Competition & Markets Authority Retail Banking Market Investigation: Notice of Possible Remedies – Virgin Money Responses to Questions

Measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers

Remedy 1 – Prompt customers to review their PCA or BCA provider at times when they may have a higher propensity to consider a change.

(a) Is the general approach of this remedy (making use of 'trigger points') likely to be effective in prompting customers to consider changes in current account provider?

We recognise that the 'evergreen' nature of PCAs means that customers are not prompted to consider searching and switching in the same way that they are, for example, in motor insurance, which must be renewed annually. However, we do not think that the proposed prompts will lead to a significant increase in switching, particularly by customers, including those with overdrafts, who may be less affluent and less financially literate, and less likely to switch.

The CMA itself reports, in paragraph 7.56 (a) of its *Provisional findings report*, the FCA's finding that, "annual summaries, as designed by the banks, had no effect on consumer behaviour when considering whether they incurred overdraft charges, altered balance levels or switched to other current account providers".

We note the CMA's suggestion that messages delivered through prompts could be designed to guide, remind or warn customers, and we also note the examples it provides of possible types of message. However, given the prominence of prompts within the CMA's package of possible remedies, we think it would be helpful for the CMA to provide greater detail on the content/data that it envisages being contained within messages delivered through prompts.

If the CMA wishes to address the lack of prompts because of the evergreen nature of PCAs, we suggest that a more appropriate remedy might be to require PCA customers to renew their PCA every few (say, five) years.

(b) Is there, nonetheless, merit in requiring periodic reminders or messages in respect of particular patterns of account usage, for example to bring to customers' attention the cumulative costs to them of unarranged overdrafts?

Given the lack of transparency regarding fees and charges in the market, we think that prompting customers in respect of costly account usage patterns could be more effective than making use of trigger points such as branch closures or technical failures which the majority of customers would have noticed themselves.

(c) Do the occasions or situations identified in paragraph 34 represent points at which BCA and PCA customers are likely to be receptive to messages prompting them to consider changing their banking arrangements?

As noted above, we are doubtful that this remedy is likely to increase the numbers of customers who switch providers. We note that RBS and LBG do not appear to have lost many customers, despite the significant financial and technology problems they have experienced during and since the financial crisis, which have received considerable media attention and, in the case of IT failure, inconvenienced many thousands of customers.
If this remedy is to be implemented, sufficient care must be taken to leave no room for ambiguity in how each trigger point is defined, in order to avoid the risk that banks interpret specific trigger points in different ways. There may, for example, be practical difficulties associated with precise definitions of matters such as 'major disputes' and 'serious or widespread loss of service'.

In addition, we are concerned that trigger point (f), relating to overdraft charges, could be open to different interpretations. We think this trigger point should be defined as a material change in overdraft charging or the introduction of new fees – not just customer behaviour triggering existing charges. The latter could lead to the overuse of this trigger, resulting in alerts that become so frequent that they end up being ignored by the customer.

(d) Are there any other trigger points at which customers would be especially disposed to consider changing their current account provider?

The proposed trigger point relating to complaints only refers to "major disputes". We think that consideration should be given to broadening this trigger point so that it covers PCA-related complaint levels overall (perhaps when a certain threshold of complaints per 1000 customers is reached) and where there is a high incidence of complaints relating to specific or common themes. In addition, we think that consideration should be given to a requirement for banks with persistent poor performance in relation to complaints, customer satisfaction levels, Net Promoter Score (NPS) or Treating Customers Fairly (TCF) to alert customers to the ease of switching to another provider.

(e) To what extent should messages advise customers to actively consider an alternative provider? Should they, for example, draw attention to specific better-value accounts available from other providers? Should they link to sources of comparative information such as price comparison websites (PCWs)?

Given the constantly changing landscape of the PCA market, it is neither practical nor reasonable to expect banks to promote specific competitor products. In our view, it would make more sense to steer customers towards sources of comparative information, but these need to be supported by appropriate tools to aid comparison that cover individual customer behaviour and that reflect more than price.

(f) What types or combinations of customer communication, for example letters, texts, emails, are most likely to be effective in prompting customers to consider changing their banking arrangements? Is this likely to vary with the nature of the event or the type of customer?

Communication should be in line with whichever channel individuals have asked to be contacted by their bank. We think that this should always be the customers' choice – not the banks' or regulators'.

(g) Who should determine when a 'serious or widespread loss of service' had taken place?

We suggest that the FCA should make the determination as to when a 'serious or widespread loss of service' has taken place. We think that banks should then have to contact all affected customers in the event of any service failure. Such an event should be a trigger event <u>for these customers</u> to receive a prompt. However, when a certain level of materiality is reached in relation to a service failure (potentially expressed as a percentage of total customers affected for any period of time), we think this should act as a trigger for <u>all PCA customers</u> of that bank to receive a prompt on the ease of switching.

(h) In situations where the provider is responsible for sending the message/prompt, should the content and presentation of the messages concerned be standardised, specified or approved by a regulator?

It would be important to get an appropriate balance between standardised wording, which can often sound legalistic, and smarter communications, in language that makes sense to customers and that supports customer engagement. While the content of messages/prompts should be approved by the regulator, or compliant with pre-agreed guidelines, we think they should, otherwise, be individual to the bank concerned, so that they are consistent with other customer communications.

(i) Alternatively, would it be practicable and proportionate to require providers to facilitate access to relevant customers by the regulator(s), intermediaries or others?

In our view, this option would be neither practical nor desirable.

(j) What obligations should be placed on firms to support, including financially, compliance monitoring, for example through mystery shopping or the procurement of third party compliance auditing? Would the FCA or the CMA be the most appropriate body to do so? If not, who? Who should monitor compliance?

One option for ensuring compliance with this remedy, while also avoiding an additional regulatory compliance burden for all banks (which would not be in customers' interests), might be to extend TCF to include compliance with this remedy, monitored by the FCA.

(k) What, if any, are the practical, technical or regulatory barriers (given the potential overlap with, for example, the PAD and PSD) to the implementation of this remedy?

We do not see significant barriers to implementing the concept of customer messages/prompts at certain pre-defined trigger points, provided a reasonable implementation timescale is adopted. As the Current Account Switch Service (CASS) is a designated alternative to switching services mandated by the Payment Accounts Directive (PAD), there is already a mechanism for avoiding conflict with this remedy.
We support the principle outlined in the PAD which mandates all banks to provide a full switching service under CASS, although we have some concerns that PAD compliant switches may be required for account types other than current accounts (e.g. savings accounts) and that the full implications of this may not have been considered.

The FCA will be responsible for compliance with the Payment Accounts Regulations 2015 and we agree that this is appropriate.

Given that PSD2 will require PCA customers' payment account information (subject to customer consent) to be opened up to third party payment service providers (PSPs), it is important that this remedy makes clear that the trigger points relate to a customer's PCA only. Customer detriment caused, for example, by an IT breakdown suffered by a third-party PSP should not trigger any action on the part of the PCA provider.

Remedy 2 – Increase public awareness of the potential savings or rewards that could be obtained by changing one's current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience

(a) On what scale and over what period would it be necessary to conduct promotional activity to sufficiently increase awareness of the potential benefits of switching and confidence in the switching process?

The introduction of CASS has not resulted in a sustained increase in switching, and we do not think that promoting it more will make a significant difference to switching.

Recent CASS figures show that, in Q3 2015, switching was down 12% on switching in Q3 2014. This followed recent spend of £4.5m on driving awareness of CASS, demonstrating that even large scale investment across multiple media and channels is not necessarily the way to engage customers to switch accounts.

We believe that a principal reason for low switching is the complexity and opacity of PCA pricing under the free-if-in-credit (FIIC) banking model. As the CMA recognises, this model makes it very difficult for consumers to understand the true cost of their PCA charges and interest foregone, and even more difficult to assess what the true cost would have been if they had used a PCA from another provider.

We remain of the view that Account Number Portability (ANP) would be more effective than an improved CASS in overcoming customers' concerns about switching being problematic or difficult, and that a combination of a move away from FIIC banking and the introduction of ANP would lead to real change in the PCA market.

(b) What indicators should be used to evaluate the effectiveness of CASS promotional activity?

We do not think that renewed or increased promotional activity will make a significant difference to switching levels. However, if this remedy were to be implemented, we suggest that the following indicators should be used to evaluate the effectiveness of CASS promotional activity:

- The direct volume of switches in the 3 month period during and following the campaign;
- Spontaneous awareness of what CASS is and means; and
- Customer confidence in the CASS service.

(c) What specific obligations should be placed on current account providers in terms of including references to CASS in their marketing communications to customers?

We think that providers should be encouraged to include the CASS logo on sales materials, as well as on correspondence which might lead customers to consider moving away from their current provider, such as final complaints correspondence, account closure letters, and pre-notification of charges letters.

(d) Are there lessons we can learn from other sectors where switching rates have been low and where generic advertising has been undertaken to try to increase customer engagement?

We are not aware of examples of generic advertising undertaken in other sectors where customer switching is low. In the energy market, we understand that it has been activity such as energy incentives, pricing campaigns/promises and considerable investment on the part of aggregator/comparison sites (with much to gain) that has increased switching volumes, rather than a generic advertising campaign. In the mobile telephony market, customer switching has been encouraged by the introduction of mobile phone number portability, rather than by a campaign to encourage switching.

(e) Are there particular customer segments or trigger points that should be targeted by such campaigns, in addition to those mentioned here?

We are doubtful that the use of prompts, or investment in the promotion of CASS, will lead to a significant increase in PCA switching. However, if these remedies were to be implemented, we suggest that the following two customer segments should be a focus of promotional activity, given that they both stand to benefit the most from switching:

1) Customers who are overdrawn or in financial difficulty
2) Customers with strong credit balances currently earning 0% or close to 0%

(f) How should an increase in promotion be funded? If from current account providers, on what basis should they be expected to contribute? Should, for example, contributions be based upon current market shares of PCAs and BCAs or the net gains by each bank through CASS or a mixture of the two?

If an awareness-raising campaign were to take place, notwithstanding our doubts about how effective it might be, we think it should be funded on the basis of market shares.

(g) Who should undertake such campaigns and who should be responsible for ensuring that they were effective, targeting appropriate customer groups, at relevant times with effective communications?

To the extent that promotion of the service is merited over and above banks' promotion of their specific propositions, we suggest that an agency appointed by Bacs and paid on performance should be responsible for undertaking such a campaign, with oversight of the campaign residing with the CASS Management Committee.

Measures to facilitate comparisons between providers

Remedy 3 – Facilitate price comparisons between providers by making customer-specific transaction data more easily available and usable, including by PCWs

A basic problem with PCA product comparisons is that, given the complexity and opacity of pricing under the FIIC model, comparisons are very difficult – especially given the limited degree of financial literacy of many ordinary people using PCAs. (We note that the consumer research which informed the recently-published UK Financial Capability Strategy found that 36% of the UK population cannot calculate the impact of a 2% interest rate on £100 in savings, and that 22% cannot read a bank statement.)

Midata is, at present, not easy to use. Also, we note the concerns raised by the Treasury Committee that consumers may become increasingly worried about the possible security risks of sharing personal information (needed to compare PCAs) to comparison tools, including any provided by PCWs.

(a) How quickly could the proposed enhancements for Midata, including agreement on a common API standard, be implemented? To what extent, if at all, would this be constrained by other legislation, in particular the payment services directives?

The work being undertaken by the Open Bank Working Group and the domestic implementation of PSD2 will, we think, drive the timetable for implementation of the proposed enhancements to Midata.

(b) Are the proposed improvements to the features and functionality of Midata set out here those most likely to be helpful to potential users? Are there other improvements which would be as or more helpful and if so, what are they? Could, for example, Midata be used to highlight aspects of an account holder's usage which are likely to vary significantly between providers but which are particularly difficult to compare, such as overdraft charges?

The improvements proposed to the features and functionality of Midata should, we think, enable some customers to access information about their account usage more easily than the current process of locating and obtaining the information online, downloading a file, and then uploading this file into Midata, which is cumbersome and difficult for customers.

One possible area of improvement could be for Midata to have the capability to identify the most important driver for switching for a customer based on their current transactional data, and to present results/information on that basis – for instance, the key driver for an overdrawn customer would be lower fees for overdrafts, while customers with higher balances might be particularly interested in accounts providing high interest rates on credit balances.

However, we are doubtful that this remedy would materially increase the engagement of those customers who may stand to gain the most from searching and switching, without significant simplification of the service.

(c) What technical or regulatory obstacles, if any, are likely to be faced by PCWs wishing to host the Midata service? Are, for example, banks' terms for SMEs sufficiently transparent for PCWs to be able to populate their systems? Are there improvements to the current format and content of Midata files that would facilitate more effective use by intermediaries such as PCWs?

As we are not an active participant in the Midata initiative at present, we are not able to answer these questions.

(d) For the remedy to be effective, would it be necessary to adopt supporting measures to ensure that the benefits of using Midata on PCWs were promoted? Who should be responsible for raising awareness of the benefits of using Midata for account comparisons?

We suggest that any awareness-raising activity regarding the benefits of using Midata on price comparison websites (PCWs) for account comparisons should be led by the PCWs themselves.

(e) Is it necessary to require providers to make customers' Midata files easier to locate on their online and mobile banking websites or would this be unnecessary if banks adopted common API standards?

Under the existing Midata service, PCA providers should be required to make customers' Midata files easier to locate as they are not easily accessible or particularly user-friendly.

However, these difficulties should be removed, or at least reduced, once common API standards are introduced, as these will enable consumers to more easily and readily import their bank data into third-party comparison tools / apps.

(f) What technical difficulties, if any, would arise from adopting the Midata data standards for BCA transaction histories? In what respect do they differ from those associated with PCA information? Does this differ between SMEs?

As we are not active in the SME banking sector at present, we are not able to answer these questions.

(g) Should Midata be available for all SMEs? Should there be an upper turnover limit for SMEs with access to Midata? If so, where should this be set?

As we are not active in the SME banking sector at present, we are not able to answer these questions.

(h) Are there other approaches to facilitating price comparisons between BCA and PCA providers that would address our concerns but be implementable sooner? Could existing measures to address some of these concerns, for example the use by the larger banks of standard scenarios to present unarranged PCA overdraft charges, be improved or extended and if so how? Are there other elements of bank charges that should be made easier to understand through the introduction of new, or the enhancement of existing, measures?

We do not believe there are other approaches to facilitating price comparison between providers that would address the CMA's concerns and be able to be implementable sooner.

We believe that standard overdraft scenarios could be used more effectively to support consumer understanding of the costs associated with PCAs. At present, these scenarios can be hard for consumers to locate. There may be merit in considering whether these scenarios could be aggregated by PCWs to give consumers a cross-market view of the potential charges associated with overdrafts.

We note the recent launch by the Council of Mortgage Lenders and Which? of a new 'tariff of mortgage charges', which introduces a standard format for how lenders communicate their fees, to make it easier for customers to understand and compare the cost of different mortgages. We think consumers' understanding of current account services, and their ability to make more informed choices between current accounts offered by different providers, could, similarly, be supported through the use of standardised terms and definitions for services linked to accounts that are easier to understand. We support the development of standardised terms and definitions as part of the implementation of the PAD, and think that the use of standardised terms and definitions should help to increase customer engagement.

(i) How could it be made easier for customers who lack internet access or IT skills to make price comparisons between providers?

For consumers who currently lack internet access or IT skills – and are therefore unable, or less well placed, to take advantage of PCWs or new product comparison services facilitated by the development of common API standards – there may be a case to consider if scope exists for an appropriate third-party organisation to offer telephone-based support with price comparison. However, it could be very expensive, as has been the case for the Money Advice Service's face-to-face services. We believe that customer engagement is likely to be improved by encouraging the move to internet banking, and we note that the FCA observed, in its recent paper *Regulatory barriers to innovation in digital and mobile solutions that* 'Mobile solutions could be a tool to help reduce financial exclusion in the UK'.

Remedy 4 – A PCW for SMEs

As we are not active in the SME banking sector at present, we are not able to answer these questions.

<u>Measures to facilitate comparisons between providers</u>

Remedy 5 – Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality

Many reviews of PCA banking have commented on the 'effective oligopoly' of the large incumbent banks, which, as the CMA notes in its provisional findings, are perceived by many customers to be very similar to each other. We note that paragraph 7.51 of the *Provisional findings report* comments: *'Along with the lack of awareness of potential gains from switching, the perception by customers that there is no differentiation between banks may also reduce incentives to engage'*.

We agree that it is desirable that consumers should have a better understanding of differences between PCA providers, particularly in relation to their service quality. However, we think that the definition of appropriate metrics and the development of the proposed comparative tool present some practical challenges, as discussed below.

(a) What are the key facets of service quality for consumers and SMEs? Are these likely to differ between subsets of these groups and if so in what way?

We are responding to this question in relation to PCA customers only, given that we are not currently active in the SME banking market. We believe the key facets of service quality are:

- ease of doing business (specific to channel);
- clarity, completeness and accuracy of information provided (written and verbal);
- timeliness of actions;
- do as you say / keeping promises / getting it right first time;

- issue resolution;
- staff behaviour and knowledge;
- availability and access to preferred channel / method of contact; and
- access to and quality of self-serve / self-help options.

In terms of what is important to different consumer subsets, it is likely that customers who prefer to bank in branches will value aspects of service quality such as staff behaviour to a greater extent than digital customers, who may place more emphasis on being able to do business through their preferred channel (digital) easily online, without the need to speak with someone.

(b) How should performance in respect of these facets be measured? Are these facets currently measured by or for most providers and, where they are, do they employ common or standard measures?

If this remedy were to be implemented, we think measurement of performance in respect of these key facets should be undertaken through robust 'voice of customer' surveys, administered either internally by providers themselves (and externally accredited) or by an independent third party. These surveys should be offered to a representative sample of the customer base, and measurement should be done at a frequency (we suggest at least quarterly) that gives providers and consumers a reliable and recent view of performance. Consideration should be given to weighting the results of such surveys, in order to remove any geo-demographic biases that are not reflective of the customer base and could misrepresent a provider's performance.

Virgin Money already measures a number of the above facets across our Current Account customers. Surveys are sent to our customers at various stages of the customer lifecycle, and are designed to collect specific data relevant to that stage. They are structured to collect a quantitative view of performance by asking customers to rate performance, and also provide a qualitative perspective by capturing verbatim comments. Primary metrics used to measure performance include:

- overall satisfaction with account opening;
- overall satisfaction with service received;
- satisfaction with communications received;
- satisfaction with online experience;
- ease of doing business with Virgin Money; and
- product understanding.

We do not know whether and how the key facets of service quality are currently measured by or for other providers, as publicly-available data in this area tends to be limited to overall satisfaction scores and /or Net Promoter Scores within Annual Report and Accounts (and details on the methodology used to acquire these results are generally not shared).

(c) Is the demographic and geographic scope of current commercially available satisfaction surveys adequate? Are sample sizes sufficient to adequately reflect satisfaction with newer or smaller banks, for example, or in particular parts of the UK?

Some syndicated research studies undertaken by companies such as GfK/NOP, ICS, Which? and YouGov provide a standardised view across multiple providers. We note, however, that challenger banks may not always be included in the results of these studies due to a limited number of consumers mentioning their brand. Although we do not know how these organisations test for statistical robustness, their studies may not always provide consumers with a reliable assessment of performance across all financial services brands.

(d) How should quality information be disseminated? For example, by providers publishing service quality data on their websites, within communications to customers and/or at branches? To what extent would such requirements overlap or be in conflict with PSD2?

Were this remedy to be implemented, we would be supportive of the promotion of service quality data on our website and in communications. However, this would be dependent upon there being a clear set of standards and guidelines to ensure a consistent approach to how performance is measured across all providers, so that robust and accurate like-for-like comparisons can be made by consumers.

The publication of complaints data every six months by the FCA and FOS is an example of where information is already collected and disseminated. This involves all financial services firms submitting a standard and common set of complaints statistics to the FCA twice each year, which are then collated and published by the FCA. One option would be to consider whether a broader range of service quality information, in addition to complaints data, could be gathered and published by the FCA. However, the preparation and publication of complaints metrics, for different banks, does not seem to have had a significant effect on consumer behaviour.

(e) In addition, or alternatively, would there be merit in providers funding and procuring a third party to undertake and disseminate comparative service quality data? What are the relative merits of these different approaches?

There may be some merit in considering this option further. If a third party were to gather and disseminate comparative service quality data, there might be some benefits:

1. One source of information – if performance is measured and reported by one organisation, this would remove the risk of variation in results presented.
2. One-stop-shop for consumers – if consumers have one place to go to see performance data across all providers, this would remove the need to seek this information from each provider directly

The methodology to support such an approach would need to be understood to ensure that statistically reliable results are obtained across all providers.

Were such an approach to be pursued, the costs involved should, in our view, be spread across providers in line with market shares.

(f) What monitoring and oversight arrangements would be necessary in order to ensure that service quality data provided by banks was accurate, up to date and not misleading? Who should provide this oversight and how should it be funded?

If providers were to be responsible for the administration and promotion of their service quality performance results, then as a minimum there would need to be an agreed set of clear standards and guidelines with which all providers comply, to ensure consistency of approach and results.

Additional oversight by an independent third-party body would help to ensure results are accurate, up to date and not misleading. As noted above, consideration could be given to whether the FCA could play a role in gathering and publicising service quality data and we suggest, as part of this, a potential monitoring and oversight role by the FCA should also be considered.

Remedy 6 – Standardise and simplify BCA opening procedures

As we are not active in the SME banking sector at present, we are not in general responding to questions relating to BCAs.

However, we wanted to note our support for the CMA's proposal that BCA opening procedures should be standardised and simplified. Indeed, we think that this remedy could be generalised, so that processes such as those required for customer due diligence – including Know Your Customer (KYC) and Know Your Business (KYB) – are standardised. This would enable customers to complete forms online rather than face-to-face in a branch, if they wish to do so, and it would make it easier for them to shop around.

Remedy 7 – Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider

We believe this remedy would be impractical to implement, given the difficulty for banks of making decisions on potential overdraft facilities before knowing if they would accept the individual as a PCA customer. Also, it would involve additional costs to administer such a process, without any certainty of actually acquiring the customer.

There may be merit in considering, in parallel with this remedy, the possibility that some customers with long-term overdrafts should switch to term loans, where such loans are available and would be less expensive for the consumer than their existing overdraft.

(a) Is it practicable to require banks to provide a definitive answer on overdraft applications early on in the account-opening process? Would doing so be likely to extend the length of the process?

There are several reasons why we believe this remedy would be impractical to implement:

1. It could be expensive for banks to administer the decisioning process, without the certainty of them acquiring a new customer account. In effect, we would be creating a 'decision in principle' mortgage-type process, for which most banks currently charge an application fee.
2. In addition, the key point of the account opening process is to carry out ID&V and AML checks. It could be very impractical to decision for an overdraft before knowing if the bank would actually accept the customer.
3. Some banks use internal account behaviour as part of their decisioning process and this would not be possible if the customer is not previously known to the bank.

One issue that might need to be considered further in relation to this proposed remedy is the possibility that repeated credit checks might have a negative impact on customers' credit scores.

(b) Would a tool such as we describe, while not providing customers with a definitive answer, nonetheless be useful in identifying possible lenders?

We agree that it would be beneficial for customers to be provided with an illustration of the potential overdraft available to them.

An approach that might help to improve the ability of customers with overdrafts to switch between banks, and which might merit further consideration, is a model similar to balance transfers in the credit card market.

(c) Are there other approaches to making the application process easier or more transparent for customers who require overdraft facilities?

One option would be to consider ways of making customers more aware of their own credit score and, in tandem, encouraging banks to publicise the level of credit score above which they could offer an overdraft – perhaps in bands of £250 (e.g. in order to qualify for an overdraft of up to £250, a minimum credit score of X is required; to qualify for an overdraft of up to £500, an minimum credit score of Y is required, and so forth). However, this approach might allow some customers to 'game the system'.

(d) Would partial switching (see remedy 11) lessen the problem by at least permitting customers to retain their existing overdraft facilities in the event that the new provider did not grant them the required facilities? Alternatively, if a customer made a partial switch, would this affect the overdraft facilities available to them?

Overdraft facilities should be agreed as part of an account opening or an ongoing account service and should not, in our view, be linked to the type of switch a customer goes through. The account opening process with the new bank should be completed first. Once acceptance and overdraft facilities are confirmed, customers should be allowed an opportunity to confirm at that point that they wish to proceed with a switch from the old bank (full or partial).

(d) What technical or regulatory obstacles, if any, would arise from this remedy? How could they be overcome?

Having to confirm if an overdraft is accepted in advance of opening an account is likely to drive considerable technical challenge and expense for all banks. We therefore think that this remedy would not be proportionate.

Measures to improve the switching process

Remedy 8 – Require payments into the old account to be redirected to the new one for a longer period than at present

We do not support this possible remedy, because it would perpetuate a weakness of the current CASS process. In our view the CASS system needs to be radically improved to eliminate misdirected payments.

There are also practical limitations of the 8-digit numbering scheme for current accounts (which could, if redirection is extended, result in account numbers being used up rather than freed for re-use). The incentive for payment details to be amended when a customer switches would be reduced.

We think that the objective behind the remedy would be better addressed though a move to Account Number Portability (ANP), which we think would be more effective in overcoming customers' concerns about initiating an account switch because of the risk that payments might go astray. ANP would enable customers to take their account number with them when they move providers, removing the need for any of the businesses with whom they make or receive payments to update their records (and therefore the need for a redirection service). We urge the CMA to investigate the benefits of ANP, supported by a move to a more centralised payments infrastructure.

(a) If the current 36-month redirection period were to be extended, how long should it be? Would it be practicable to extend it in perpetuity, for example?

We expect that limitations to the 8-digit numbering scheme for current accounts in the UK would mean that a perpetual extension to account number redirection may not be feasible.

We consider that the extension of redirection (temporary or permanent) would have limited benefits, and that ANP would provide a better solution that would more effectively address customers' concerns about the switching process being difficult or something going wrong during or after a switch.

(b) Are there technical or regulatory obstacles to extending the redirection period further? If so, how could these be overcome? Additional technical work would be required from members in order to implement extended redirection.

As noted above, we understand that the current UK account numbering system creates limitations in that extending redirection causes account numbers to be used up and not freed for re-use. It would cause banks and other financial institutions difficulties, by requiring them to put in place complicated schemes to prevent re-use of closed accounts many years after they have ceased to be used. We think that this would be costly, and that the possible remedy would not be proportionate.

(c) Would extending the redirection period give rise to unintended consequences? Would it, for example, lessen the incentive of payors to amend their payment details?

We believe that extending the period would certainly lessen the incentive for payors to amend their payment details. Although seemingly benign, this would mean incorrect payment details being used for individuals for prolonged periods of time. We think that additional work should be scheduled between the banks and their service users to ensure details are changed within a set timeline.

(d) Would ANP be more likely than a longer redirection period to increase customers' understanding of and confidence in the switching process? Would it particularly be of benefit to some customer groups?

As noted above, ANP would remove the need for redirection and provide a simpler, more convenient mechanism to change bank account providers. As a consequence of account numbers and sort codes being portable, payors and payees would not need to amend payment details, eliminating unnecessary administrative effort across the industry. Benefits would accrue to consumers and businesses.

Virgin Money continues to believe that consideration should be given to the introduction of ANP, facilitated by a movement towards a shared payments infrastructure. We think these initiatives would create a more effective, quicker and more reliable switching service for consumers.

(e) If a longer redirection period was adopted, would further remedies be needed to improve confidence in and uptake of CASS, for example compensation for errors arising from redirection?

We do not believe additional compensation would materially improve consumer confidence or the outcome for consumers. Under the 'switching guarantee', banks already commit to cover customer issues during switching; we do not believe additional compensation would result in a better position than the one that currently exists.

The length of the redirection period

Remedy 9 – Require banks to retain and provide ex-customers, on demand, with details of their BCA and PCA transactions over the five years prior to their account closure

We believe that the objective of this remedy – to address customers' concerns about no longer having access to their transaction history if they switch providers – could, as with possible Remedy 8, be better addressed through ANP. Under ANP, customers would take their account number with them when they switch, and it seems feasible, subject to a suitable technical solution being identified, that there may be scope for the transaction history associated with that account number to move with the account number.

(a) For how long after closing their account should a customer be able to obtain details of their past transactions from their previous provider?

We believe customers should always be able to obtain details of their current account transactions for five years prior to the request, irrespective of whether this is from their current or previous provider(s).

(b) Should providers be permitted to charge for this information?

This is currently normal practice and, provided charges are not unreasonable in relation to the costs a bank incurs to provide the service, we believe this is reasonable. However, copy statements are an additional service which should not be seen as a solution to the inadequacies of CASS in respect of redirected payments. In our view, the large number of redirected payments under the CASS system evidences the need to move towards alternative solutions, such as ANP.

(c) For what period should past transaction data be available? Is five years' worth of data sufficient?

We believe five years is sufficient to support applications for new overdraft products, lines of credit etc. This is also an appropriate period to demonstrate customer-specific behaviour and to enable comparison of PCA costs and benefits.

(d) Would the purpose of the remedy be achieved by banks automatically providing customers with their transaction history when they closed their account?

We do not believe it would. This approach would put the burden on the customer to store and be able to retrieve their data. We think banks should be required to provide this service, potentially for a small charge where appropriate.

(e) What role, if any, would it be appropriate for Bacs/CASS to play in this process?

We think that the only potential role for Bacs/CASS to play in this process is if the CASS service were to be extended to include the transfer of five years' worth of transactional data at the time of completing a full switch.

(f) Are there any technical or regulatory obstacles in implementing this remedy, for example from PSD2 or Regulations under the Small Business Enterprise and Employment Act (the SBEE Act)? If so, how could these be overcome?

We are not in a position to comment on BCAs as Virgin Money does not currently offer these. For PCAs, we currently provide paper statement data. Should specific electronic formats be mandated, there would be some technical implications to implement the remedy but these could be managed, with sufficient notice.

Additional Question: What are your current policies regarding providing bank statements to customers at the time of or after closing their accounts?

We provide paper statements to all our customers, including at closure of the account. Our current policy states that we retain and can retrieve statement information for five years. In fact, we are able to retrieve all transaction data since current accounts were launched by Northern Rock in 1989, and provide this to customers on request. This applies also to accounts which have been closed.

Remedy 10 – Require Bacs to transfer continuous payment authorities on debit cards when switching through CASS

We support this possible remedy, provided that a technical solution can be achieved. We think there may be a role for card scheme to work with Bacs in this regard, given their access to data that could help to facilitate such a solution.

(a) Is the remedy practicable? Can Bacs reliably identify and distinguish CPAs, for example?

We do not believe Bacs currently has reliable access to CPA data. The implementation of an appropriate system would require the active engagement and assistance of the card schemes. It could be feasible to use Bacs to transfer CPAs as part of a customer switch, alongside their other arrangements. However, given that the card schemes already have such data, it might make more sense to request them to cooperate to create a redirection service for CPAs, rather than to use Bacs.

(b) If, for technical reasons, Bacs could not guarantee that all CPAs would be transferred, would a target of less than 100% or a 100% guarantee limited to payments in excess of a particular monetary value be adequate to address this risk?

We consider that having a target of less than 100% would create confusion for customers, and that any solution in this area should cover all CPAs. If it is not possible to guarantee that all CPAs would be transferred, we would suggest it would be in consumers' interests not to transfer any.

(c) Is the remedy of more relevance to consumers than SMEs? Do SMEs use CPAs as a payment (as opposed to a billing) process?

We are not able to answer this question.

(d) What technical difficulties, if any, would be involved in its implementation and how could these be overcome? Would, for example, providing the acquiring bank with the customer's transaction history make it easier for them to identify CPAs? How long would it take to implement the remedy?

We believe that the major card schemes already possess information related to CPAs – either directly, or indirectly by maintaining tables of replaced cards for the use of merchants. In addition, we understand they maintain tables of "stops" on CPAs.

One of the difficulties in transferring CPAs would be the interface between Visa and MasterCard. From our involvement at CASS, it has not been apparent that the competing schemes are prepared to discuss approaches to resolving the transfer of details from one scheme to another. As a user of MasterCard, we think that it would help if a solution could be found to cross-scheme issues such as this.

(e) To what extent would the purpose of the remedy be achieved if customers with CPAs were advised or warned not to close their old accounts until the CPAs had been set up on their new debit cards?

We prefer that any approach adopted in this area would be seamless for customers. Therefore, we believe that a solution should be developed at scheme level, without potentially causing confusion for customers.

Remedy 11 – Require all banks to support the partial switching service and to provide an equivalent guarantee to that offered as part of CASS

It seems that many customers remain unconvinced about the ease and reliability of CASS. We think that such ongoing concerns would be addressed by the introduction of ANP. We recognise that ANP would require additional costs, but not as much as some large banks suggest. We recall comments to the Treasury Select Committee by Sir Donald Cruickshank that, when telecoms companies had to offer mobile phone number portability, they found a relatively cheap way of doing it.

In the event that ANP is not implemented, or that it takes some time to implement it, we agree that some consumers might be more willing to switch if they could make a partial switch instead of a full switch, with an equivalent guarantee. We therefore support the intention behind this remedy, to encourage partial switching.

(a) How effective is this remedy likely to be in encouraging additional customers to switch given that the inducements that providers are likely to offer to those closing their existing current account will be greater than those offered to those not doing so?

We think this remedy would be good for customers but, without promotion by the banks, customers are unlikely to be made aware that the guarantee extends to partial switching. If it were promoted, it could help to stimulate switching, as more customers might be encouraged to 'try before they buy'. It might also encourage banks to work harder to turn new 'partial' customers into full primary customers by providing persistent good service.

(b) Would the attractiveness of partial switching differ between customer segments? Would overdraft users find it particularly attractive, for example, or would the bank at which they had retained their account be likely to vary the overdraft facilities that it was willing to provide?

We expect that partial switching would be attractive to certain customers segments. In relation to the old bank varying overdraft facilities, if the customer were to switch out their bills and salary credit, this would result in a change in profile which the bank might use to review the available credit.

(c) Is the list of features that should be included in the proposed partial switch guarantee comprehensive? If not, what should be added?

We think the list of features that should be included in the proposed partial switch guarantee is comprehensive.

(d) What would the consequences be, commercially and in regulatory terms, if customers were to switch all their payments to a new account, but leave the old one open?

Clearly, there would be a cost for the old bank in maintaining an effectively dormant account. We think that such costs, which would increase over time, should be set against the possible cost of implementing ANP.

(e) Would the remedy lead to more multi-banking with customers switching usage according to the incentives offered by banks with which they held accounts? What would the consequences of this be?

While it is likely that this remedy would lead to more customers having more than one PCA, it may not necessarily lead to more 'multi-banking'; we think it is likely that people would have one main account and other account/accounts that were effectively dormant.

(f) Is the seven-day switching period under the proposed partial switch guarantee appropriate, including for the larger SMEs? If not, what would be an appropriate switching period?

We think it would be appropriate to have a seven-day switching period for partial switches, in order to avoid confusion for users of the service, and to ensure there is a clear expectation regarding the switching timeframe.

(g) Are there any regulatory, technical or other obstacles to implementing this remedy, for example as regards any overlaps with PAD? How could these be overcome?

There would be technical and cost implications for all banks to comply with the new deadlines for partial switches. However, we do not see this possible remedy as in conflict with other changes such as those required by PAD.

(h) Would it be necessary to include any ancillary measures with this remedy? For example, if providers offered different, and lesser, rewards to customers who only execute a partial switch would it be necessary to require that this is made prominent in advertising and marketing material?

We think it is important that providers are required to make clear any differences in rewards which are dependent on the nature of a customer switch in advertising and marketing material.

Remedy 12 – Changes to CASS governance

(a) Does the current membership and voting structure of the CASS Management Committee blunt its incentives to promote switching between current account providers?

Based on the current remit of the CASS Management Committee, we believe that the membership and voting structure are satisfactory and provide adequate representation for the smaller organisations.

(b) In what ways, if any, should the membership of the Management Committee be changed? Is its size or composition appropriate?

As noted above, we think that the current composition works adequately.

(c) Does the 75% voting majority required on the Management Committee permit the banks likely to be net losers from switching to exert material influence over CASS policies, for example the amount to be spent on promoting the service? Does it permit a small number of members to veto desirable proposals?

Based on our experience on the CASS Management Committee as a smaller participant, we believe that the voting structure of one vote per member works adequately.

(d) Would it be desirable to introduce an element of independent oversight of CASS? If so, how could this be done?

We are not aware of any significant concerns that would justify independent oversight. If independent oversight of CASS were considered appropriate, we suggest that it should be done by the PSR.