft daily charges with a calculation based on the reported daily charges and the number of unplanned days, ignoring any interest-and-fee free amounts. The analysis of the model output was conducted by Frontier Economics on behalf of LBG.