

Retail banking market investigation

Provisional decision on remedies

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The Competition and Markets Authority has excluded from this published version of the provisional decision on remedies information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

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Appendices

- 1: Additional evidence on personal current account overdraft usage and charges
- 2: Development of our remedy to increase customer engagement with their overdraft options

Glossary

Summary

Introduction

1. We have been looking at the markets for personal current accounts (PCAs) and retail banking services for small and medium-sized enterprises (SMEs). We think that there are problems with the way competition works in these markets for both personal and business customers, and in this consultation document (our 'provisional decision on remedies') we set out our proposals to deal with these problems.
2. We welcome comments on our proposals. We haven't come to final conclusions on any of these issues.
3. We will publish our final report in early August. That report will take account of the responses we receive to this document, as well as the responses we've already received to the [provisional findings report](#) (provisional findings) we published on 28 October 2015 and to the [addendum to the provisional findings](#) (provisional findings addendum) published on 15 April 2016.
4. We have already consulted on a wide range of possible remedies. Most were set out in the [Notice of possible remedies](#) (Remedies Notice) we published on 22 October 2015, alongside the [summary of our provisional findings](#); others were described in the [supplemental notice of possible remedies](#) (Supplemental Remedies Notice) of 7 March 2016, including additional options on overdrafts. We have given careful consideration to the ideas put forward by the interested parties who responded to these two consultation papers and they have helped to shape this document.
5. In addition to our own provisional findings about how competition works in these markets and the responses we have had to our earlier consultations, we have gathered further evidence about possible remedies, reviewed additional evidence from interested parties, held response hearings and round-tables, and commissioned customer research.
6. In parallel to this investigation we have conducted reviews of the [2002 SME banking undertakings](#) and the [2008 Northern Ireland PCA banking Order](#). This was to see whether these older remedies will still be needed in light of market changes and the new remedies that we are now proposing. Our provisional decisions on both reviews are published alongside this document.
7. Responses to this consultation document should be sent to the Competition and Markets Authority (CMA) by **5pm on Tuesday 7 June 2016**.

The competition problems in retail banking markets

8. Some people think that there is too little competition in UK retail banking because the market is dominated by a small number of big banks, and that the way to put that right is to bring more competitors into the market by 'breaking up the big banks'. We have looked carefully at this, but have come to the view that it is not the size of the banks or the number of banks that is the problem. Furthermore, the separation of TSB from Lloyds Banking Group (LBG) and the upcoming separation of Williams and Glyn from the Royal Bank of Scotland Group (RBSG) have demonstrated that such divestitures are prolonged and expensive exercises. Improving competition through further divestitures is an idea that is superficially attractive, but would be sensible only if we had strong evidence that it would make the retail banking market work better, and we do not consider that the evidence supports such an intervention.
9. Rather, we expect the package of remedies set out in this document, taken together with ongoing technological developments, to result in significant changes to the operation and structure of retail banking markets. Our remedies will support innovation and help bring about a more informed and engaged customer base. This in turn will stimulate competition and encourage entry and expansion by new market players, some of which may use fundamentally different business models to traditional banks. We take the view that this type of structural change is more likely to result in sustained improvements to competition, innovation and customer welfare than the creation of another one or two smaller 'traditional' banks. This dynamic perspective on the evolution of retail banking markets in the UK has informed our provisional decision not to pursue divestitures.
10. Others think that competition problems arise because of the prevalence of so-called 'free-if-in-credit' (FIIC) current accounts for personal customers (they are not prevalent for business customers). Most personal customers have current accounts that do not pay interest on credit balances, do not charge for standard transactions, and do not charge a monthly fee so long as the account is in credit. These accounts do, however, levy charges for overdrafts and for some other services including foreign transactions – and these charges are not very transparent. In addition, much of the revenue that banks make from supplying such accounts comes from the interest they earn by lending out customers' credit balances. 'Free banking' is not really free – the customer pays by not being credited with any interest on their account balances. This means that the actual cost of using the account is not very clear to the individual customer, who would probably find it quite hard to estimate what forgone interest they might have received on their balances. The real issue is not FIIC as such, but a wider problem that it is difficult for

customers to work out whether their current account provider is offering them the best value or whether they would be better off with a different provider. We address that wider problem below.

11. FIIC works well for many customers. If your income is modest and your average current account balance is low, but you manage to avoid going into overdraft, then getting unlimited free transactions in exchange for forgoing a little interest may be a good deal for you. It may not be such a good deal for wealthier customers holding higher credit balances who forgo larger potential interest and who might do better with an account that pays interest but charges a monthly fee. And FIIC accounts are far from free for overdraft users.
12. Our focus is on improving competition in retail banking to the benefit of personal and business customers. We are seeking to drive innovation and better products and services, not to protect the status quo. If the measures we propose lead, as we intend and expect, to increased competition, this will stimulate entry by new competitors and expansion by smaller competitors, putting pressure on the market position of the larger banks. Similarly, if increased competition offers personal customers better current account options, FIIC accounts may become less prevalent than they are today.
13. We summarise below where we see the real competition problems in both Great Britain (GB) and Northern Ireland (NI). Taken together, these make for a weak customer response to price and service quality differences, so established banks enjoy incumbency advantages. As a result, banks do not have to work hard enough to gain and retain customers. The main problems that we identified are the following:
 - (a) Current accounts for both personal and business customers have complicated charging structures, and the actual cost depends on how the customer uses the account. Customers have little information about the service quality of other banks. These factors make it hard for customers to know whether they could get better value and better service from another bank.
 - (b) There is a lack of trigger points (unlike insurance policies, which require annual renewal) at which a personal or business customer might be prompted to ask whether they could be getting a better deal elsewhere on their current account.
 - (c) There is now a reliable and efficient Current Account Switch Service (CASS) which makes it easy for customers to switch current account from one bank to another, but the service is not widely known, and does not

command as much consumer confidence as it deserves. The account opening process for SMEs can also be lengthy and onerous.

- (d) Charging structures for overdrafts are particularly complicated, so personal customers who use overdrafts may find it even harder to compare providers. Overdraft users, despite often having the most to gain from switching, generally show limited awareness of and engagement with their overdraft usage. Heavy overdraft users are particularly unlikely to switch. A significant proportion of bank revenue from personal current accounts comes from overdraft charges. Taken together, this suggests that competitive pressure may be especially weak in this part of the market.
- (e) Many start-up businesses open their business current account (BCA) in the bank where the business owner has their PCA. There is also a strong link between BCAs and SME lending: the large majority of SMEs get their business loans from the bank that runs their current account, with no or little shopping around for other lenders. It's hard for SMEs to find out who is the best lender for them. As their existing bank already knows a great deal about them, alternative lenders may be at a disadvantage in pitching for their business.
- (f) Getting new customers is therefore difficult and costly for banks, which means that longer-established banks have advantages over new entrants and smaller banks wishing to expand.

Our remedy package

- 14. As a lack of customer engagement plays such a central role in our diagnosis of the competition problems in the retail banking markets, measures to empower personal and business customers and thereby improve customer engagement are at the heart of our proposals for making the market work better.
- 15. This lack of customer engagement does not have a single cause – we have noted above that it arises from the interaction of a number of factors. There is therefore not going to be a single 'magic bullet' that puts everything right. We are proposing a package of remedies the strength of which lies in the fact that the whole package is more than the sum of its parts.
- 16. We are well aware that concerns about competition in retail banking are not new. There has been a succession of investigations over the years, resulting in a succession of interventions, some of them quite recent. Where it makes

sense to do so, we aim to build upon and strengthen existing initiatives rather than replace them.

17. It is important to note that the pace of technological change in retail banking is speeding up – mobile banking tools have been rapidly adopted, and there is a growing financial technology ('FinTech') sector developing and using new tools. Application programming interfaces (APIs) allow publicly available bank data and customer data to be shared externally, and 'open standard' APIs can be particularly powerful (with necessary safeguards for security and privacy) in opening up new customer information and advice services.
18. The overall shape of our remedy proposals is also influenced by the insights of 'behavioural economics' which tells us that the differences between effective and ineffective interventions may be quite subtle. We have drawn on our own and others' customer research in developing our proposals, and in a number of areas we recommend the use of randomised controlled trials (RCTs) to refine the design of remedies and ensure they are as effective as possible in changing customer behaviour.
19. Our integrated package of remedy proposals is summarised in Table 1, and consists of four elements:
 - (a) Three cross-cutting **foundation measures** that have the objective of increasing customer engagement via customer prompts, to improve transparency and to make better information available to customers through the collection and publication of data on service quality and the development of open APIs.
 - (b) Measures to make **current account switching** work even better, building on and improving the existing CASS.
 - (c) A set of interventions aimed at **PCA overdraft** users, a group of customers who suffer particularly from the competition failures in the PCA market.
 - (d) Measures targeted at the specific and deep-seated problems in **SME banking**, making it easier for business customers to compare different providers and reducing the hold that incumbent banks have in the market for BCAs and SME loans.

Table 1: Overview of the remedy package

Foundation measures		
<ul style="list-style-type: none"> • Open API banking standard • Service quality information • Customer prompts 		
Current account switching measures	PCA overdraft measures	Additional SME banking measures
<ul style="list-style-type: none"> • CASS governance • Extended redirection • Access to transactions history • Customer awareness and confidence 	<ul style="list-style-type: none"> • Overdraft alerts • Grace periods • Monthly maximum charge (MMC) • Account opening and switching process 	<ul style="list-style-type: none"> • Loan rate transparency • Loan eligibility indicator • SME comparison tool • Standard BCA opening procedures • Sharing SME information • 'Soft' searches • Role of professional advisers

20. Because our proposals are an integrated package of measures that are designed to be mutually reinforcing, we are keen they are promptly and efficiently implemented after we publish our final report in August.
21. We envisage using our legal powers to impose some of the measures by Order, while other measures might be implemented by our accepting legally binding undertakings from parties. We invite parties to share with us their thinking about offering such undertakings.
22. For some of our proposals (including those where the final design would benefit from a programme of RCTs), we look to collaborate with other regulators, and there are other areas where it will be helpful to work closely with government departments, including HM Treasury (HMT) and the Department for Business, Innovation and Skills (BIS), on the implementation of our decisions. We have had very productive discussions with the Financial Conduct Authority (FCA), the Payment Systems Regulator (PSR) and with government departments in formulating our proposals.
23. We now set out the elements of the package in more detail.

Foundation measures

24. The foundation of our remedy package is provided by three cross-cutting measures whose objective is to promote customer engagement and help customers make reliable and easy comparisons between banks based on

their products' prices and features, quality of service and customers' own transaction history.

25. These measures aim to empower business and personal customers to take greater control of their banking arrangements, reduce the costs to customers of shopping around, and encourage the development of a dynamic intermediary sector including providers of digital comparison tools and other 'FinTech' advisory services.
26. Of all the measures we have considered as part of this investigation, the timely development and implementation of an open API banking standard has the greatest potential to transform competition in retail banking markets. We believe that it would significantly increase competition between banks, by making it much easier for both personal and business customers to compare what is offered by different banks and by paving the way to the development of new business models offering innovative services to customers.
27. APIs are used across the economy to provide a variety of functions; for example restaurant booking services use APIs to help customers find restaurants near them, review feedback from previous diners, book tables and, later, rate their meal. In banking, APIs can be used to share, in a secure environment, information such as the location of bank branches or terms of banking products. APIs may also be used, with the customer's informed consent, to share securely their transaction history to enable access to tailored current account comparisons and other services.
28. We intend to require the largest retail banks¹ in both GB and NI to develop and adopt an open API banking standard to a specified timetable. This would enable trusted intermediaries to access information about bank services, prices and service quality. Customers who are satisfied about privacy and security safeguards, and are willing to give consent, will be able to share their own transaction data with such intermediaries, which can then offer advice tailored to the individual customer. This will make it easier for customers to identify the best products for their needs.
29. The cross-industry Open Banking Working Group (OBWG) led by HMT set out a way forward on how to deliver open APIs in its [report](#) in February 2016. These recommendations now need to be translated into action, so that customers can benefit from greater choice and competition. Open APIs are central to our package of remedies, so we propose to use our powers to require the largest banks to work together to deliver open APIs. We also want

¹ RBSG, LBG, Barclays, HSBC Group (HSBCG), Santander UK (Santander), Nationwide Building Society (Nationwide), Danske, Bank of Ireland (BoI) and AIB Group (AIBG).

to ensure that the project is effectively managed and does not get bogged down in debates between market participants. To this end, we are proposing the creation of a new entity, funded by the banks but with an independent chair, to ensure the timely delivery of this core remedy.

30. In making these proposals we have considered very carefully the importance of data security and redress for customers. Customer confidence in the security of their information and, if a breach does occur, the availability of appropriate and speedy redress, are likely to matter at least as much to customers as the opportunities and benefit from using new technology. The security measures proposed by the OBWG, as well as provisions in upcoming payment services legislation, provide a blueprint for how these issues can be dealt with effectively, though further detailed work on this issue will be necessary during the implementation of this remedy.
31. To ensure that sufficient time is available to work through the important issues associated with customers' data security and redress, we are proposing that the release of information under this remedy takes place in stages. We are proposing that the least sensitive information – for example about prices, terms and conditions and branch location – should be made available by the end of March 2017. We expect that all aspects of an open banking standard would be up and running by early 2018 at the latest.
32. Our second foundation measure will ensure that banks' customers get much better information on service quality than they currently have.
33. We will require banks to display prominently a small number of core indicators of service quality. Our preferred measures of quality are based on customer willingness to recommend their bank to friends, family or colleagues. Data will be collected twice a year on a standardised basis, so that customers can easily compare across banks.
34. We are also proposing that banks should collect and publish a wider range of additional quality measures which they will make available, alongside the core indicators, through open APIs to intermediaries who can use them in new kinds of advisory and comparison services. We think that the FCA is best placed to work with banks to develop, and test which specific additional measures of service quality would be most useful, and then to put these measures in place, and we intend to make a recommendation to that effect.
35. Lack of customer engagement is in part caused by the 'evergreen' nature of current accounts that have no contract end date. Unlike other products, most customers hold a bank account for many years without ever being prompted to make a conscious choice about whether to continue or switch provider. Our

third foundation proposal is therefore that personal and business customers should receive occasional reminders ('prompts'), at suitable times, to encourage them to consider their current banking arrangements and shop around for alternative banking services. Some prompts might be triggered by specific events affecting the customer such as the closure of a local branch; others might be periodic, such as a reminder included in an annual statement.

36. We have identified a number of possible prompts and have also reviewed helpful suggestions from interested parties. Rather than trying to 'pick a winner', based on our current state of knowledge, we think that the design and timing of such prompts needs to be based on further, careful research if they are to be as effective as possible. We therefore intend to recommend that the FCA should undertake a programme of RCTs to identify which prompts are likely to be most effective in changing customer behaviour. We will also recommend to the FCA that, subject to the results of the RCTs, it should implement, monitor and (when necessary) update such prompts. To facilitate this process we intend to require banks to cooperate with the FCA in this research programme.
37. As we discuss further below in paragraphs 50 to 65, we are also proposing prompts to help customers control the charges they pay to their existing bank, especially unarranged overdraft fees.

Current account switching measures

38. Even when a bank customer recognises that they could gain from switching banks, they might not do so if they lack confidence in the switching process.
39. We have found that both personal and business customers fear that switching current accounts is burdensome and time-consuming, and worry that something might go wrong. The risk of something going wrong is of particular concern to small businesses.
40. CASS has already made a positive difference to the switching process and is generally working well, but many customers either do not know about or do not have confidence in CASS. We therefore propose:
 - (a) to strengthen the governance of CASS, and have it overseen by the PSR;
 - (b) to increase customer awareness of and confidence in CASS; and
 - (c) to improve specific aspects of the switching process, with a longer period of redirection of transactions from the old to the new account and with guaranteed provision of the transaction history on the old account.

41. Reforming the way in which CASS is governed will provide those managing the service with stronger incentives to operate and develop the service in the interests of customers; seeking new ways to improve the process over time. This in turn will increase customer confidence in the switching process and reduce barriers to switching.
42. We will seek undertakings from Bacs Payment Schemes Limited (Bacs), which currently operates CASS, to strengthen CASS's corporate governance by including an independent Chair in its management committee (MC) and involving representatives of consumer groups and intermediaries in its decision-making. CASS's main decisions and performance against agreed awareness and switching targets should also be made transparent. To support this, we intend to recommend to the HMT that the PSR should have regulatory oversight of CASS.
43. CASS provides an efficient and secure service to both personal and business customers who want to change banks, and it deserves to have a higher profile and a higher degree of customer confidence than it currently has. We will therefore seek undertakings from Bacs to work with the banks to support a long-term promotional campaign to raise the profile of and confidence in CASS. This work should be particularly focused on those groups who at the moment have the greatest concerns about switching, who are least inclined to switch, and/or would gain most from switching. These include SMEs, overdraft users, customers with high credit balances, the young, and the financially disadvantaged.
44. We also propose that Bacs should extend the current 36 month redirection period so as to provide further assurance to customers that their payments will not go missing after they switch banks, and by doing so, increase their confidence in CASS. For customers who continue to need it, payments will be redirected to their new account indefinitely.
45. A more fundamental change to the switching process would be the introduction of Account Number Portability (ANP). ANP would mean that a customer effectively took their account number (and maybe their sort code) with them when they switched banks. This could make the switching process easier from the customer's point of view and could give customers more confidence that payments would not go astray.
46. ANP could be implemented in a variety of ways, all of which involve substantial changes to the payments systems used by banks. Estimates of the costs of ANP vary between £2 billion and £10 billion, depending on how radical the changes are. While ANP could also increase customer confidence in switching, we think that making CASS work better is likely to be a much

more cost-effective and timely approach. The PSR might want to consider ANP at a future date, but we think it is more sensible at this stage to seek further improvements in CASS.

47. We will also require that customers of all current account providers should be able to get a copy of their transaction history after account closure (free of charge or for a reasonable fee). We think that this is likely to be particularly important for SMEs, for whom loss of access to their previous transaction history following a switch of banks could make it harder for them to secure business loans.
48. Some customers want to have accounts at more than one bank at a time. Such 'multi-banking' is good for competition – it allows customers of one bank to try out the services of another. Customers can arrange this for themselves or they can use the partial switching service that most banks now offer, which redirects some payments from one account to another. Although we do not propose to introduce a specific remedy on partial switching, Bacs is considering ways of developing and promoting this service, and we encourage them to pursue this.
49. We have considered another measure to improve the CASS switching process – requiring the transfer of continuous payment authorities (CPAs) on debit cards when switching through CASS. In light of the likely cost and complexity of this measure compared to its relatively modest benefits, we do not intend to take it forward.

PCA overdraft measures

50. We expect our foundation remedies and current account switching measures to enhance competition and to deliver benefits for all types of PCA and SME banking customers.
51. For two categories of customers – users of PCA overdraft facilities and SMEs – we intend to introduce additional measures to ensure that these customer groups enjoy the benefits of increased competition. These additional measures and the reasons for introducing them are set out in this section and the next section.
52. Our research has shown that overdraft charging structures are particularly complex. Moreover, many overdraft customers are not fully aware of, or do not give enough attention to, their use of arranged or unarranged overdrafts. This can be costly for them, since overdraft users can accumulate high costs from interest, fees and charges.

53. Overdraft users, like other PCA customers, have very low switching rates, even though they often have the most to gain from switching. One reason for this is that overdraft users can be uncertain as to whether they will be able to obtain an overdraft facility from a different PCA provider, or when such a facility would be made available to them.
54. Unarranged overdrafts typically attract extra charges and are not agreed in advance between banks and their customers. Customers who end up taking out an unarranged overdraft may not have planned to do so, for example, because they may never have expected to need to use this facility. Unlike many other credit products, overdraft users may not even be aware that they have started to borrow money at the point at which they start to use the facility and become liable to the charges associated with doing so.
55. We therefore propose to introduce further measures aimed at increasing competition and improving outcomes for PCA overdraft customers.
56. The primary objective of these additional measures is to increase customers' awareness of their overdraft usage and help them take more control of it. This will help PCA customers save money by avoiding unnecessary overdraft charges, and, by increasing customer awareness of and responsiveness to overdraft fees and charges, should also put downward pressure on these charges. To this end, we propose to:
 - (a) require PCA providers to alert their customers when they start using an unarranged overdraft. We propose that PCA providers should enrol all their customers automatically into this type of alert. Some banks already successfully use SMS alerts and other prompts to help their customers manage their overdraft usage, and we want all overdraft customers to be able to benefit from these services;
 - (b) recommend that the FCA identifies, researches, tests and, as appropriate, puts in place further measures aimed at helping customers take control of their overdraft usage and avoid unnecessary charges;
 - (c) require PCA providers to offer, and inform customers of the opportunity to benefit from, 'grace periods' during which time they are able to take action to avoid or mitigate the charges resulting from unarranged overdraft use. This obligation would work well with prompts, as it gives customers the opportunity to act upon the information that they will shortly become liable for additional charges; and
 - (d) recommend that the FCA looks further at how the PCA opening process could be improved to better engage customers with overdraft features, and their potential future relevance and impact on them.

57. To address concerns about the cumulative costs of overdraft charges, we are further proposing to require all PCA providers to introduce and publicise a monthly maximum charge (MMC) for use of an unarranged overdraft facility. The MMC, which would be set by each PCA provider, would specify the maximum amount that the provider would charge a customer during any given month and would include all unarranged overdraft charges including debit interest.
58. We think that the MMC proposal will benefit overdraft customers in two ways.
59. First, it will improve transparency. The introduction of a common measure of this aspect of overdraft pricing will provide a point of comparison for customers wishing to choose a PCA. While other aspects of overdraft pricing will also be relevant, this intervention will help cut through some of the complexity of overdraft fees and charges.
60. Second, it will provide some protection for the heaviest overdraft users – a group that incurs the highest charges for using their PCA, but are least likely to switch to another provider. While the MMC would be set by individual banks themselves rather than centrally regulated, we would expect the increased visibility of this aspect of pricing and the associated need to have a competitive offering to constrain the level at which this is set by individual banks. Heavier overdraft users would therefore have some comfort as to their maximum monthly exposure to fees and charges, as opposed to the current situation where this exposure can be open-ended.
61. We considered setting the MMC ourselves at the same level for all banks, but have provisionally decided not to do so. MMCs set by the banks rather than a regulator will mean the banks themselves remain accountable for their overdraft charges, in what we expect to be a significantly more competitive environment. In addition, a centrally regulated MMC might lead banks to become significantly more restrictive in allowing unarranged overdrafts, with the associated risk that some customers could lose access to this form of credit.
62. Which? proposed to us a different kind of cap, where charges for unarranged overdrafts would be required to be the same as for arranged overdrafts. This proposal has some attractions, but even more than with a centrally regulated MMC we were concerned that it might cut off access to unarranged overdrafts to many bank customers who need this form of credit.
63. The success of our proposed approach to the MMC will depend on the way in which this new aspect of overdraft pricing is communicated to customers. We propose to require that the level of the MMC should be treated as an

important aspect of overdraft pricing and should be displayed to customers no less prominently than other overdraft charges. We also propose to recommend to the FCA that it carries out further work to assess the ongoing effectiveness of the MMC after implementation, including looking at how it is communicated to customers, and then takes such further action as it considers necessary to refine the MMC requirements. This could include introducing its own rules in this area, or making recommendations to the CMA in relation to this aspect of the remedy package.

64. We have also considered ways in which we could make it easier for PCA customers to find out whether the overdraft facilities they require would be available to them from another PCA provider. This is a complex area that interacts with our other remedies, particularly in relation to improvements to the switching process and the development of an open API banking standard. Therefore, rather than seeking to specify a particular solution at this stage, we propose:
- (a) to seek undertakings from Bacs to work with CASS participants to review the account switching process for overdraft customers; and
 - (b) to recommend that, following the introduction of open APIs (see paragraphs 26 to 31), the FCA considers requiring PCA providers to offer online tools that indicate whether a prospective customer is likely to be eligible for an overdraft.
65. Taken together, we believe that these additional remedies will address the specific problems we identified in relation to PCA overdrafts and will reinforce the effectiveness of the package of remedies for these customers.

Additional SME banking measures

66. We expect our foundation measures and current account switching remedies to address a number of our competition concerns in SME banking.
67. The competition problems in SME banking are deep-seated, however, so additional targeted measures are needed in order to deal with all of the issues we have identified. We found that information on business loan prices and eligibility is not readily available and that there are no effective comparison tools serving the needs of diverse business customers. New business account opening processes can be very time-consuming, which in turn can discourage business customers from considering switching.
68. We are therefore proposing to improve the information available to SMEs about loan charges and eligibility for loans, to make it easier for SMEs to compare the products of different banks, and to make it easier for SMEs to

open a new BCA. When SMEs have better information about what the market offers and are able to move more freely between providers, they will be able to make better choices, and the banks will have to compete harder for their custom. We particularly want SMEs to have a real choice when they need finance, and not to feel that their existing bank is the only option.

69. We propose to require that all lenders offering such loans publish standard rates for unsecured loans and overdrafts of up to £25,000 in value and that this information is made available as open data to intermediaries. We also intend to require the largest SME banking providers² to offer a tool on their websites so that business customers can get an indicative quote and know, provisionally, whether they would be eligible for the loan they seek.
70. In addition, we propose to recommend to HMT that it works with credit reference agencies (CRAs) and SME lenders to implement a mechanism for 'soft' searching, so that SMEs are confident that they can shop around for credit and obtain indicative price quotes without adversely affecting their credit rating.
71. We have looked at the availability of effective comparison tools for SMEs.
72. Although there are several comparison websites currently available on the market, they each individually offer only a part of the service required to compare SME banking products and providers effectively. Websites such as [Better Business Finance \(BBF\)](#) and [Business Banking Insight \(BBI\)](#) focus on specific aspects of SME banking – for example, service quality. Finance platforms that currently operate in the market (including Bizfitech, Funding Options and Funding Xchange) provide information on alternative sources of finance to the large banks, but offer limited comparisons of other services such as BCAs. We think that SMEs would be best served by a 'one-stop-shop' that would enable them to quickly and reliably compare banks on price, quality of service and lending criteria across the whole range of providers.
73. We have looked at a number of ways in which such a service could be created. The independent charity Nesta is planning to launch a 'challenge prize' to identify possible solutions to the problem of limited access by SMEs to information on banking services. We think that this offers the best prospect of effectively addressing this problem, as it is most likely to facilitate innovative and commercially sustainable solutions and should encourage new suppliers to enter the market without precluding an ongoing role for existing providers of comparison services. This approach should stimulate the development of

² RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG.

comparison services and other advisory services for SME banking. By doing so, it will address the problems we found in this market by helping business customers to effectively and efficiently compare BCAs, lending products, and other banking products and services.

74. This is an innovative approach to implementing a CMA remedy and so we will need to be confident that the Nesta proposal is taken forward to a successful conclusion. It needs both financial backing and technical support from the banks. We are therefore proposing to require the largest SME banking providers (see footnote 2) to provide product data and samples of customer transaction data to the developers of proposals for the Nesta challenge. We will also require these banks to support and fund the organisation of the prize process and to contribute funding to the prize fund in proportion to their share of UK BCAs. To help ensure the Nesta challenge produces a result that addresses our concerns and meets the needs of the SME banking market, we would propose to have a CMA representative on the Nesta 'prize committee'.
75. While the Nesta process is under way, we want the existing bank-supported services such as the BBI to be kept going. We therefore propose to require, as a transitional measure, that the banks which currently fund the BBI should continue supporting the survey that provides the material underlying the BBI. The BBI may have a long-term role as part of the outcome of the Nesta process, or as part of a solution to our proposal for banks to provide information on service quality (see paragraphs 32 to 34) discussed earlier, but we do not want to pre-judge either of these outcomes.
76. In addition, since the Nesta process will not be completed until at least 18 months after the publication of our final report, we think it is necessary to include a safeguard remedy that would only take effect in the event that the Nesta process failed to produce a satisfactory winner or the winner of the prize proved not to be operationally and/or commercially viable after the launch. This remedy would require the creation of an industry funded SME comparison tool.
77. Our proposals on SME lending are generally limited in scope to loans with a value of up to £25,000 (though we are considering including a higher value threshold of £50,000 for the online tool described in paragraph 69), so they do not directly address the barriers to lending for those SMEs that need larger loans. Larger loans usually require specific credit assessment, will typically be negotiated through a relationship manager, and will have individually tailored terms. Price and quality comparison tools may therefore be of limited assistance here.

78. However, we do expect the market for larger loans to benefit from the increased engagement of SMEs and the increased competitive pressure on banks resulting from our overall remedy package. Also, the development of open APIs, the data-sharing initiatives stemming from the [Small Business Enterprise and Employment Act 2015](#) (SBEE Act) and industry-led initiatives should all help those SMEs seeking larger amounts of finance by facilitating sharing of information about SMEs with potential lenders.
79. We do not think that there is a case for us to launch further interventions in this area at this time. It is better to allow time for the market to absorb and respond to existing and proposed initiatives. We are therefore proposing that HMT should undertake a review of the efficacy and impact of these developments two years after the publication of our final report (ie by August 2018).
80. We have also considered whether further action is needed to require banks to pass to credit reference agencies further information on SMEs such as transaction data. Since we published our [Remedies Notice](#), regulations under the [SBEE Act](#) have come into force, requiring providers to share SME data, through CRAs, with alternative providers. In addition, our foundation measure to adopt an open API standard would enable SMEs to share their transaction information with intermediaries. Given this, we did not see a need for a further intervention in this area.
81. Even if SMEs consider switching to a different provider, they may be discouraged from doing so if they think that the process of opening a new business account is going to be difficult. We therefore propose that BCA providers should adopt a standard form, setting out a core set of questions and evidence requirements for opening a BCA. This may be achieved through an industry working group co-ordinated by the [British Bankers' Association \(BBA\)](#) which is currently ongoing. We also propose that the FCA supports and facilitates the implementation of this remedy through participating in the proposed industry group as an observer.
82. Our overall package of proposals for SME banking will be more effective if more businesses understand the benefits of shopping around for their banking services. Professional advisers, particularly accountants, have an important role in helping SMEs make good business decisions, including decisions about their choice of provider. We therefore propose that BIS should work with the [British Business Bank \(BBB\)](#) and professional associations such as the [Institute of Chartered Accountants in England and Wales \(ICAEW\)](#) to explore ways in which their members can channel advice on choice of banks and sources of finance to SMEs.

Other remedy options

83. In developing our proposed package of remedies we considered many possible variants of these proposals, including those put to us by interested parties. Our thinking about these variants is set out in the relevant parts of this provisional decision.
84. Near the beginning of this summary (paragraphs 8 to 12), we summarised our reasons for not including bank divestitures or measures specifically designed to end FIIC banking in the PCA market as part of our remedy package.
85. In addition, Which? put forward a proposal for banks to establish Consumer Challenge Groups (CCGs) aimed at supporting a cultural shift in banking towards a greater focus on customers. We welcome this contribution and think that this type of model has a lot to offer in markets with a single provider and limited scope for competition. It is important to hold monopolists to account and CCGs are one way of achieving this. However, in our view, the need to offer customers a better deal in a more competitive environment provides the strongest incentive for banks to increase their focus on their customers, and we have focused our remedies on bringing about such an environment. We therefore do not plan to take this proposal forward.

An effective and proportionate solution

86. In this document, we have described the remedies that we think are necessary to tackle the underlying problems affecting competition in the markets for PCAs and retail banking services for SMEs.
87. We have put together a set of remedies, which in our judgement will deliver a comprehensive and effective solution to the problems we have identified. Although each individual remedy helps personal and business customers improve their banking experience in some way, they should not be viewed in isolation but as part of a package. The integrated nature of our proposals also means that the impact of the overall package would be reduced if not all of the measures were put in place.
88. We see the elements of the proposed package working together to address the underlying problems in the following ways:
 - (a) Our foundation measures will work together to empower personal and business customers to make good choices when considering banking arrangements. Customers will be encouraged to shop around in the first place and will be prompted to consider switching, putting more pressure on banks to compete for custom. The prompt development of open data in banking, through which information can be shared securely, will harness

the benefits of new technology and open up opportunities for new business models to shake up what is still a fairly traditional banking industry. Open data and robust and comparable information about service quality will make it easier to access and assess information on banking products and providers.

- (b) Our overdraft measures will help personal customers to understand the offer they are getting and better manage their use of overdrafts, which in turn should reduce their cost of banking.
- (c) Once current account customers decide to act, we expect our switching remedy package to make switching banks more straightforward and customers should have more awareness of and confidence in the process.
- (d) By making it easier for SMEs to shop around and open a new BCA, we expect to reduce the reliance on business owners' existing PCA bank when selecting a BCA. Further, our SME remedies will increase transparency of prices and availability of lending products, and facilitate comparisons of both current accounts and loans. This will mean that the majority of businesses do not need to turn directly to their existing bank for finance (as is the case now), but are more likely to consider other options. Our remedies combined with recent regulatory changes will also decrease the information advantages of existing credit providers, which should allow other lenders to price more competitively. As a consequence of these interventions, we expect established banks' incumbency advantages to be reduced substantially.

- 89. We have considered in some detail how best to implement, monitor and enforce compliance with our remedy package and include our proposed solutions in this consultation document. We paid particular attention to ensuring the effectiveness and sustainability of the package we propose to implement, and have consulted extensively with colleagues in regulators and government about how we can work together to implement these important measures.
- 90. We also see our remedy package as a proportionate response to the problems we have found. We have considered a wide range of alternative options and have avoided taking forward other measures that are less effective than our proposals, or that would impose unnecessary costs. We have also sought, where possible, to build on existing industry, government and regulatory initiatives. This will help avoid unnecessarily creating additional costs by 'reinventing the wheel' and will keep down the overall costs of implementing our package of remedies.

91. We would welcome further evidence from interested parties about the likely costs of our proposals, particularly in light of the greater level of detail that we have now provided in this document. We will take such evidence into account in making our final decisions.
92. Our view at this stage, however, is that the beneficial effects of the package are likely to outweigh their costs by a substantial margin. The markets for PCAs and SME banking services are very important sectors of the economy in their own right – generating combined revenues of over £14 billion in 2014 – and are of vital importance to the wider economy. Making these markets work better, by empowering customers and harnessing technological change, will deliver substantial benefits for small businesses and personal customers.
93. It is not possible to measure all of the dynamic benefits of future innovation and increased competition that we expect our remedies to stimulate. However, it is possible to make broad estimates of some of the direct benefits of our remedies, which we cautiously estimate would amount to hundreds of millions of pounds per year. Over a five-year period, these benefits would accumulate to a sum in the region of £1 billion. This is in comparison to our current estimate of the costs of implementing our remedies of around £75–£110 million. These will predominantly be one-off upfront costs. While there is scope for these estimates to change in the light of further evidence, particularly regarding the costs of our remedies, there is a clear difference in the likely magnitude of benefits relative to costs.
94. We therefore expect that our proposed package of remedies would be both an effective and a proportionate solution to the competition problems we have found in PCA and SME banking markets in GB and NI.

Provisional decision on remedies

1. Introduction

- 1.1 On 6 November 2014 the CMA board, in exercise of its power under sections [131](#) and [133](#) of the Enterprise Act 2002 (EA02) made a reference for a market investigation into the supply of retail banking services to PCA customers and to SMEs in the UK.
- 1.2 The [terms of reference](#) for the investigation cover examination of competition issues in the supply of PCAs including overdrafts, and in the supply of a wide range of banking services to SMEs but excluding insurance, merchant acquiring, hedging and foreign exchange.
- 1.3 We published a summary of our [provisional findings](#) on 22 October 2015 which was followed by publication of a non-confidential version of the full report on 28 October 2015.
- 1.4 We provisionally found that there are a number of features in the relevant markets, which alone or in combination, prevent, restrict or distort competition in the supply of PCAs and certain retail banking services to the SMEs in GB and NI, and which thereby give rise to adverse effects on competition (AECs) within the meaning of section [134\(2\)](#) of EA02. These features are set out in Section 12 of our [provisional findings](#) and can be summarised as follows:
 - (a) There are barriers to searching for (accessing and assessing information on charges and service quality) and switching to alternative providers of PCAs. PCA charging structures are complex, particularly on overdrafts, and there is limited comparable information on service quality. Comparing providers is a difficult task and there are few effective tools available to help customers choose the best account. Confidence in a switching service is low, and there are additional barriers to switching for customers with overdrafts. A lack of triggers for customers to engage in the market, combined with the above barriers, means that overall customer engagement remains low.
 - (b) Similarly, there are barriers to searching for and switching to alternative providers for BCA customers linked to complex charging structures, limited comparable information on service quality and lack of effective comparison tools. This is coupled with linkages between PCAs and BCAs where many SMEs open their first BCA with their existing PCA provider, often without searching for alternative providers. Awareness of CASS among SMEs is low and they perceive the process of switching as time-consuming, difficult and potentially risky. As with PCAs, there are limited

triggers for SMEs to consider their banking arrangements which contributes to their low engagement in the market.

(c) In the context of the provision of SME lending, the features we provisionally identified comprise strong linkages between BCAs and SME lending products, with the large majority of SMEs going to their BCA provider for finance, barriers to comparing lending products because of a lack of effective comparisons tools and the nature of demand for SME lending products. There are also information asymmetries between an SME's BCA provider and other providers of lending products.

(d) Incumbency advantages: customer acquisition costs are high and as a result longer-established banks have advantages over new entrants and smaller banks wishing to expand.

1.5 The combination of these features means that there is weak customer response to differences in prices or service quality and established banks have incumbency advantages. As a result, the incentives on banks to compete on prices, service quality and/or innovation are reduced.

1.6 We have concluded that the AECs that we had provisionally identified were likely to result in detriment to PCA customers and to SMEs.³ We were not able to quantify such detriment with precision, partly due to the practical difficulties associated with assessing the profitability of PCA and SME banking, and more importantly because the dynamic benefits from increased competition are by nature difficult to quantify. However, removing or reducing the barriers to searching and switching may be expected to lead to greater customer responsiveness to the changes in terms on which retail banking services are offered. In this case, we would expect banks to have substantially stronger incentives to compete on prices, quality and/or innovation.

1.7 For PCA customers, we provisionally found that certain customer groups may be particularly affected by the AECs we provisionally identified:

(a) Overdraft users, due to the lower competitive pressure on overdraft charges; and

(b) Customers who are not engaged and find it difficult to search and/or switch PCAs. These customers tend to be the less financially sophisticated and/or less confident in using the internet.

³ For the purposes of section 134(4) of EA02.

- 1.8 At the time of our [provisional findings](#) we also undertook analysis to estimate the direct harm to PCA customers arising from the lack of switching. This analysis has subsequently been updated, the findings of which are described below and in more detail in Section 9.
- 1.9 Our updated analysis finds that, in GB, PCA customers could make financial gains of about £116 per year on average if they were to switch – with larger gains for overdraft users of £153 per year on average. In NI, our updated analysis finds that PCA customers could make financial gains of about £85 per year on average if they were to switch – with larger gains for overdraft users of £115 per year on average. As we noted in our [provisional findings](#), this is a static analysis of customer harm from lack of switching, which does not take into account changes in the incentives for banks to compete if there were more switching, nor does it take into account other aspects of banks’ offering (such as service levels).⁴
- 1.10 For BCA customers, we provisionally found that in particular, small and small-to medium-sized enterprises that no longer benefit from a free banking period are most likely to be adversely affected by the reduced competitive constraints on banks.
- 1.11 For BCAs, our calculations suggested that SMEs could save approximately £70 per year on their BCA if they were to switch to a cheaper provider. Due to the assumptions in the BCA pricing analysis, this is likely to be a conservative estimate – for instance it does not take into account any additional savings that an SME would receive from introductory free banking periods when it switched to a new bank. It also does not reflect the savings from SMEs searching and obtaining finance from other providers.
- 1.12 In the context of SME lending, we provisionally found that smaller SMEs, in particular those that are less able to negotiate better prices and terms, are most likely to be adversely affected by the reduced competitive constraints on banks in SME lending. We were unable to carry out a similar analysis as for BCAs for SME loans, in part due to the often bespoke approach to and the absence of transparency about the pricing of these products.
- 1.13 If the CMA finds that there is an AEC, we are required under section [134\(4\)](#) of EA02 to decide whether action should be taken by the CMA or a recommendation should be made to others to take action for the purpose of remedying, mitigating or preventing the AEC or any detrimental effect on customers. In the event that the CMA makes a recommendation, it will be for

⁴ Our ‘Update on PCA Pricing Analysis’ working paper will be published shortly.

the relevant body to whom the recommendation is addressed to decide whether to act on the recommendation (subject to the application of sections 140A to 140H of the [Financial Services and Markets Act 2000](#) (FSMA) to the FCA where it applies) and the CMA will consult with that relevant body prior to making a recommendation.⁵

- 1.14 On 22 October 2015, we therefore published a [Remedies Notice](#) setting out and inviting comments on the possible actions which we considered might be taken by the CMA, or recommended for action by others, for the purpose of remedying, mitigating or preventing the AEC or any detrimental effect on customers.
- 1.15 We received 63 responses to our [Remedies Notice](#), held six multi-party roundtables and nine individual hearings in November and December 2015 as part of our post-provisional findings consultation process. Non-confidential versions of these responses, transcripts of roundtables and summaries of individual hearings can be found on the [investigation case page](#).
- 1.16 We commissioned Optimisa Research to conduct qualitative research to inform the development of some of the proposed remedies aimed at increasing engagement in the retail banking market. To guide the development of the measures aimed at improving the account opening and switching process, we also appointed BDRC Continental and GfK NOP to conduct quantitative research (Omnibus survey) for SMEs and PCA customers, respectively. A copy of the Optimisa Research report and the results of the Omnibus surveys are published on the [investigation case page](#).
- 1.17 In December 2015, further to consideration of the responses received to our [Remedies Notice](#), we published an invitation to comment on additional remedy suggestions. On 7 March 2016, we published a [Supplemental Remedies Notice](#), focusing on additional measures to address the AEC and/or resulting customer detriment experienced by PCA overdraft users. On the same day, we also published a [working paper](#) on our suggested approach to the remedy relating to the establishment of a PCW for SMEs in the context of the Nesta challenge prize. Non-confidential responses to our invitation to comment, the [Supplemental Remedies Notice](#) and the [working paper](#) are published on the [investigation case page](#).

⁵ [Guidelines for market investigations: Their role, procedures, assessment and remedies \(CC3\)](#) (the Guidelines), Part 4, paragraph 380.

Structure of our provisional decision on remedies

- 1.18 This document, together with its supporting appendices, constitutes our provisional decision on the package of remedies required to remedy the AECs and/or the resulting customer detriment we have provisionally found, and serves as a basis for further consultation with interested parties. Our provisional decision has been reached based on our consideration of all the evidence we have received to date through the course of the investigation.
- 1.19 Our provisional decision document is structured as follows:
- (a) In Section 2 we set out the framework for our consideration of remedies.
 - (b) In Section 3 we describe our proposed foundation remedies covering the introduction of an open API banking standard to share data, publication of service quality data and the introduction of prompts for customers to consider their banking arrangements.
 - (c) In Section 4 we set out our proposed measures to improve the awareness of, confidence in and the process of switching current account.
 - (d) In Section 5 we provide details of further measures to increase awareness of and engagement with the overdraft usage and charges, and to reduce the detriment arising from overdraft usage.
 - (e) In Section 6 we outline additional measures for SMEs aimed to increase the transparency of prices of and eligibility for SME lending, enhance the ability of SMEs to compare banking products and improve BCA opening procedures.
 - (f) In Section 7 we discuss those remedies that we are not proposing to take forward.
 - (g) In Sections 8 and 9 we evaluate the effectiveness and proportionality of the proposed package of remedies including a consideration of any relevant customer benefits flowing from the features giving rise to the AECs and that would be lost as a result of introducing our proposed remedies.
 - (h) Finally, in Section 10, we set out our provisional decision on remedies.
- 1.20 We have not, at this stage, made a final decision regarding the existence or form of any AEC and/or its resulting customer detriment. Therefore, our final decisions on any AEC, and appropriate remedies, will take into account the responses we have received to our [provisional findings](#) and [Remedies Notice](#)

and [Supplemental Remedies Notice](#), and the responses we receive to our provisional decision on remedies.

- 1.21 The CMA invites views, in writing, on this provisional decision on remedies by **5pm on Tuesday 7 June 2016**. We would welcome views on any aspect of the design, effectiveness or proportionality of our proposed package of remedies. We would particularly value further submissions about the likely costs of our proposed remedies, in the light of the more detailed specification of the measures set out in this document.
- 1.22 Our timetable for concluding this investigation is set out on the [investigation case page](#) and we are required to publish our final report by 12 August 2016.
- 1.23 Concurrently to this market investigation we have reviewed the [2002 SME banking undertakings](#) and [2008 Northern Ireland PCA banking Order](#). Our provisional decisions on change of circumstances in relation to these reviews were also published today alongside our provisional decision on remedies.

2. Framework for consideration of remedies

- 2.1 Having identified in our [provisional findings](#) a number of features of the PCA and SME banking markets that give rise to AECs, the CMA is required under EA02⁶ to decide whether action should be taken by it, or whether it should recommend the taking of action by others, for the purpose of remedying, mitigating or preventing the AEC, or any detrimental effect on customers so far as it has resulted from, or may be expected to result from the AEC.
- 2.2 A detrimental effect on customers includes such an effect on future customers and is defined as one taking the form of:⁷
- (a) higher prices, lower quality, or less choice of goods or services in any market in the UK (whether or not the market(s) to which the feature or features concerned relate); or
 - (b) less innovation in relation to such goods and services.
- 2.3 If the CMA decides that action should be taken, it must then decide what action should be taken and what is to be remedied, mitigated or prevented.⁸ In deciding these questions, EA02 requires the CMA in particular to ‘have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the AEC and any detrimental effects on customers so far as resulting from the adverse effect on competition’.⁹ To satisfy this requirement, the CMA considers how comprehensively potential remedies (or packages of remedies) address the AEC and/or resulting detrimental effects on customers, as well as whether the potential remedies are effective and proportionate.¹⁰
- 2.4 The CMA generally prefers to address the **causes** of the AEC directly, however, where this is not possible, or as an interim solution, the CMA may introduce measures to mitigate the harm to customers created by the AEC.¹¹ In practice, the CMA may decide to take several discrete actions itself and/or make several discrete recommendations. This combination of measures is referred to as a package of remedies.
- 2.5 In deciding what remedy or remedies to take forward, the CMA will first look for a remedy that would be effective in achieving its aims. The CMA has made several general observations in its guidance about factors relevant to its

⁶ EA02, section 134(4).

⁷ EA02, section 134(5).

⁸ EA02, section 134(4).

⁹ EA02, section 134(6).

¹⁰ The [Guidelines](#), Part 4, paragraph 329.

¹¹ The [Guidelines](#), Part 4 paragraph 333.

consideration of effectiveness.¹² First, a remedy should be capable of effective implementation, monitoring and enforcement. The effectiveness of any remedy may be reduced if elaborate monitoring and compliance programmes are required. Second, the CMA will take into account the time period over which a remedy is likely to have effect, including how quickly the remedy will take effect and the expected duration of the AEC that the remedy is designed to address. A third consideration is the way in which remedies will interact with each other and with any other existing or expected regulation of the relevant market.

2.6 In considering the reasonableness of different remedy options, the CMA will have regard to their proportionality. In making an assessment of proportionality, the CMA is guided by the following principles. A proportionate remedy is one that:¹³

- (a) is effective in achieving its legitimate aim;
- (b) is no more onerous than needed to achieve its aim;
- (c) is the least onerous if there is a choice between several effective measures; and
- (d) does not produce disadvantages which are disproportionate to the aim.

2.7 In reaching a judgement about whether to implement a particular remedy, the CMA will consider its potential effects on those persons most likely to be affected by it, generally customers and the businesses subject to the remedies. The CMA will seek to quantify the costs and benefits associated with a remedy where it is reasonably practical to do so, taking into account any relevant customer benefits (RCBs) arising from the adverse feature or features of the market concerned. RCBs are limited to benefits to relevant customers that take the form of:

- (a) lower prices, higher quality or greater choice of goods or services in any market in the UK (whether or not the market(s) to which the feature(s) concerned relate); or
- (b) greater innovation in relation to such goods or services.¹⁴

¹² The [Guidelines](#), Part 4, paragraphs 334–341.

¹³ The [Guidelines](#), Part 4, paragraph 344.

¹⁴ Section 134(8)(a) of the EA02.

3. Foundation remedies to make the PCA and SME banking markets work better for customers

Overview

- 3.1 Three sets of cross-cutting measures comprise the foundations of our remedy package, each of which addresses important underlying causes of the AECs we have provisionally found in both PCA and SME banking markets.
- 3.2 The objectives of these remedies are to:
- (a) ensure that customers can make reliable comparisons between prospective providers by accessing details of their products' prices and features and sharing securely with them and third parties, such as price comparison websites (PCWs) and finance platforms,¹⁵ their transaction history via open standard application program interface (APIs) (see paragraphs 3.13 to 3.102);
 - (b) ensure that customers can compare the service quality of prospective providers by requiring them to make available customer recommendation and operational performance metrics in respect of PCA and SME banking services, including to finance platforms and comparison websites (see paragraphs 3.103 to 3.199); and
 - (c) promote customer engagement by prompting account holders to consider their existing banking arrangements and to take appropriate action, such as searching, comparing or switching providers or products. Such prompts may be issued periodically, at key milestones in a customer's banking relationship and on the occurrence of specific events. To maximise the impact of these prompts, we are recommending further testing by the FCA, prior to implementation (see paragraphs 3.200 to 3.357).
- 3.3 These three foundation measures serve as enablers of our other proposed remedies and of market-based solutions to the problems we have provisionally identified. While complementary to each other and to the other remedies, they also have a number of common characteristics that underpin their importance to the overall remedy package:
- (a) First, all three remedies make use of technology developments which could improve the reliability, and substantially reduce the costs to customers, of searching for and comparing providers and make it easier

¹⁵ As defined in the [Small and Medium Sized Business \(Finance Platforms\) Regulations 2015](#).

and cheaper for providers to issue targeted, timely communications to customers.

- (b) Second, all three remedies aim to facilitate the development of an effective intermediary sector, including PCWs, finance platforms and other financial technology (FinTech) services, to help customers find the best provider for them. Intermediaries whose business models are built around helping customers find and move to better value alternatives will have clear incentives to develop new products and services that make use of the opportunities provided by these measures.
- (c) Third, all three remedies allow scope for ‘fine tuning’ of the presentation of relevant information, either by intermediaries, or through ‘road testing’ prompts or other material that banks are required to provide to customers (eg through RCTs).
- (d) Fourth, the focus of all three remedies is on empowering SMEs and PCA customers to make use of the information available to them under these remedies and to take greater control of their banking arrangements. The actions that customers take as a consequence may involve switching provider, or alternatively achieving a better deal from their existing bank (eg through ‘internal switching or by avoiding unnecessary charges).

How these remedies address the AECs and/or the resulting customer detriment

- 3.4 The three measures described in this section directly address many aspects of the AECs and the resulting customer detriment set out in Section 12 of our [provisional findings](#). They are also likely to enhance the impact of other remedies in our proposed remedy package. In the following paragraphs we discuss the contribution made by each remedy.

An open API standard, open data and data sharing

- 3.5 Our proposed remedy to mandate the timely development of open API standards, the provision of product and service information as open data and the sharing of customer transaction data, has the potential to significantly increase rivalry in PCA and SME banking markets in both GB and NI by addressing a number of the barriers to accessing and assessing product and provider information that we provisionally identified. The remedy would:

- (a) require providers to make information on PCA and SME banking products, including prices, terms and customer eligibility criteria,¹⁶ available as open data to customers and to third parties such as finance platforms and PCWs. This will address barriers to accessing information for PCA and BCA customers;¹⁷
- (b) enable SME and PCA customers to compare the likely cost of, and in the case of SME loans their eligibility for, rivals' products, by authorising their existing account provider to share with third parties in a secure environment, subject to the customer's informed consent and using open standard APIs, their transaction histories. This will address barriers to assessing the costs and suitability of different providers' PCAs and BCAs and, in the case of SME loans, the information asymmetries and incumbency advantages of BCA providers that we provisionally found;¹⁸ and
- (c) facilitate the growth of a dynamic intermediary sector with the ability and incentive to help customers obtain better terms from their current providers or switch to new products or providers which offer better value.

3.6 This remedy would not just reduce or remove the friction encountered on the existing 'customer journey' of searching for, selecting and potentially switching traditional providers, but could change the journey itself by facilitating the emergence on a large scale of new service providers with different business models offering innovative solutions to consumers and SMEs.

3.7 These could include:

- (a) the unbundling of products that are typically sold together by providers at present, such as overdrafts and current accounts;
- (b) eroding or removing the incumbency advantages enjoyed by BCA providers because of their access to their customers' transaction histories when considering loan applications from SMEs; or
- (c) overcoming the obstacles to switching arising from low levels of customer engagement by, for example, automatically transferring cash balances

¹⁶ We also propose to require providers to provide service quality indicators as open data and set out the benefits of doing so below (paragraph 3.76), where we set out our remedy intended to facilitate comparisons between providers' service quality.

¹⁷ [Summary of provisional findings](#), paragraph 51(d).

¹⁸ [Summary of provisional findings](#), paragraph 101.

from accounts paying low or no interest to higher interest earning ones or paying money into accounts that are about to go into overdraft.

- 3.8 Third party services already exist, for example, which monitor transactions and balances in current accounts, forecast the account holder's cash flows and provide a line of credit (or a link to alternative lenders) whereby money is automatically paid into the account if it is necessary to do so to avoid overdraft charges and withdrawn subsequently when the account is back in credit.¹⁹
- 3.9 However, to use these and similar services it is generally²⁰ necessary for users to disclose to the service provider their internet banking log-in credentials which may affect, or be perceived to affect, the guarantees against fraud that banks provide.²¹ We explain below (paragraph 3.36) why we believe such services will gain greater market acceptance if our remedy, which removes the need to disclose these details to a third party, is adopted.

Service quality indicators

- 3.10 Service quality is important to SMEs and PCA customers. Measures to require providers to make available reliable, rigorous and comparable performance indicators will help overcome the barriers faced by SMEs and PCA customers in evaluating the quality of service offered by providers. We would expect the impact of these indicators both to encourage and be amplified by the development of a dynamic intermediary sector, which would find new and innovative ways of distributing and presenting this information and combining it with other material of interest to customers.

Prompts

- 3.11 Our proposed remedy to prompt BCA and PCA customers, both periodically and following the occurrence of specific events, to review their existing banking arrangements is intended to increase customer engagement and encourage customers to obtain better value for money. The range of prompts we are proposing to test may be expected to encourage customers to compare alternative products and/or providers, and to consider switching if there is a more suitable product and/or provider that better meets their needs. As such, they are highly complementary to the other foundation measures

¹⁹ See [SafetyNet Credit's website](#). See also the [Pariti](#) and [Money Dashboard](#) websites. Accounting software providers such as [Sage](#) and [Xero](#) can also provide cloud-based services for SMEs with links to their bank accounts.

²⁰ Some banks themselves, for example Santander, offer [sweep services](#) which do not require the sharing of log-in details with third parties.

²¹ See, for example, this [explanation by NatWest](#) to a customer of the bank's terms and conditions in respect of services such as [OnTrees](#).

which facilitate the development of effective comparison tools and the provision of comparable information.

3.12 In the remainder of this section, we set out our provisional decisions on the design and implementation of each of these three remedies.

Measures to develop and require the adoption of open API standards and data sharing

Summary of the measures we are proposing to take forward

3.13 Figure 3.1 below sets out our proposed remedy.

Figure 3.1: Summary of proposed measures to develop and require the use of open API standards

We have provisionally decided to:

- Make an Order requiring that RBSG, LBG, Barclays, HSBCG, Nationwide, Santander, Danske, BoI and AIBG adopt and maintain common API standards through which they will share data with other providers and third parties. To this end, the CMA will require these banks to:
 - (a) propose to the CMA for its approval the composition, governance arrangements, funding and budget of an entity (the Implementation Entity) for the purposes of implementing and maintaining open banking standards to a project plan and timetable approved by the CMA;
 - (b) propose to the CMA for its approval a suitably qualified, independent person (the Implementation Trustee), whose services will be paid for by providers and with a mandate, approved by the CMA, to act as chair of the Implementation Entity;
 - (c) use their best endeavours to achieve the objectives of the project plan and the timetable agreed with the CMA; and
 - (d) agree to be bound by the decisions of the Implementation Trustee.
- Require the banks listed above to release and make available through an open API, by the end of Q1 2017, and thereafter maintain as open data, the following reference and product information:
 - (a) the prices, charges, terms and conditions together with customer eligibility criteria, in the case of loans, for all PCA and BCA products (including

overdrafts) and all SME lending products within our [terms of reference](#) (including unsecured loans and overdrafts); and

(b) the reference data (for example branch and ATM location, branch opening hours).

- Require the banks listed above to make available as open data and through an open API, service quality indicators (for example customer recommendation scores) specified by the CMA in its remedy on service quality and at the time required by this remedy.
- Require the banks listed above to:
 - (a) release and make accessible through an open API their 'Midata' data sets (ie redacted PCA data sets) no later than Q1 2017; and
 - (b) adopt and maintain open standards for APIs with full read and write functionality on PCA and BCA transaction data sets within a timetable agreed with the CMA to be no later than the transposition deadline of the second Payment Services Directive (PSD2).

Background to the development of this remedy

3.14 In developing our remedy proposals in this area, we have sought to build on the work of a number of government and industry initiatives that were either already underway when we began our investigation or which were launched during it. These include the improvements made to the [Business Banking Insight \(BBI\) website](#), which offers service quality comparisons between SME banking services providers and the possibility of a Nesta challenge prize on SME banking services,²² both of which we discuss later (see Section 6).

3.15 We also took into account the experience gained from the Midata project, including from our own qualitative research,²³ and the proposals contained in the report of the OBWG²⁴ on open API standards, both of which we now describe.

²² See a description of the challenge on the [Nesta website](#).

²³ [Optimisa Research report](#), section 4.

²⁴ [The Open Banking Standard](#), 8 February 2016.

Midata

- 3.16 In our provisional findings we explained the background and purpose of HMT's Midata project, which launched on the Gocompare PCW in March 2015.²⁵ Midata aimed to facilitate price comparisons between PCAs using customers' own transaction history.²⁶ We said that although this was a positive development, in its current implementation it has some important limitations.²⁷
- 3.17 For example, customers trying to compare prices of PCAs using Midata have to first locate their account history files on their bank's website, then download a .csv file containing their last 12 months' transaction information and finally upload it to the PCW.
- 3.18 Several parties including Which?²⁸ and the major banks²⁹ told us that this process had shortcomings. These included the relatively poor user experience arising from the cumbersome process of uploading and downloading the files described above, the fact that it cannot be used on iPhones, iPads or other mobile devices running the iOS operating system,³⁰ that some transaction history is redacted,³¹ and that its scope is limited to PCAs and therefore is not relevant to SMEs.
- 3.19 The number of Midata downloads to date is low not just in absolute terms but also compared with the number of visitors to the relevant webpages.³² This also suggests that the current implementation of Midata is difficult to use.³³
- 3.20 In our [Remedies Notice](#) we proposed a measure, intended to build on the Midata initiative, which would make it easier for customers to compare current account prices. It had two elements:
- (a) the adoption by providers of open API³⁴ standards; and

²⁵ See [Which?](#), 18 March 2015.

²⁶ See [provisional findings](#), paragraphs 7.94–7.96 and Appendix 3.1, paragraphs 203–205. Subsequently, HMT launched a collaborative project with banks and FinTech organisations to design a framework for the development of an open API standard for PCA and BCA customers. For an explanation of the background to this initiative see the [relevant HMT webpages](#).

²⁷ [Summary of provisional findings](#), paragraph 51 (d) and [provisional findings](#), paragraph 7.96.

²⁸ See the [Which? assessment of Midata](#).

²⁹ See for, example, [LBG response to the Updated Issues Statement](#), paragraph 3.5(a).

³⁰ Around 40% of smartphones in the UK currently run the on the iOS platform. See [Kantar](#) research.

³¹ Data identifying payees may be redacted for reasons of privacy, for example, and this may result in the value of cashback offers in respect of certain transactions being omitted.

³² [🔍]

³³ This was confirmed by our qualitative research. Out of five participants asked to use the current Midata service, only one has successfully done so. The inability to follow the steps required along with data security concerns were the main reasons for others not completing the task. [Optimisa Research report](#), p86.

³⁴ We explain what APIs do in paragraphs 3.31 to 3.33.

(b) the provision of BCA as well as PCA transaction data via open APIs.

Open API standards

- 3.21 In August 2015, HMT launched a joint industry and government initiative, the Open Banking Working Group (OBWG). Its terms of reference were to:
- (a) deliver a framework for the design of an open API standard in UK banking focusing on personal and business current accounts;
 - (b) evaluate how increased levels of open data in banking can benefit consumers, businesses and society; and
 - (c) publish recommendations in a paper by the end of 2015 outlining how an open API standard can be designed, delivered and administered, alongside a timetable and implementation roadmap for achieving this.³⁵
- 3.22 It was hoped by government that delivering an open API standard in the UK would help to drive more competition and innovation in financial services for the benefit of customers and help to develop the UK's FinTech sector.³⁶ Additionally, it was felt that agreeing and adopting open API standards in advance of the EU's plans, under the second Payment Services Directive (PSD2),³⁷ to require banks to provide access to consumer data, could be advantageous to the UK.³⁸ The benefits from the open API project were thus envisaged as extending beyond simply facilitating choice between current accounts.
- 3.23 The OBWG report proposed that within 12 months of its publication a 'minimum viable product' would be delivered including a tightly scoped Open Banking API enabling read-only access to lower risk elements of the Open Banking Framework. This 'reference data' would be publicly available information, for example the location of all ATMs, and, where it was in the public domain, the prices and terms of banks' SME loan products.
- 3.24 By the end of 2017 read-only access by third parties to Midata (ie redacted PCA) data sets would be enabled.³⁹ By the end of 2018 it was proposed that this would be extended to BCA data sets and by the end of 2019 the remaining elements of the project would be delivered, including those

³⁵ [OBWG terms of reference](#).

³⁶ [Letter to the co-chairs of the OBWG from Treasury Minister Harriet Baldwin](#), August 2015.

³⁷ [Provisional findings](#), paragraphs 3.87 to 3.89 and Appendix 3.1, paragraphs 269 to 278.

³⁸ [OBWG Report](#), p2.

³⁹ As noted earlier, these data sets would only comprise data relating to PCA customers of the participating providers and would be redacted.

generally regarded as higher risk, such as those facilitating third party write access, thus enabling, for example, payment initiation services.

3.25 We reproduce below a chart from the OBWG’s report setting out its indicative release schedule.

Figure 3.2: The OBWG indicative release schedule

	Release 1: MVP: i.e. Open “available” data	Release 2: + Midata	Release 3: + Customer transaction data	Phase 4: +Write access
Scope of Open Banking Standard	<ul style="list-style-type: none"> Open “available” data - e.g. branch data (location, hours, address etc.), ATM data, contact details etc. 	<ul style="list-style-type: none"> Open “available” data Midata data-sets (e.g. running balances, debit/credits, merchant fields) NB All data-sets available on a read-only basis 	<ul style="list-style-type: none"> Open “available” data Midata data-sets Customer transaction data - e.g. Balance information, account details etc. NB All data-sets available on a read-only basis 	<ul style="list-style-type: none"> Open “available” data Midata data-sets Customer transaction data - e.g. Balance information, account details etc. NB Data-sets available on a read and/or write basis as appropriate
Milestones and supporting activities	<ul style="list-style-type: none"> Launch of the Standards Governing Body; delivery of simplified reference data model and Open API specification supporting initial data scope Announcement of first-adopter banks to release data via the Open Banking API Launch of Independent Authority Completed RFP, vendor selection and onboarding for sandbox and developer hub build 	<ul style="list-style-type: none"> Impact assessment of Midata transfer on existing infrastructure Establishment of required interaction mechanisms between Midata infrastructure and Open Banking entities Completion of Midata “migration” onto the Open Banking API Consumer awareness campaign to announce roll-out 	<ul style="list-style-type: none"> Significant progression towards target operating models for Standards Governing Body and Independent Authority (ex. Write access) Expansion of Standards to cover customer transaction data Review of key legislation to inform implementation compliance Preparation planning and community engagement for “go-live” on transaction data 	<ul style="list-style-type: none"> Engagement with EBA prior to write-access roll-out Progression towards full target operating models for Standards Governing Body and Independent Authority Assessment of greater attribute porting potential within and between industries Evaluation of further integration with cross-industry data sharing initiatives
	Q4 2016 (y/e)	Q1 2017	Q1 2018	Q1 2019

Source: [The Open Banking Standard](#), Figure 9.2.

3.26 The report envisaged that these technical developments would be accompanied by the adoption of appropriate governance arrangements to minimise the risk of breaches of confidentiality and fraud and to ensure that suitable redress was available to customers in the event that problems occurred.

3.27 In developing our remedy package we have given careful thought to the scope of these proposals, the timetable envisaged for their implementation, their central importance to our remedial measures and our guidance on the timeliness of remedial action.⁴⁰

How this remedy addresses the AECs and/or the resulting customer detriment

3.28 The remedy is designed to facilitate simple, quick and reliable comparisons between providers and enable the entry and expansion of new services to help customers move their money around, thereby addressing barriers to

⁴⁰ The [Guidelines](#), Part 4, paragraph 337.

accessing and assessing information on PCAs and BCAs in GB and NI and barriers to comparing lending products in GB and NI, by requiring the leading providers to:

- (a) adopt open API standards (for both transaction and open data); and
- (b) make available through APIs SME banking product and reference data and, subject to appropriate privacy and security arrangements, BCA and PCA transaction data.

3.29 We explain below how each element of the remedy will address the AECs.

- *Open API standards*

3.30 An open API standard will make it simpler and safer for SMEs and PCA customers to make reliable price comparisons between providers and products. It will enable PCWs and other FinTech companies, with the customer's permission, to view their transaction history for a specified purpose using industry standard technology. This represents a significant improvement over the current Midata service in terms of user experience (see paragraphs 3.16 to 3.19),⁴¹ is likely to be more acceptable to customers than solutions employing 'screen-scraping'⁴² and has important advantages over a situation where each individual provider adopts a proprietary standard for its APIs.⁴³

- *APIs*

3.31 APIs are sets of instructions that allow one piece of software to connect with another. Outside of banking, APIs are used to provide a variety of functions. Companies like Uber, for example, use APIs to connect their drivers with customers in real time.

3.32 APIs may be used to share both 'open data',⁴⁴ for example reference data such as the location of bank branches and, if providers disclosed it, other information. The latter could include a bank's credit scorecards or service

⁴¹ Findings of our qualitative research suggest that an improved version of Midata where transaction data is accessed directly by a comparison site would be preferable to the current service as there are fewer steps in the process and therefore less effort is required on the part of consumers. [Optimisa Research report](#), p88.

⁴² Screen-scraping entails a third party being provided by the customer with their online banking log-in details then using them to access their account data on their behalf.

⁴³ The benefits of open standards for banking APIs are set out in Section 7 of the OBWG report. Although FinTech companies could cope with a variety of API standards in the same way that app developers adapt their products for different mobile platforms the adoption of common, industry standards is likely to be cheaper and more efficient.

⁴⁴ See the definition of open data on the [Open Data Institute website](#).

quality indicators such as survey data indicating the willingness of customers to recommend their bank to other people.

- 3.33 In addition, and with the customer's informed consent, 'closed data', for example their transaction history, could also be shared.
- 3.34 These examples illustrate the potentially wide impact of this remedy, including its relevance to our proposals to enable customers to make effective comparisons of service quality (see paragraphs 3.103 to 3.199), to our additional remedies addressing SME banking services⁴⁵ and to our measures aimed at simplification and standardisation of BCA opening procedures.⁴⁶
- 3.35 The use of API technology would remove the need for customers to download and then upload their transaction data as they currently have to when using Midata. Instead, it would enable their bank's systems to communicate directly with those of the PCWs, or whichever entity the customer had consented to share their data with, and permit only information specified by the customer to be shared: API technology allows the information shared with third parties to be very precisely defined in terms of what may be shared, with whom, over what period and for what purposes.
- 3.36 API technology is also likely to represent a more attractive customer proposition than the process of accessing customer data through 'screen-scraping' used by most FinTech companies already operating in the UK and offering the types of service set out in paragraph 3.8. These include, for example, services allowing a customer to view all their payment and savings accounts through one portal, forecasting an account holder's cash flow and moving funds to their account to avoid overdraft charges, 'sweep' services which move surplus cash out of low/no interest accounts to those where a better return can be had or using an SME's transaction history to assess the affordability of a loan.
- 3.37 It is important to note that API technology does not require the customer to share their online banking log-in credentials with a third party. Data is made available to the third party by the bank upon authorisation by the customer, not by the third party accessing the customer's account using their credentials. Because of this, the customer does not risk losing the fraud

⁴⁵ Information on the terms, conditions and eligibility criteria that providers applied to lending products would also be relevant to our proposals regarding the creation of a comparison website for SME banking services. See Section 6.

⁴⁶ See Section 6.

protection guaranteed by their provider, which could be invalidated if they had provided these details to a third party.⁴⁷

- *Open APIs*

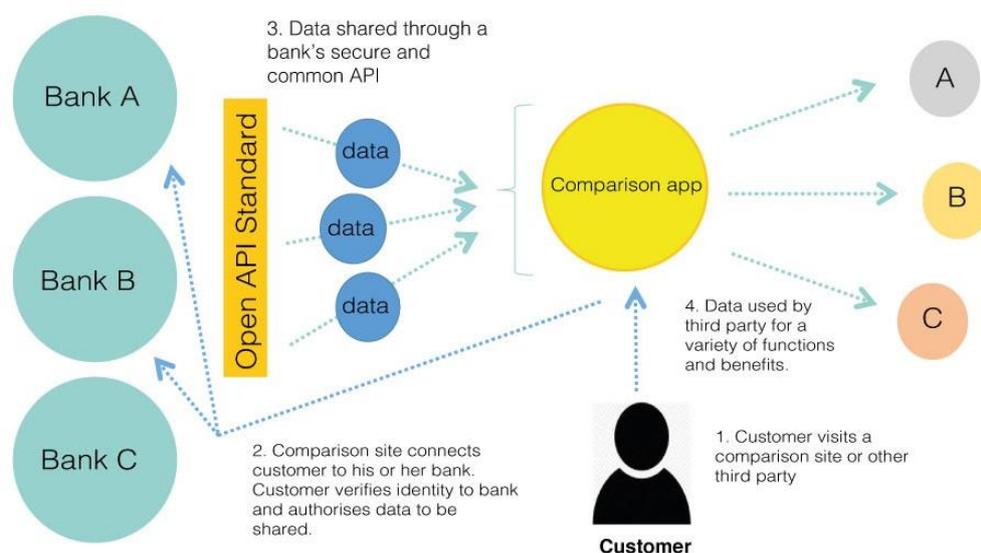
3.38 An open API is a means of accessing information based on an ‘open standard’, which is one that can be accessed or used by anyone.⁴⁸ An open API standard would entail UK banks developing a single and common API, which is publicly available and can be used by any FinTech company or app developer, to design products or apps which would work for all UK banks.

3.39 The creation of an open API standard would permit all banks and intermediaries to operate using the same technology. This is likely to stimulate product innovation since it would create a larger ‘ecosystem’ for FinTech companies and developers to work within, as a single application could then connect with, and be used by, customers from any bank.⁴⁹

3.40 We reproduce below a diagram setting out how an open API standard would help customers compare PCAs and other banking services.

Figure 3.3: An open API standard

APIs: the process for the customer



Open standard API means one app can work with many banks

Source: [HMT Call for evidence on data sharing and open data in banking](#).

⁴⁷ See [Open Data and Data Sharing for Banks](#), paragraph 4.1.1.

⁴⁸ See the definition of an open API standard on the [Open Data Institute website](#). The Open Banking Standard would encompass both data and API standards.

⁴⁹ See HMT (March 2015), [Call for evidence on data sharing and open data in banking](#).

- 3.41 HSBCG submitted a paper which considered, among other matters, the benefits of adopting closed APIs as an interim measure.⁵⁰ This argued that in the short term, a closed framework of API-facilitated data transfer between banks and trusted third parties offers a more immediate solution to data protection concerns, removing the need for an interim Midata solution.
- 3.42 We considered this argument but thought that the data protection risks associated with Open Banking and API technology, while extremely important, have been satisfactorily considered by the OBWG. The OBWG drew on a wide range of industry expertise and its report envisaged further consultations as the initiative progressed, including with the Information Commissioner's Office (ICO).
- 3.43 In addition, while agreement of an open standard within the industry might take longer, the benefits to competition of a common standard are substantial and more likely to give rise to new and innovative services to PCA holders and SMEs than the adoption of closed APIs whereby individual providers would adopt their own, proprietary, solutions.
- 3.44 In our judgement, drawing on the research that has been carried out by ourselves and others, the adoption of an open API standard and the sharing of open and transaction data using APIs will make an important contribution towards reducing barriers faced by customers in accessing and assessing PCA and SME banking charges. It will help customers to make accurate, personalised assessments of how much banking services are likely to cost them and how much they could gain from switching and, to the extent that their transaction history helps their new bank assess their creditworthiness may make switching easier for customers requiring overdraft facilities. In this respect the sharing of PCA transaction data may perform the function of the 'Credit Passport' proposed by TSB.⁵¹ It will stimulate the development of applications which can further help customers search and switch and will reinforce the packages of additional remedies that we are proposing in relation to overdrafts and SME banking services.⁵²
- *The provision of SME as well as PCA transaction data via open APIs*
- 3.45 As we noted in paragraph 3.18, the Midata service does not have access to BCA data sets. Nor does it contain data in respect of charges for or terms of

⁵⁰ Alix Partners (January 2016), [HSBCG supplemental paper on PCWs](#), paragraph 4.7.

⁵¹ [TSB response to our provisional findings](#), paragraph 31 ff.

⁵² We explain below (paragraph 3.76) how APIs and open data can also facilitate quality comparisons between providers.

other SME banking products, for example loans. Consequently, Midata is of no benefit to SMEs looking for a better deal for their banking services.

- 3.46 This element of the remedy would require banks to make available to PCWs, finance platforms and other third parties transactional data for BCAs, via an open API. It would also require an SME's BCA provider to supply to a bank to which an SME was applying to open a new current account the standard data set out in our remedy to make BCA opening easier. Finally, it would require providers to make available and maintain as open data product information, for example the terms, charges and eligibility criteria for SME banking products and service quality information, for example customer recommendation scores or specific performance metrics.
- 3.47 We therefore think that this element of the remedy has an important role to play in addressing barriers to searching for and assessing information on SME banking services. It would also help address some of the information asymmetries and incumbency advantages of BCA providers, in both GB and NI, when assessing the affordability of loans applied for by SMEs. This is because SMEs would be able to use open APIs to share, securely, details of their banking history with other potential lenders which have hitherto only been easily available to incumbents.

Remedy design considerations

- 3.48 We have set out the proposals of the OBWG which have direct relevance to our remedy. We have considered whether it is necessary for the CMA to take further action ourselves, or whether we can be sufficiently confident that the proposals and plans in the OBWG report can be relied upon to put these critical measures promptly into place.
- 3.49 Our consideration includes:
- (a) the proposed technical standards for security and redress;
 - (b) the types of SMEs this remedy would cover;
 - (c) the proposed providers to whom this remedy would apply;
 - (d) the proposed scope and milestones; and
 - (e) the relevant laws and regulations.

Security and redress

- 3.50 Data security and redress are important issues for customers.

- 3.51 In our view, customer confidence in the effectiveness of the arrangements to protect data security is likely to matter at least as much as their technical efficacy. Customers need to be confident that the likelihood of a security breach is extremely low but that if such a breach does occur, then adequate and speedy redress will be available to anyone suffering a loss as a result.⁵³
- 3.52 The OBWG considered this issue carefully and put forward clear standards for authentication and authorisation as part of its proposals. Adoption of these standards should provide important reassurance to customers during the initial stages of implementation of open APIs.
- 3.53 The risk of payment mistakes or fraud is more likely to arise with the availability of payment initiation services using write API functionality though the risks associated with this technology are probably lower than those arising from screen scraping.
- 3.54 Moreover, it seems unlikely to us that API-based payment initiation services would be available on any scale before the redress provisions of PSD2 come into force. These provide that in the case of unauthorised transactions the payer is entitled to address a refund claim to the account provider, even where a third party is involved and without prejudice to the allocation of liability between the payment services providers.⁵⁴
- 3.55 We therefore think that the security and authentication measures proposed by OBWG and the redress provisions of PSD2 will together be sufficient to address the risk that customer confidence in services using this technology will be undermined. As such, we have not sought to specify additional measures in the context of security or redress.

The types of SMEs in scope

- 3.56 In our [Remedies Notice](#) we invited views as to whether all SMEs should be able to share their transaction data with API-based price comparison services or whether the remedy should be subject to an upper turnover limit. We thought that very large SMEs might consider list prices irrelevant since they could be expected to negotiate fees and charges with banks individually.

⁵³ While in our qualitative research, customers expressed concerns about sharing their transaction data in this context, these did not seem insurmountable. The research suggests that robust reassurances and clear measures of redress in place are likely to increase user confidence in the security of the tools. [Optimisa Research report](#), p90.

⁵⁴ [The Open Banking Standard](#), paragraph 8.7.2. See also Articles 72 to 74 of PSD2.

- 3.57 RBSG told us that there should be an upper limit and that it should be expressed in terms of turnover. It suggested an upper annual turnover limit of £2 million which it said would cover [X] % of all SMEs.⁵⁵
- 3.58 LBG⁵⁶ and Santander,⁵⁷ the latter in the context of a PCW for SME banking services, similarly suggested that only ‘smaller’ SMEs should be in scope.
- 3.59 Barclays,⁵⁸ on the other hand, and Bacs⁵⁹ suggested a higher turnover limit, of £6.5 million, which Bacs said would cover 99% of SMEs and which would also coincide with the upper limit applied to SMEs in CASS.
- 3.60 It was not clear to us how banks would apply a threshold in practice since they might not be aware of an SME’s turnover or, even if they were, how they would be able to provide differential access to open data via APIs on this basis.
- 3.61 In the event that banks did apply a limit to SMEs in respect of the provision of transaction data we provisionally concluded that the upper limit should not be set below £6.5 million, which would include virtually all SMEs and would be aligned with the CASS threshold.

Participating providers

- 3.62 When designing our remedies we have to ensure that they achieve as comprehensive a solution as is reasonable and practicable to the AEC that we have provisionally found.⁶⁰ We have provisionally found AECs in GB and NI. We therefore have to consider how many and which banks the remedy will need to apply to in order to address these AECs.
- 3.63 Since the AECs apply to both PCAs and SME banking services we thought that we should include shares of supply in both as our criteria for inclusion.
- 3.64 The top six providers in the UK as a whole (LBG, RBSG, HSBCG, Barclays, Nationwide and Santander) have a combined share of supply in PCAs and BCAs of around 90%. We considered whether we could address the AECs effectively by making only these banks subject to the obligations set out in this remedy, relying on commercial pressure and the future requirements of PSD2 to drive compliance by the smaller providers in due course.

⁵⁵ [RBSG response to Remedies Notice](#), paragraph 3.3(g).

⁵⁶ [LBG response to Remedies Notice](#), Section C, paragraph 1.7(d).

⁵⁷ [Santander response to Remedies Notice](#), Annex 2, paragraph 4.3.

⁵⁸ [Barclays response to Remedies Notice](#), paragraphs 1.4 & 4.4.1.

⁵⁹ [Bacs response to Remedies Notice](#), paragraph 6.2 (g).

⁶⁰ The [Guidelines](#), paragraph 329.

- 3.65 We noted that while these providers accounted for a very large share of current account supply in GB, in NI other providers are more important. Danske, AIBG and BoI figure in the top 6 suppliers of PCAs and BCAs in NI, accounting between them for shares of supply of around 40% and 60% in the PCA and BCA markets respectively. For the remedy to be effective in the whole of the UK we provisionally decided that it would be necessary to also include these NI banks in the scope of our remedy.
- 3.66 We considered whether it would be necessary to also make smaller providers – in either GB or NI – subject to the requirements of our remedy.
- 3.67 We thought that very recent entrants would have a strong incentive to adopt the relevant standards since this could help them attract new customers and that doing so would not be particularly onerous since their platforms were based around the latest technologies with no legacy systems and a relatively small customer base.
- 3.68 We thought that some smaller, though longer established, banks in GB and NI could encounter disproportionately higher costs in adopting and integrating the necessary technology into their legacy systems. However, we also noted that all banks will ultimately have to comply with the access provisions of PSD2, though these may not entail using open standard APIs.
- 3.69 Our assessment was that since the participation of these smaller GB or NI providers was not essential for the remedy to be effective, and that some of them may in any case choose to adopt open API technology as part of their competitive strategy, we should not oblige them to do so, but will welcome their participation.
- 3.70 We therefore provisionally decided that in order to address the AEC effectively in both GB and NI it would be necessary to require LBG, RBSG, HSBCG, Barclays, Nationwide and Santander, Danske, AIBG and BoI to comply with our remedy.

Scope and milestones

- 3.71 Our Guidance requires us to take account of the time within which a remedy will have an effect and states that we will favour remedies that can be expected to show results in a relatively short time.⁶¹

⁶¹ The [Guidelines](#), Part 4, paragraph 337.

- 3.72 As this remedy is central to our entire package and the effectiveness of many individual remedies is dependent on it, we thought it was important to consider how quickly it could be brought into effect.
- 3.73 The work of the OBWG was not progressed during the first quarter of 2016 but we took as our starting point its timetable in order to provide us with an indication of how soon various elements of open banking could be introduced.
- *Product and reference data sets*
- 3.74 The first release of open data envisaged by the OBWG was in late 2016 and consisted of reference data, of which it provided branch and ATM locations and branch opening hours as examples. The data to be released was characterised as low risk, giving rise to no security or privacy concerns, unlike transaction data.
- 3.75 We noted that product information (eg price, terms, conditions and eligibility criteria) is, generally, already in the public domain and does not give rise to the privacy or security concerns that the sharing of transaction data does. We therefore thought that it should be relatively easy to widen the scope of this release beyond that envisaged by the OBWG to include product information.
- 3.76 We thought that the same considerations applied to at least some of the core performance indicators that we discuss in the section on service quality (see paragraphs 3.103 to 3.199). However, while its disclosure will not give rise to concerns over privacy or security not all providers may currently collect this information and it will therefore be necessary to allow them time to make the appropriate arrangements. We therefore provisionally decided that the scope of the first release of retail banking open data to be mandated as part of our package of remedies should comprise reference data and product specifications (prices, terms and conditions) for PCAs and SME banking products. We will require core service quality information to be published according to the timetable set out in our discussion of our foundation remedy on service quality.
- 3.77 The OBWG schedule, which represented a consensus among its members, required that some, though it is not clear exactly which, reference information such as ATM locations should be made available on an 'open' basis in Q4 of 2016.
- 3.78 Given that the product information we have specified is generally in the public domain already we could see no reason why it should take longer than a few additional months for providers to arrange for its publication in conformity to open data standards.

3.79 We therefore provisionally decided to require the providers listed in paragraph 3.70 above to publish, by the end of Q1 2017, and maintain as open data, the following product and reference information:

(a) The prices,⁶² charges, terms and conditions together with customer eligibility criteria, in the case of loans, for all PCA and BCA products (including overdrafts) and all SME lending products within our terms of reference (including unsecured loans and overdrafts).

(b) The reference data as specified by the CMA including branch and ATM locations, branch opening hours.

- *PCA and BCA data sets*

3.80 The OBWG proposals envisaged the release of 'Midata' data sets (ie redacted PCA information)⁶³ by Q1 2017, unredacted PCA and BCA datasets by Q1 2018 and API with full read and write functionality being delivered by the end of Q1 2019 – the latter coinciding with the latest date for the full adoption of PSD2, including its associated regulatory technical standards. We considered whether it would be practicable and proportionate to mandate advances to this timetable.

3.81 First, we noted that the scope and scale of the project overall was very broad, and likely to bring about some major, beneficial changes in UK retail banking. In particular, it is likely to increase competition from new service providers for what are probably some of the banks' most profitable customers, for example heavy overdraft users. In this context, an overall timescale of around two years, with some benefits beginning to flow through less than nine months after our final report, may not be unreasonable.

3.82 Second, the schedule represented the consensus of OBWG participants, including providers, FinTech companies and industry experts. We thought that it could therefore represent a balance or reasonable compromise between the FinTech companies, which have been pressing for early adoption, and some banks which favoured a slower pace.

3.83 Third, we compared the timescale set out by the OBWG to that of the transposition of PSD2 and associated regulatory technical standards dealing

⁶² For the avoidance of doubt, this would not include the requirement to make available by this date the pricing and eligibility tool included in our additional SME remedies package. The timing of this measure's implementation is set out in Section 6.

⁶³ For an explanation of the redactions that were made to the Midata data sets and the OBWG's proposals for handling the issue in future see [Open Banking](#), paragraph 8.4.3.3.

with, for example, security of communications and customer authentication.⁶⁴ While we welcome the Midata data sets being released in advance of PSD2, the OBWG timetable did not envisage the full read and write functionality would be finalised until a year after PSD2 was transposed. While the regulatory technical standards would not yet be in place in January 2018, payment service providers will still need to comply with the other requirements of PSD2, including the right to access customers' payment accounts. There would therefore be an advantage in having an agreed open API with full read and write functionality in place for January 2018 as it would avoid the need for banks to put in place other measures to comply with the PSD2.

- 3.84 On this basis we provisionally decided that it would be reasonable to adopt the OBWG timetable in relation to the open product data referred to in paragraph 3.79 and the Midata PCA data sets. However, we noted that the transposition of PSD2 takes place in January 2018. We therefore provisionally decided that adoption of open API standards incorporating full read and write functionality on PCA and BCA transaction data sets should take place at the beginning of Q1 2018. As such, we have provisionally decided not to require an intermediary set of read-only unredacted PCA and BCA datasets. We welcome views from parties as to this implementation timeframe.

Laws and regulations

- 3.85 In designing this remedy, we have had regard to both PSD and PSD2, both of which are maximum harmonisation provisions. PSD2 will require payment service providers to share information with account information services and allow payments made by payment initiation services. PSD2 also envisages the development of regulatory technical standards, which will ensure the establishment of adequate security measures between, amongst others, payment service providers, payment initiation service providers and account information service providers. We consider that open API standards will provide a mechanism for payment service providers to comply with their requirements under PSD2 and should be developed so as to be compatible with PSD2. We are also of the view that requiring banks to share the data described above via open API is compatible with both PSD and PSD2. We have also aligned the timing of our remedy with the transposition of PSD2.

⁶⁴ The legislation implementing PSD2 will be transposed in the UK by 13 January 2018. Article 98 of PSD2 requires the European Banking Authority (EBA) to develop draft Regulatory Technical Standards to ensure the establishment of adequate security measures between, among others, payment service providers, payment initiation service providers and account information service providers, for submission to the European Commission by 13 January 2017. They will then come into force 18 months after they are adopted by the European Commission. See the EBA [Discussion Paper EBA/DP/2015/03](#).

3.86 We discussed data protection at paragraph 3.42 above. We encourage providers to continue to work with the ICO to ensure the manner in which they share transaction data complies with data protection laws.

Implementation issues

3.87 The OBWG was successful in achieving, in a very short time, consensus over the agenda for open banking between big and small providers and the open data and FinTech communities. It also delivered a road map for the adoption of open banking standards. We do not, however, think that a body modelled on the OBWG would be an appropriate vehicle for the implementation of our remedy. It represented, for example, an entirely voluntary set of arrangements and did not have the necessary authority or appropriate composition and resources to implement our remedy.

3.88 We think that an effective implementation vehicle or entity for our remedy should:

(a) share some of the characteristics of the OBWG, for example, provide a forum for the debate and discussion of the implementation options by technically qualified participants to reach a consensus; and

(b) have the means to impose a solution where a consensus failed to emerge to ensure that the remedy was implemented in a timely way. We think that the authority to impose a solution in such circumstances should most appropriately rest with the chair of the entity.

3.89 The chair would thus be in a pivotal position in the management of the implementation plan and, accordingly, must be clearly accountable to the CMA for the implementation of the remedy. We propose to handle their appointment as we would that of a Monitoring or Divestment Trustee: we would invite the parties to propose for our approval the names of suitably qualified candidates and a Trustee mandate.

3.90 On the entity's composition, at this stage we think it appropriate that the largest banks in GB and NI, as specified in paragraph 3.70 and to whom the requirement to adopt and maintain open API technology would apply, should be represented on it. Smaller banks would be free to participate if they wished, and would then do so on the same terms as the banks which are being required to participate.

3.91 In addition, we think the FinTech sector should be represented and that the entity should include, at least as observers, both HMT and FCA representation, reflecting the commitment of government to Open Banking and FCA's regulatory role under PSD2 respectively. We do not think it

necessary to require that a representative of the CMA should be a part of the entity as reporting functions to the CMA would be performed, as required, by the chair.

- 3.92 We would welcome further submissions from parties on the structure and membership of the Implementation Entity, including any future role it might have in the development of open banking standards.
- 3.93 Finally, the entity implementing the remedy would need to be adequately resourced and we envisage that providers would fund it in proportion to market share. At this stage we are not clear exactly how much support the entity would require although we note that the process envisaged is complex and will therefore benefit from robust project management services, potentially procured from an external supplier. The entity may also require specialist technical support, for example for the organisation of the data 'sandbox'⁶⁵ envisaged by the OBWG.
- 3.94 Since there is no existing entity which conforms to the criteria we have set out here it will be necessary for us to create one and make the necessary arrangements for its funding, composition and governance within the broad principles set out here. We have provisionally decided to do so, using our order-making powers, and invite the views of parties as to the appropriate design criteria to be used.

Cost of remedies

- 3.95 We considered the cost of this remedy and in particular whether its scope or implementation timetable placed unreasonable burdens on the industry.
- 3.96 Although the absolute cost of this remedy will be material, very similar obligations will be imposed on the industry by PSD2 in two years. We therefore focused on the additional costs of our remedy and, in particular, whether our proposed timetable for the adoption of the remedy was significantly more onerous than that for PSD2.
- 3.97 We have already noted that the timetable for the first release of open reference, product and performance data should not present providers with a major problem as it gives rise to no security or privacy concerns and most of the data is already in the public domain.

⁶⁵ A sandbox is intended to provide an environment in which software developers can experiment with new products, using live data but free from regulatory risk. See for example the description of the FCA's [Regulatory Sandbox](#).

- 3.98 The release of redacted PCA information should present few problems for the banks which participated in the Midata initiative as they would already have addressed the technology issues involved.
- 3.99 The read and write API functionality poses greater challenges. However, the OBWG participants concluded that it was feasible to address concerns, including those relating to privacy, in relation to unredacted PCA and BCA transaction data within that timeframe. Read and write functionality also raises challenges involving issues of security and fraud prevention but our timeframe does not require providers to adopt the relevant measures any sooner than the redress provisions in relation to PSD2 coming into force.
- 3.100 Finally, we considered the costs to the industry of supporting the Implementation Entity and the Trustee. We envisage that most of the support for the Implementation Entity will arise from the provision of time and expertise of employees both from providers and FinTechs. The cost of the Trustee, however, and the procurement of data services involved in operating a 'sandbox', for example, would involve providers in external expenditure. However, we doubt whether the total costs of support in cash or kind, would exceed £20 million. As these costs will be being spread over two years and in all likelihood shared between providers we do not consider them to be unreasonable.
- 3.101 We therefore provisionally concluded that the cost of the remedies would exceed that of complying with PSD2. However, the difference was likely to be small, particularly relative to the benefits of prompt implementation of this key measure.
- 3.102 We welcome views on this and on possible ways of reducing the cost of the remedy.

Measures to enable PCA customers and SMEs to make comparisons between providers on the basis of their service quality

Introduction

- 3.103 We provisionally found that PCA customers and SMEs in GB and NI face difficulties in accessing information on which to base an assessment of rival providers' service quality, and this was one of the features that contributed to our AEC findings.⁶⁶

⁶⁶ [Provisional findings](#), paragraphs 12.3(a) & 12.7(b).

- 3.104 We also provisionally found that there are strong links between BCAs and SME lending products, with the majority of SMEs going to their BCA provider for finance, having done little or no searching, and that SMEs quite often require finance on short lead times.⁶⁷
- 3.105 Banks understand the importance of service quality in acquiring and retaining customers. Many providers continuously monitor and benchmark their performance against competitors including by using survey research to measure customer satisfaction and customer willingness to recommend the provider to others.
- 3.106 Information about some features of providers' offers which could affect their quality of service, such as the number and location of their branches and their opening hours, is readily available to customers.⁶⁸ Other information, such as the time it typically takes to open a current account, the reliability of transaction services or how quickly or well they handle complaints, is not.
- 3.107 The most comprehensive source of service quality information for SMEs of which we are aware of is [Business Banking Insight \(BBI\)](#), a website⁶⁹ which collects and provides information on banks' quality of service to SMEs through a quarterly survey. Consumer-facing organisations such as Which? also periodically report on the service quality of PCA providers.
- 3.108 The Nesta challenge prize, which we discuss in detail in Section 6, may facilitate the entry of new, and the expansion of existing, providers of service quality information to SMEs. In addition, our remedies to deliver open APIs, which we discuss earlier, are likely to facilitate the availability of service quality information for PCA holders and SMEs as open data, distributed through APIs.
- 3.109 In our [Remedies Notice](#) we proposed that providers should be required to collect and disseminate indicators of the quality of their PCA and SME banking services in a form that would enable customers to make comparisons between them. We invited views on which facets of service quality were most important to customers, how they could best be measured and how the resulting metrics could best be disseminated.

⁶⁷ [Provisional findings](#), paragraphs 12.11(a) & 12.11(c).

⁶⁸ Though these may not always be in a standardised format, or easy to compare across providers.

⁶⁹ Jointly driven by the Federation of Small Businesses (FSB) and British Chambers of Commerce (BCC), BBI was originally initiated by HMT and is supported by an advisory group that includes the British Bankers' Association (BBA), RBSG and BIS.

3.110 On the basis of the responses we received to our [Remedies Notice](#) and research and analysis undertaken subsequently we now set out the remedy that we have provisionally decided to adopt and explain our reasoning.

Summary of the measures we are proposing to take forward

3.111 In Figure 3.4 below we summarise our proposed remedy.

Figure 3.4: Summary of proposed remedy enabling PCA customers and SMEs to make comparisons between providers on the basis of their service quality

- We have provisionally decided to make an Order requiring PCA and BCA providers⁷⁰ in GB and NI to display prominently, in a manner specified by the CMA, the following core indicators of service quality:
 - (a) Customers' willingness to recommend the provider's current account services to friends, family or colleagues;
 - (b) Customers' willingness to recommend the provider's branch services;
 - (c) Customers' willingness to recommend the provider's digital account management services;
 - (d) Customers' willingness to recommend the provider's credit services (the provision of overdrafts⁷¹ and loans);⁷² and
 - (e) (For SMEs only) Customers' willingness to recommend the provider's relationship management services.
- The above data should be collected and published biannually for both PCA and SME customers, using methodology stipulated by the CMA. It should also be made available as open data to third parties, such as PCWs and finance platforms.
- Additionally, we have provisionally decided to recommend to the FCA to implement a second part of the remedy (within the FCA's existing remit) to require

⁷⁰ New entrants and other very small providers may be excluded from this requirement. See paragraphs 3.182 to 3.186. We propose that providers offering SME lending but not BCAs are excluded from the Order, as (i) only one core measure relates to SME lending, (ii) overdrafts are only offered together with BCAs, (iii) the BCA providers represent the vast majority of the SME lending market by value of loans outstanding at end of 2014, and by number of loans outstanding at end of 2014 and (iv) including all SME lenders would increase the cost of the survey and would create difficulties in achieving robust sample sizes.

⁷¹ Survey data should be collected in a way that makes it possible to distinguish between customers who are regularly overdrawn and occasional users of overdrafts.

⁷² In the case of PCAs, this measure would capture provision of overdraft services only, while in the case of SMEs, the measure would capture provision of overdrafts and general purpose business loans (secured and unsecured).

PCA and BCA providers⁷³ to publish, and make available to others including as open data, additional objective measures of service performance encompassing their PCA, BCA and SME lending products and principal sales/delivery channels. The additional data could include measures in the following areas:

(a) For both personal customers and SMEs:

- (i) interruptions to, and unavailability of, services including digital;
- (ii) performance of telephone service/call centre;
- (iii) availability of (services in) branches (by branch where relevant); and
- (iv) complaints handling;

(b) For personal customers only:

- (i) provision of overdraft management services;

(c) For SMEs only:

- (i) nature and provision of relationship/account management; and
- (ii) simplicity and speed of business account and credit facility opening procedures.

How this remedy addresses the AECs and/or the resulting customer detriment

3.112 In developing this remedy option, we have distinguished between core information on service quality, which should be clearly disclosed to all customers, and more detailed information which should be made available to intermediaries and more sophisticated and/or engaged customers.

3.113 In relation to the mandatory disclosure of core information, we know from previous research that simply providing all customers with significantly more information would not guarantee better outcomes.⁷⁴ Overloading customers with information is a particular risk in a market characterised by low levels of engagement; a point made by several of the parties who responded to our [Remedies Notice](#) and information requests.

⁷³ The FCA may wish to consider extending the requirement to SME lending providers within their existing remit.

⁷⁴ See for example, Ofcom (March 2013), [A Review of Consumer Information Remedies](#).

- 3.114 Our qualitative research among SMEs and personal customers indicates that, for smaller businesses and personal customers, there is a requirement for ‘at a glance’ information to help them compare providers, or develop a shortlist.⁷⁵
- 3.115 On this basis, we think that providing, in easily digestible form, comparable measures of providers’ performance across a small number of key quality facets would be the most effective way of addressing the difficulties faced by customers in accessing information on which to base an assessment of rival providers’ service quality that we have provisionally found (see paragraph 3.103). Our current thinking is that indicators based on customers’ willingness to recommend various aspects of service quality would be most suitable metrics in this regard. However, there may be alternative measures that are suitable (either instead of, or in addition to, willingness to recommend), and we would welcome further views on this aspect of remedy design.
- 3.116 While this approach may address the information needs of relatively un-engaged PCA customers and time-poor SMEs, more sophisticated comparisons, undertaken most likely by larger SMEs, professional advisers or intermediaries such as PCWs and FinTech companies, would be facilitated by requiring providers to publish more detailed performance information as open data, distributed via APIs.
- 3.117 In addition, because SMEs quite often require finance on short lead times, and the majority go to their BCA provider for finance, having done little or no searching, providing some metrics on SME lending (for example, the average time taken for new credit facilities to be available) would give more information to SMEs when considering lending, and would work together with our other SME remedies outlined in Section 6 to prompt SMEs to consider other lenders.

Remedy design considerations

- 3.118 The principal remedy design questions that we sought to answer were:
- (a) Which facets of service quality are important to consumers and SMEs?
 - (b) Who should collate service quality data and how?
 - (c) How should information relating to service quality of providers and/or products be published?
 - (d) How should service quality data be presented?

⁷⁵ [Optimisa Research report](#).

(e) Which providers should be required to publish service quality data?

3.119 We reached our provisional decision by considering all of these aspects of remedy design together, including how they interact with other proposed remedies, but for clarity discuss each in turn.

Facets of service quality

3.120 In the context of PCAs and BCAs, service quality can be considered to cover both aspects of customer service (eg politeness of staff, speed of response to queries or complaints, etc) and product characteristics and features (eg can account be managed via a particular channel, withdrawal limits, etc). In considering which facets of service quality are important for PCA customers and SMEs we:

- (a) analysed survey evidence, both our own⁷⁶ and off-the-shelf material submitted by parties;
- (b) looked at which service quality data is currently available to, and used by, customers;
- (c) considered what parties told us about what information customers required;
- (d) examined which aspects of service quality providers monitor themselves; and
- (e) looked at quality data published in other sectors.

- *Survey evidence*

3.121 Our research indicated that PCA customers and SMEs want information on service quality to help them compare products in the market.

3.122 Our quantitative research found that 'quality of staff and customer service' and 'quality and speed of handling problems', followed by internet banking, emerged as the most important aspects of the current account.⁷⁷

⁷⁶ [Optimisa Research report](#).

⁷⁷ Customers were asked to rate the importance they attached to each of the nine features of the bank account. In response, 83% and 82% respectively said they found the 'quality of staff and customer service' and 'quality and speed of handling problems' essential or very important. Internet banking was rated as essential or very important by 62% of customers. [PCA survey](#), p36.

3.123 Our qualitative research found that there were many similarities between the needs of smaller SMEs and personal customers but clear differences between their needs and those of medium and larger SMEs in the facets of service quality that they wanted to compare.⁷⁸

(a) Small businesses/sole traders and consumers want ‘at a glance’ information that is easy to digest and compare as a proxy for the overall performance of the bank. They are also interested in reading customer-generated content and are familiar with seeking out reviews and exploring others’ shared opinions online (eg [TripAdvisor](#)).⁷⁹

(b) In contrast, the medium and larger SMEs told us they were less interested in comparing and contrasting broad ‘at a glance’ proxy scores for customer service and typically wanted details about the ‘quality’ of the personal relationship management from different providers. This included guarantees of the provision of a relationship manager and also the expected level of contact (channel and frequency) with their relationship manager. They were interested in how needs that are specific to the nature of their business would be managed, eg being able to switch money between accounts without incurring charges.⁸⁰

(c) The quality of mobile apps and internet banking, and quality of branch staff are important facets to both SMEs and consumers, while branch opening hours, queuing time and number of complaints per 1,000 accounts are less important facets to both groups.⁸¹

3.124 Quantitative and qualitative research undertaken for BBI in October 2015 found that SMEs would like more insight into some of the more tangible aspects of banking, in particular relating to the level of customer service, number of branches worldwide, online services and strength of apps, and the availability of relationship managers.⁸²

3.125 Quantitative and qualitative research for Tesco Bank undertaken in July 2015 found that the most important considerations for consumers when considering a new PCA⁸³ are good online banking, good customer service and fair and clear fees and charges, while customer service, overdraft fees and charges, and credit interest rates are the most difficult elements to compare. The research also found that the benefits of switching are made clearer if

⁷⁸ [Optimisa Research report](#), p100.

⁷⁹ [Optimisa Research report](#), p100.

⁸⁰ [Optimisa Research report](#), pp100–101.

⁸¹ [Optimisa Research report](#), p103.

⁸² Data from BBI. Sample of 229 SME respondents.

⁸³ Or reasons for choice of PCA in the case of respondents who had switched.

information is presented in a way that enables ‘at a glance’ assessments, as it would raise standards (with pressure on poorly performing providers to improve) and it would enable high level comparisons across providers.⁸⁴

- *Currently available information on service quality*

3.126 We reviewed the information about service quality that is currently available to customers:

- (a) Some provider characteristics and product features which might indicate aspects of quality (such as the ability to issue cheque cards in branch, branch numbers and opening hours) can be found on providers’ websites.
- (b) Provider-level complaint numbers are published by the FCA, though these are only available for the broad category of ‘banking and credit cards’, and only for those providers which have more than 500 complaints (in the half-year period covered) not resolved on the business day in which they were reported.⁸⁵
- (c) Provider-level complaint numbers are published by the Financial Ombudsman Service (FOS), though these too are only available for the broad category of ‘banking and credit cards’ and only cover complaints received by the FOS from customers dissatisfied with the financial provider’s response to their complaint.⁸⁶

3.127 Some information on PCA customer satisfaction levels is published by Which? Compare⁸⁷ and MoneySavingExpert.com,⁸⁸ though sample sizes for some banks in these surveys are relatively small.

⁸⁴ Although we note that the ‘at a glance’ labelling system tested with consumers (ie traffic lights) only included fees and charges rather than service quality measures.

⁸⁵ See [FCA Complaints data](#). Note that from March 2017 the FCA’s biannual complaints publication will change, such that the new data set will include all complaints (not just those not resolved within a pre-specified short period), will be broken down by product (so available separately for current accounts), and include figures to put the number of complaints into context in relation to the size of each business. See FCA (July 2015), [Improving complaints handling, feedback on CP14/30 and final rules](#).

⁸⁶ See [FOS Complaints data – showing individual financial businesses](#).

⁸⁷ Which? Compare publishes the following satisfaction ratings – these are key metrics consumers care about according to Which? research obtained from its own online survey of 6,299 consumers: satisfaction with customer service; satisfaction with clarity of statements; satisfaction with dealing with queries and complaints; satisfaction with service in branch; satisfaction with telephone service; and satisfaction with internet service. Which? also publishes customer scores which are worked out using a combination of overall satisfaction and how likely the respondents are to recommend their bank to a friend. See [Which? Bank accounts: Best banks for customer satisfaction](#).

⁸⁸ The MoneySavingExpert PCW publishes [how banks rate on service](#) – three figures showing the percentage of respondents who consider service is great/OK/poor.

- 3.128 In addition, Defaqto and PCWs⁸⁹ collate data on PCA providers and product characteristics. Defaqto publishes star ratings for PCAs based on (according to Defaqto research) product features most important to, or most likely to be beneficial to the customer, most frequently used features and features reflective of the broader product offering. As many as 40 publicly available features for standard accounts, 52 for added value accounts, and 58 for premium accounts (all excluding charges) are included in the star ratings, although only a handful of features are displayed on the website. Most of these features can be broadly defined as provider and product characteristics.⁹⁰
- 3.129 Fairer Finance publishes data on satisfaction and trust (based on a biannual opinion survey), FOS complaints, and desk-based research on transparency (both for online account opening and readability, and accessibility of their policy documents, or terms and conditions) to produce overall scores for each provider which are shown on their website.⁹¹
- 3.130 We are also aware of the Fairbanking Foundation which awards its Fairbanking Mark⁹² to financial institutions with products that help customers improve their financial wellbeing.⁹³ However, information (including the results of the customer survey) is only published on the Fairbanking Foundation website for the accounts which are awarded a mark.
- 3.131 Sources of service quality information for SMEs are more limited. The most comprehensive survey we are aware of is the BBI quarterly survey of 5,000⁹⁴ SMEs which collects the following service quality data:⁹⁵

⁸⁹ The MoneySavingExpert PCW publishes account criteria and benefits, and allows filtering by interest paying/switching cash/cashback/insurance/overdraft user/ethical/low or minimum pay-ins/basic bank account/student/graduate. Gocompare only publishes account criteria and benefits on the front page, and allows filtering by basic/standard/package account, and allows user to sort by product and provider/credit interest/authorised overdraft interest/yearly fee/switching incentive. Users are able to expand to view one account at a time, and access information on: account management (can account be managed via telephone/branch/post office/internet/smart phone/text alerts), benefits (preferential rates on/access to other products, cashback, exclusive offers and rewards, incentive to recommend account) and facilities (Apple Pay, type of debit card, ATM limit). Moneyfacts publishes account criteria and benefits in a comparison table, but consumers are able to compare up to three PCAs at a time to view: Account management (can account be managed via telephone/post/branch/post office/internet/smart phone apps), facilities (direct debit, standing orders, cheque book, ATM card, debit card (including which card), withdrawal limit, switching guarantee), availability of authorised/unauthorised overdraft facility (yes/no) and benefits (cashback, insurance and preferential terms on other products).

⁹⁰ See [Defaqto Star Ratings](#).

⁹¹ See [Fairer Finance: How we calculate our ratings](#).

⁹² The mark is based on the results of an online customer survey regarding how the product is being used and its perceived impact on customer money management practices, as well as desk-based research reviewing product descriptions, operational procedures, promotional materials, lending policies and customer complaint logs.

⁹³ See [Fairbanking Foundation: How to get a Fairbanking Mark](#).

⁹⁴ Results are shown across the most recent four quarters (ie moving annual results), meaning that the total sample size the results are based on is 20,000 SMEs.

⁹⁵ Not all collected data is currently published by BBI.

- (a) overall recommendation score for each provider;
- (b) satisfaction with a number of service aspects including ease of contact and timeliness of response to queries and complaints;⁹⁶ and
- (c) satisfaction with service received from account/relationship manager.

3.132 It is possible to filter the results by SME turnover, employee size, location, when the business was established, sector and whether or not the SME is internationally active.

3.133 For BCAs, the survey achieves robust sample sizes for larger providers (for example, over four quarters there were 4,232 Barclays customers, 3,588 Natwest customers and 2,519 Santander customers, but for smaller providers sample sizes are low (for example, there were 74 Handelsbanken customers and 53 Metro customers over four quarters), and sample sizes are further reduced once a filter has been applied to the data.⁹⁷

3.134 Based on our review of available data sources, we consider that, although there is some information regarding service quality already published, it has at least one of the following limitations: (a) it does not capture all of the key metrics (and specifically those related to customer service) which customers would like to have to inform their decisions; (b) is not consistent across providers; and (c) is not published where most customers are likely to find it.

- *Views of parties*

3.135 Several providers told us that we should not require banks to publish so much service quality information that it exceeds the intended recipients' willingness or ability to absorb it:

- (a) Santander, for example, in the context of SME banking services, noted that we had invited comments on 39 different service quality facets and said that mandating the provision of this range of measures would unnecessarily complicate the issue of service. Instead, it said that we should mandate the publication a single satisfaction score on all PCWs, and that PCWs could add further information on multiple metrics at their own option.

⁹⁶ Timeliness of response to queries and requests, Understands your business, Shows that they have the interests of your business at heart, Goes out of their way to help you, The ease of getting in contact with someone who can help you, The level of charges and fees, Value for money, Clear and transparent charges, Clear and transparent terms & conditions, and Treats you fairly.

⁹⁷ Data from BBI.

(b) Barclays, similarly, said that measures of service quality needed to be straightforward to use and understand, and that displaying too many could hinder their impact.

3.136 We were also told, however, that because the needs and preferences of customers varied, to be meaningful for the full range of customers a range of facets should be measured:

(a) For example, Barclays said that a single measure of service quality was unlikely to be meaningful for the full range of PCA customers since PCA customers were varied in their needs and preferences. Similarly, SMEs were not a homogenous group and therefore there were many different factors which were relevant for different businesses.

(b) Nationwide also said that different services were important to different customers and that a comparison based on a prescribed list would not be sufficient to capture the range of their interests. It also told us that a system based on a very narrow range of service characteristics would be likely to focus competition on those areas only and could give rise to unintended consequences.

(c) LBG similarly submitted that customers' perceptions of quality of service would depend on a customer's account usage and preferred channels. It also said that, while recognising the importance of service quality to customers, our remedies should be considered in the context of other initiatives that were already underway, including the development of the BBI website, the Nesta challenge prize and the OBWG initiative. It said that we should not decide which metrics customers would find most useful but instead let the operators of PCWs determine this.

3.137 Parties also drew our attention to what they saw as difficulties in making like-for-like comparisons between providers, and we address this in our proposed approach below:

(a) HSBCG, for example, pointed out that our proposed metric on the proportion of SMEs that had a named relationship manager could risk ignoring the fact that different providers had different models for the delivery of account management.

(b) LBG made a similar point: that the definition of relationship manager differed between providers, some being specialised advisers for larger SMEs while for others they were generalist advisers based in branches. Comparing the number of relationship managers each provider employed could thus reflect differences in terminology rather than the level of service provided.

3.138 Parties have also told us which service quality facets they believe should be made available to customers:

- (a) In their responses to our [Remedies Notice](#), several providers and third parties stated that the facets of most importance to personal customers related to customer service, complaint handling and quality of banking channels.⁹⁸
- (b) Further, Barclays stated that the facets of greatest importance to SMEs related to ease of use, consistency and responsiveness, while HSBCG stated that customer service provided by relationship managers or branch-based specialists and telephone operators was important to SMEs.⁹⁹
- (c) Several providers considered that survey-based measures such as satisfaction ratings and/or advocacy ratings, for example net promoter score (NPS),¹⁰⁰ should be published, as these were considered to be reasonable summary measures of both tangible and intangible aspects of service quality, such as customer service across banking channels,

⁹⁸ Barclays told us that high-level themes of importance to consumers were ease of use, speed, empathy and understanding, availability and functionality of channels, and security and reliability ([Barclays response to Remedies Notice](#), paragraph 6.5). Nationwide told us that consumers needed information on quality of staff and customer service, quality and speed of data handling problems, features such as internet banking, mobile apps, telephone banking, contactless cards, Apple Pay and branch availability ([Nationwide response to Remedies Notice](#), paragraph 3.24). HSBCG told us that that general customer service levels, quality of communications with customers, availability and reliability of channels of access, product offering and loyalty rewards were important in the context of PCAs ([HSBCG response to Remedies Notice](#), Part B, paragraph 89). Gocompare told us that according to 2015 research the most important factors when selecting a current account were good online banking, a branch near to where consumers lived, low bank charges, a good customer service reputation, and a traditional banking brand ([Gocompare response to Remedies Notice](#), paragraph 4.1). Bacs told us that service quality could include convenience, core product service, service encounters, response to failed service/complaints and ethical problems ([Bacs response to Remedies Notice](#), paragraph 8.2(a)). Virgin Money told us that ease of doing business (specific to channel); clarity, completeness and accuracy of information provided; 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; access to and quality of self-serve/self-help options were important to consumers.

⁹⁹ Barclays: high-level themes of importance to SMEs were ease of use, consistency and responsiveness ([Barclays response to Remedies Notice](#), paragraph 6.5). HSBCG: for SMEs, customer service provided by relationship managers or branch-based specialists and telephone operators ([HSBCG response to Remedies Notice](#), Part B, paragraph 100(a)).

¹⁰⁰ NPS measures customers' likelihood of recommending a product or a service to others. It can be used as a proxy for customer satisfaction and/or loyalty. NPS is based on customers' answers to the survey question: 'How likely is it that you would recommend our company/product/service to a friend or colleague?' Responses are provided on a 0–10 scale and, based on their response, respondents are classified as follows: Promoters (scores 9–10); Passives (7–8); and Detractors (0–6). NPS is calculated by subtracting the percentage of customers who are classified as Detractors from the percentage of customers who are classified as Promoters.

quality and speed of complaint handling, safety and functionality of banking channels, etc.^{101,102}

- *What do providers measure?*

3.139 In addition to reviewing parties' submissions we also looked at the quality measures banks themselves track as we thought this would provide a helpful indication of the facets which they considered important to their customers.

3.140 Many providers, including smaller banks such as Handelsbanken¹⁰³ and Danske, monitor internally satisfaction and/or advocacy measures, eg NPS, both overall and by channel (in particular internet banking, telephone banking and main contact/relationship manager) showing that these are important considerations in the operation of the business.¹⁰⁴

3.141 All providers monitor complaints data (this is required by the FCA) and several monitor the average number of working days to resolve complaints.¹⁰⁵ Many monitor the time taken to answer calls to their call centres and call abandonment rates.¹⁰⁶

3.142 Other indicators monitored by one or more providers include: new account opening NPS, complaints handling NPS, branch NPS, international payment NPS, relationship manager easy to reach, level of contact with relationship manager, IT service incidents, staff resource levels, availability of ATMs, and percentage of payments not made the same day when customer met the criteria. This suggests that these are also relevant considerations in the operation of the business.

¹⁰¹ Clydesdale Bank (Clydesdale): trust and advocacy measures ([Clydesdale Bank response to Remedies Notice](#), paragraph 4.1). Barclays: survey-based approach ([Barclays response to Remedies Notice](#), paragraph 6.8). TSB: Use NPS ([TSB response to Remedies Notice](#), paragraph 52). Nationwide: Quality of staff and customer service should be based on satisfaction rating ... derived from results of a frequent and standardised customer survey ([Nationwide response to Remedies Notice](#), paragraph 3.27(i)). Santander: For PCAs, the FRS survey could compare service quality ([Santander response to Remedies Notice](#), Annex 2, paragraph 5.4). HSBCG: PCAs: assessment by a variety of survey methods. Mystery shopping where appropriate ([HSBCG response to Remedies Notice](#), Part B, paragraph 95). First Trust Bank: NPS provides a useful benchmark ([First Trust Bank response to Remedies Notice](#), Appendix 1, p8). Virgin Money: 'voice of customer' surveys.

¹⁰² LBG told us that it was important that responses to questions reflected the level of quality alone, whereas questions that asked for 'satisfaction' or 'recommendations' might elicit customer responses that reflected both quality and price.

¹⁰³ Handelsbanken participates in an independently run customer satisfaction survey ([EPSI Rating](#)).

¹⁰⁴ Other providers include LBG, HSBCG, Barclays, Santander and The Co-operative Bank (Co-op Bank).

¹⁰⁵ Documents submitted by HSBCG, Co-op Bank and Clydesdale show that they monitor average number of working days to resolve complaints.

¹⁰⁶ For example LBG, HSBCG, Danske and Clydesdale monitor at least one of the measures.

- *Evidence from other sectors*

3.143 Service quality data is also published in other regulated sectors. This typically includes both survey-based data and data compiled by the organisations operating in those sectors.

3.144 For example, in the healthcare sector, NHS Choices publishes the proportion of people who answered the biannual GP patient survey who would recommend their surgery, alongside an indicator showing whether the result is 'among the worst', 'in the middle range' or 'among the best' compared with all GP surgeries in the country, as well as NHS Choices user ratings and several measures derived from GP surgeries' own data.¹⁰⁷

3.145 In the airports sector, airports publish a number of service quality indicators derived from monthly passenger surveys alongside performance data, such as the length of security queues, measured by the airport.¹⁰⁸

3.146 Ofgem publishes various metrics on the electricity and gas markets, including the following service quality measures (some of which are only published for the largest providers): satisfaction with supplier service, satisfaction with understandable bills, satisfaction with ease of contacting supplier, would recommend supplier, agree supplier values its customers, complaints per 100,000 customer accounts, complaints resolved by the end of the next working day (%), complaints accepted by the Energy Ombudsman per 100,000 customers, disconnections for a debt as a percentage of their customer base in debt, average length of debt repayment arrangements agreed, and average weekly debt repayment rates (£).¹⁰⁹

3.147 Ofwat calculates a Service Incentive Mechanism (SIM) score, which is based on customer contacts to the company and the results of a customer satisfaction survey, to measure the performance of the regulated water companies.¹¹⁰ Penalties are imposed if companies' SIM scores are not satisfactory. SIM scores, which are colour-coded red, amber or green, are published on the Ofwat website.¹¹¹

¹⁰⁷ See: [NHS Choices \(The proportion of patients who would recommend their GP surgery\)](#).

¹⁰⁸ See for example: [Heathrow - Service Quality Rebate and bonus report \(December 2015\)](#) and [Gatwick Monthly Performance Report \(December 2015\)](#).

¹⁰⁹ See: [Ofgem Data Portal: Customer service indicators](#).

¹¹⁰ This single number comprises customer contacts to the company and the results of a customer satisfaction survey. Greater weight is given to customer satisfaction (75% of the score). The customer contacts element measures the number of contacts, ranging from unwanted phone contacts to the Consumer Council for Water (CCWater) investigated complaints. 'Written complaints are weighted according to the stage of the resolution process. The initial complaint letter or email to a company has a low weight, while CCWater investigating a written complaint carries a heavier weight.' See Ofwat (March 2015), [Service incentive mechanism – guidance for collating customer service information for calculating the SIM score](#), 3).

¹¹¹ See [Ofwat website: Companies' performance 2014-15 – Customers](#).

- *Our provisional conclusions on which service quality facets should be published*

3.148 This remedy is intended, when adopted in combination with the other remedies in this package, to enable PCA customers and SMEs to more easily compare providers of banking services on the basis of the service quality they provide.

3.149 Based on the evidence discussed above, our view is that requiring all banks to provide relatively unengaged consumers and time-poor SMEs with large volumes of performance data would not necessarily enable them to identify the products which best suited their needs. Rather, a small number of comparable summary performance indicators is more likely to help customers develop a shortlist of potential providers to research further.

3.150 Therefore, we provisionally decided that there should be a distinction in the data which providers should be required to collect and make available, as follows:

- (a) A small number of measures, published prominently, separately for PCAs and SME products, based on customer perceptions of performance across key areas (Core Service Quality Indicators); and
- (b) Additional indicators of performance across a wider range of service areas encompassing providers' PCA, BCA and SME lending products and delivery channels which should be published, and made available through APIs (Additional Service Quality Indicators). Our current thinking is that these measures could include:
 - (i) interruptions to, and unavailability of, services including digital;
 - (ii) performance of telephone service/call centre;
 - (iii) availability of (services in) branches;
 - (iv) complaints handling;
 - (v) provision of overdraft management services;
 - (vi) simplicity and speed of business account opening procedure; and

(vii) nature and provision of account/relationship management.¹¹²

o *Core Service Quality Indicators*

3.151 We propose that the Core Service Quality Indicators should contain no more than five measures for each of PCA and SME customers, in order to be quick and easy to access and assess. A set of customer service indicators based on the same type of measure (eg willingness to recommend, or satisfaction) is more likely to be readily understood. Conversely a combination of types of measures would risk confusing customers and/or increasing the difficulty understanding the data.

3.152 We considered the two main types of measure: willingness to recommend and satisfaction. Of these, our preference is for the willingness to recommend a provider to family, friends or colleagues because in order to achieve a high rating a higher level of standard is usually required, and because it is part of the data already sourced and monitored by most providers who typically told us that it would be a useful measure to share with customers. In addition, we consider that satisfaction measures may be less suitable because they relate to expectations which may be inherently low (eg nothing has gone wrong) and based on the (usually) one product the customer holds, rather than best practice, or better products, available in the market.¹¹³

3.153 Our provisional list of Core Service Quality Indicators for PCAs contains:

- (a) Willingness to recommend provider to friends and family;
- (b) Willingness to recommend provider's digital services to friends and family [users of services];
- (c) Willingness to recommend provider's branch services to friends and family [users of services]; and
- (d) Willingness to recommend provider's overdraft services to friends and family [users of services].

3.154 Our provisional list of Core Service Quality Indicators for SMEs contains:

¹¹² As outlined above (see paragraph 3.137) parties have told us that providers may be using the same, or similar terms to describe quite different offerings, and this is particularly true for relationship management. For these metrics, common definitions should be agreed, against which the quality of offerings can be assessed.

¹¹³ This can lead to products offering quite different levels of service quality having the same satisfaction score, as customers adapt expectations to the level of service provided (especially where it is difficult to find information on other providers' service levels).

- (a) Willingness to recommend provider to colleagues;
- (b) Willingness to recommend provider's relationship management¹¹⁴ to colleagues [users of service];
- (c) Willingness to recommend provider's digital services to colleagues [users of services];
- (d) Willingness to recommend provider's branch and business centre services to colleagues [users of services]; and
- (e) Willingness to recommend provider's credit (overdraft and loan) services to colleagues [users of services].

3.155 We welcome further views from interested parties both on the specific indicators listed above, as well as on the suitability of the willingness to recommend measure and whether satisfaction with provider should be added alongside the overall willingness to recommend provider.

- o *Additional Service Quality Indicators*

3.156 Our provisional list of the broad areas to be covered by Additional Service Quality Indicators contains:

- (a) For both personal customers and SMEs:
 - (i) Interruptions to, and unavailability of, services, for example, the number of unplanned interruptions to internet banking service lasting longer than (timeline to be determined), number of instances when customers could not log in to mobile app, number of planned interruptions during working hours.
 - (ii) Performance of telephone service/call centre, for example, the average call abandonment rate, the average length of time before telephone calls are answered, average tenure of call centre workers, ratio of incoming calls to operatives.
 - (iii) Availability of (services in) branches¹¹⁵ (by branch where relevant), for example, availability of extended opening hours, number of staff employed who can complete particular transactions, ratio of staff to

¹¹⁴ Though providers have different relationship management offerings, customers' willingness to recommend is likely to be based on both the nature of the offering and customer service aspect such that a comparison across providers will be meaningful.

¹¹⁵ And business centres in the case of SMEs.

customer footfall, proportion of customers using automated account managers.

- (iv) Complaints handling, for example, proportion of complaints resolved within a specified period, average length of time taken to resolve complaints.¹¹⁶

(b) For personal customers only:

- (i) Provision and effectiveness of overdraft services such as alerts, grace periods and overdraft control tools, for example, services offered, number of customers that avoided overdraft charges.¹¹⁷

(c) For SMEs only:

- (i) Nature and provision of account/relationship management, for example, criteria which SMEs need to meet in order to have a dedicated account/relationship manager, number of business per account manager.
- (ii) Simplicity and speed of business account and credit facility opening procedures, for example, average time needed for an account to be opened, approval rate for new credit facilities, average time taken for new credit facilities to be available, whether provider subscribes to the Lending Code.

3.157 We do not envisage that many personal customers or smaller SMEs are likely to access the Additional Service Quality Indicators directly, but we think it likely that larger SMEs, professional advisers, and intermediaries such as PCWs and FinTech companies, would do so. This will be facilitated by prompt implementation of other remedies we are proposing to adopt, in particular measures to introduce open API standards and increase the availability of open banking data.

3.158 Both Additional and Core Service Quality Indicators may also be accessed by existing, or new, third parties undertaking industry-wide assessments, or expert reviews of products and/or providers, and we believe that publication of Core and Additional Service Quality Indicators would increase the breadth of data upon which such assessments are made.¹¹⁸ We do not consider it

¹¹⁶ We note that the FCA collate some data on complaints (see paragraph 3.126(b)), and this should not be duplicated.

¹¹⁷ See Section 5.

¹¹⁸ Barclays told us that consideration could be given to whether an effective measure of the facets of service quality may be an independent panel or credible third party, which could assess the facets of service quality and

necessary to require the publication of industry-wide assessments, or expert reviews, as, given the number of market solutions that already exist, we would expect these to be built upon or additional ones to develop.

Collecting data on service quality

- 3.159 This remedy would require each provider to publish both survey-based data and data the provider has collected itself. The Core Service Quality Indicators are survey-based data, while the Additional Service Quality Indicators are likely to be predominantly, or entirely, objective providers' data.
- 3.160 Providers' own data will need to be collated by the providers, adhering to common definitions and formats.
- 3.161 We identified two main potential sources of survey data:
- (a) each individual provider being responsible for procuring and collating data relating to their brand(s), according to specified criteria; or
 - (b) providers needing to obtain survey data deriving from the same independent survey covering PCAs and the same independent survey covering SME banking, which meet criteria specified by the CMA, including that they cover all providers within the scope of this remedy.¹¹⁹
- 3.162 We think that the first option would be difficult and costly to monitor. There are risks of inconsistencies between providers even where recommendations on methodology and sampling are followed, and it may involve unnecessary duplication of resources if providers commission different survey companies to undertake their surveys.
- 3.163 Given their importance to customers, as well as the likely prominence that would be given to the Core Service Quality Indicators by providers and the media, it is very important that the survey data on which they are based is collected on a standard, common basis with robust sampling techniques and data collection methods.
- 3.164 A number of parties have a similar view, stating in their response to our [Remedies Notice](#) that service quality data should be collated by an independent third party. Nationwide, for example, recommended the use of

provide a rating for them, such as currently done by the Fairbanking Foundation. LBG also told us that industry-wide expert reviews should be considered to provide a comparable score against a common set of metrics for each provider.

¹¹⁹ This is discussed in paragraphs 3.182–3.186.

existing market-wide surveys.¹²⁰ Business Finance Compared told us that service quality data needed to be collected by an independent third party¹²¹ and HSBCG said, similarly, that surveys, to be useful and trusted by customers, should be conducted independently by an external agency.¹²²

3.165 Virgin Money stated that one option was for the FCA to gather and publish a broader range of quality information. However, Virgin Money also observed that the preparation and publication of complaints metrics, for different banks, did not seem to have had a significant effect on customer behaviour.

3.166 Some providers, for example Barclays, pointed out that existing surveys faced limitations in reach and currently might include few of the smaller banks' customers.¹²³ LBG said the problem of collecting statistically robust information was particularly acute in the case of SMEs, where users might wish to disaggregate data on the basis of a business size or type thus reducing sample sizes even more. However, we think that it would be possible to alter survey methodology, or design a new survey which overcomes these issues.

- *Our provisional decision on data collection*

3.167 We provisionally decided that the collation of survey data by one independent survey agency for each of the PCA and SME surveys¹²⁴ is our preferred approach in relation to survey data and therefore Core Service Quality Indicators. Survey-based data published by each provider would then derive from an independent survey covering PCAs and an independent survey covering SME banking, where the methodologies and questionnaires have been approved by the CMA. In each case this may either be an (modified) existing survey (such as the BBI survey on the SME side) or a new survey.

3.168 The most practical way of bringing this about is likely to be for one independent industry body¹²⁵ to be responsible for inviting agencies wishing to tender for the work to submit their proposals, dealing with the issue of small sample sizes for new entrants and start-up providers and ensuring that a reliable sample is obtained to indicate performance in both GB and NI. The final arrangements would be subject to the approval of the CMA. We note that this type of arrangement is already in place on the SME side in the form of the BBI, which is responsible for the procurement and collation of survey data,

¹²⁰ [Nationwide response to Remedies Notice](#), paragraph 3.27.

¹²¹ [Business Finance Compared response to Remedies Notice](#), p21.

¹²² [HSBCG response to Remedies Notice](#), Part B, paragraph 88.

¹²³ [Barclays response to Remedies Notice](#), paragraph 6.6.

¹²⁴ Or one independent survey agency undertaking both surveys.

¹²⁵ Or two bodies, each responsible for one of the PCA and SME surveys.

and which may be able to (with some modifications) meet the requirements of this remedy at least on the SME side. We will consider submissions from parties on this, as well as alternative arrangements.

3.169 The surveys would be funded by the relevant providers in proportion to their overall PCA and SME customer numbers respectively, because:

- (a) the more customers a provider has, the more of their customers will have access to the survey results; and
- (b) the less likely it is to impose a disproportionate financial burden on smaller providers.

3.170 Additional Service Quality Indicators are likely to predominantly, if not exclusively, derive from providers' data, the collation of which we would recommend the FCA subject to periodic review and monitoring.

How information on service quality should be published

3.171 Service quality information is likely to be of relevance to both (i) a provider's existing customers, who would be able to compare their provider with competitors and who might at some point contemplate opening an account elsewhere; and (ii) potential customers, who are looking for a first account, or considering switching from other providers.

3.172 We also know that different customer groups access banking via different channels, and at different times, and we need to ensure that Core Service Quality Indicators are published where they can be accessed and assessed by as many of the customers to whom they are aimed as possible, which means publishing this data via several different channels.

3.173 Santander told us that it considered the most effective way of allowing SMEs to make comparisons between BCA providers on the basis of their service quality would be to include on all PCWs a single satisfaction score representing SMEs' experiences.¹²⁶ We agree that comparisons between providers are easier and quicker if data on all providers is available from one source, and believe that PCWs, advisory services and similar providers could have an important role both in the case of PCAs and SME products.

¹²⁶ PCWs could then add further information on multiple metrics (eg branch opening hours, app scores etc) at their own option.

- *Our provisional decision on where quality information should be published*

3.174 We provisionally decided that providers should display their Core Service Quality Indicators:

- (a) prominently in branches;
- (b) no more than one click away from mobile and online banking home pages;¹²⁷
- (c) on the annual statement of fees that will be required under the Payment Accounts Directive (PAD);¹²⁸ and
- (d) in information leaflets likely to be seen by prospective customers, such as those setting out the features and benefits of the current accounts the provider is offering.

3.175 Further, Additional Service Quality Indicators should be published at least on providers' websites (in a reasonably accessible location), and both Core and Additional Service Quality Indicators should be made available as open data to third parties such as PCWs and Finance Platforms.^{129,130}

Presentation of service quality data

3.176 We considered how information on service quality should be presented in order to make it easy for customers to assess it.

3.177 Since the purpose of this remedy is to facilitate comparisons between providers, there is a strong case for requiring providers to present the Core Service Quality Indicators (a) in a standard format and (b) on a comparative basis, ie how their scores compared with other banks'.

3.178 Our preferred approach is for each provider's performance on overall recommendation to be accompanied by a ranking of that provider against all other providers. At this stage we have not ruled out the options of either:

- (a) publishing an indication of whether the rating is average or at the higher or lower end of scores (eg bottom quartile, middle range, top quartile) instead of a ranking (eg xth out of y providers); or

¹²⁷ Such as on their pages for personal and business customers, which are one click away from the homepage.

¹²⁸ Article 5.

¹²⁹ As defined in the [Small and Medium Sized Business \(Finance Platforms\) Regulations 2015](#).

¹³⁰ We have provisionally decided to make a recommendation to the FCA to implement the Additional Service Quality Indicators (see paragraph 3.191).

(b) publishing a ranking (or rating of average/higher/lower end of scores) for each core measure alongside the absolute score.

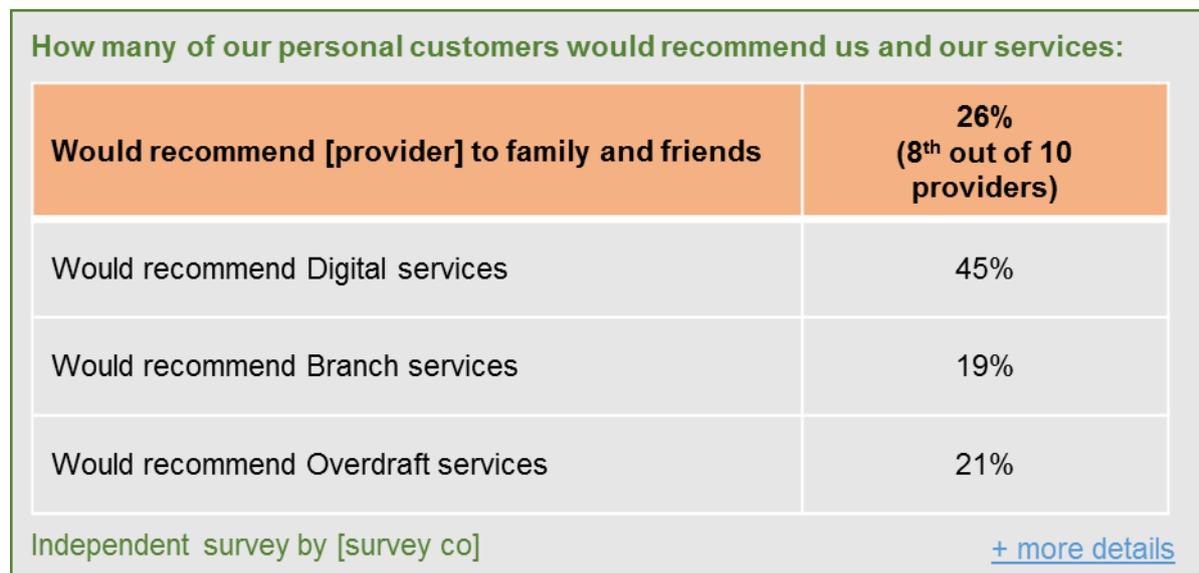
3.179 We are also considering whether adding some visual aids (based on, for example, the ranking of each provider against all providers) would make it even easier for customers to assess the information, such as:

(a) colour-coding – for example, research commissioned by Tesco Bank, which tested a specific version of colour-coding with interest and charges, found that consumers immediately understood the traffic light convention and its overall simplicity made it easy to see at a glance the performance of individual banks on key dimensions; or

(b) star ratings – for example, our research found that customers have experience of star ratings from other markets and find them to be quick, easily comparable and easy to meaningfully sort information by.¹³¹

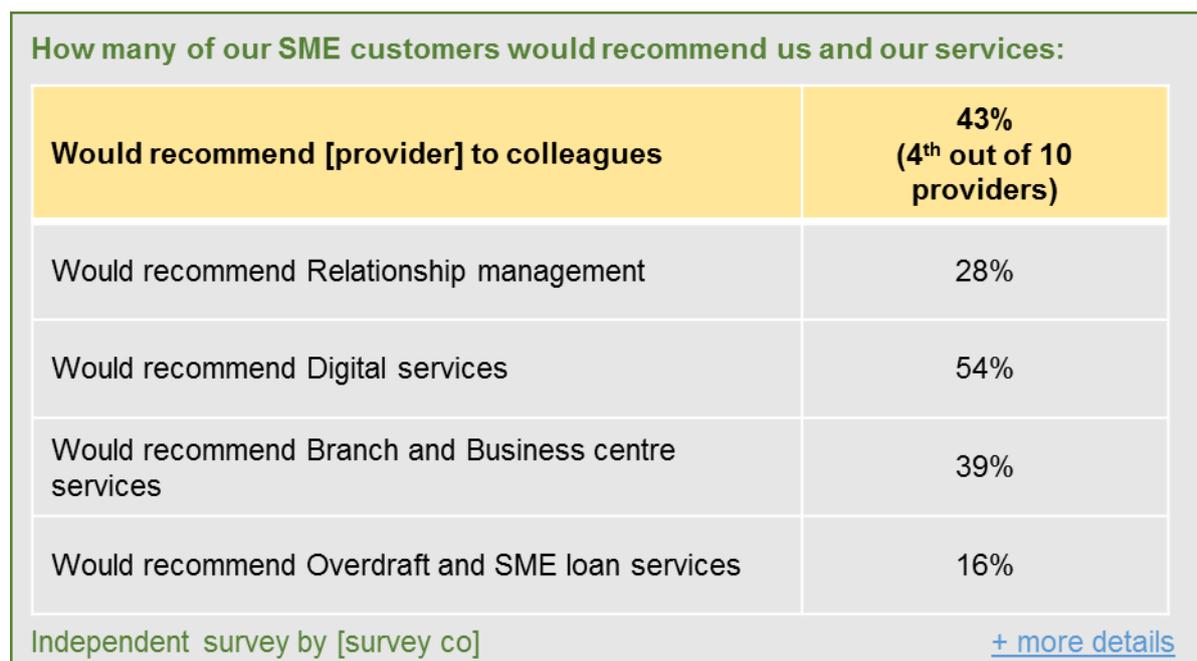
3.180 In Figure 3.5 below we provide an illustration of how the Core Service Quality Indicators could be presented for PCAs, while Figure 3.6 provides an illustration of Core Service Quality Indicators for SME products.

Figure 3.5: Illustration of Core Service Quality Indicators for PCAs



¹³¹ Optimisa Research report, pp100–101.

Figure 3.6: Illustration of Core Service Quality Indicators for SME products



3.181 In practice, this would mean that all providers should publish the data in a consistent format, and covering the same time period. We are considering doing some further customer research, such as lab testing or focus groups, to inform the precise format and content of the core data summary prior to implementation, in order to make it most useful and relevant to the customers for whom it is aimed.¹³²

Which providers should be required to publish service quality data

3.182 The effectiveness of this remedy is likely to be greater the more of the market is covered by the remedy. This is particularly important for Core Service Quality Indicators, which are the main component of this remedy.

3.183 We considered whether any exceptions should be made in practice. Larger providers that already monitor their performance are likely to face relatively low additional costs in collecting the information we have proposed. We recognise, however, that the burden on smaller providers and potential entrants (of collecting/funding the collection of survey data for their customers), given the difficulty, and thus cost, of collecting a sufficiently robust sample of them, would be greater.

3.184 On the other hand, we note that smaller banks and new entrants could have a strong incentive to invest in customer research as a way of acquiring new

¹³² Barclays was of the view that the presentation of service quality data should be subject to rigorous testing, for example, by testing the usefulness of a static ranking vs an interactive tool.

customers and retaining existing ones. We note that even relatively small providers, such as Handelsbanken, use surveys to compare their performance with their larger rivals.

3.185 There may be good reasons for making a distinction between the Core Service Quality Indicators and Additional Service Quality Indicators, in particular ensuring that the former is available for as many providers as possible as this data is aimed directly at customers, and is likely to be accessed and assessed by greater numbers. We will consider any representations on this in relation to the Core Service Quality Indicators and the FCA will consider which providers should be required to publish Additional Service Quality Indicators.

- *Provisional decision on which providers should be required to publish service quality information*

3.186 Our provisional view is that it would be preferable for all PCA and BCA providers to be required to collect and publish the relevant¹³³ Core and Additional Service Quality Indicators. We are considering an exception for start-ups (for example, with 12 months or less of trading history) given customer responses may be more representative if a number have been with the provider for at least a year. Alternatively, or in addition to the exception for start-ups, we will consider any representations on whether there should be a de minimis threshold for Core and/or Additional Service Quality Indicators; this may be set relatively low (for example at 150,000 to 200,000 active¹³⁴ PCAs per provider and 20,000 to 25,000 active BCAs per provider) thus covering the vast majority of active accounts and including larger providers in both GB and NI, while also excluding the large number of very small providers. To the extent that some providers are excluded from the requirement to collect and publish service quality data, they should be able to participate voluntarily under the same terms as providers to which the Order applies.¹³⁵

Implementation issues

3.187 We propose to implement, and monitor, the obligation to collect and publish Core Service Quality Indicators ourselves through an Order on relevant providers. We consider that it is feasible for us to do so, and would ensure a rapid outcome.

¹³³ Not all smaller banks will offer branch services, for example.

¹³⁴ Using a common definition across providers.

¹³⁵ We have provisionally decided to make a recommendation to the FCA to implement the Additional Service Quality Indicators (see paragraph 3.191).

3.188 We consider that certain tasks related to the Core Service Quality Indicators could be undertaken by parties following our final report but prior to the publication of the Order, which would reduce the time necessary to start publishing service quality data outlined in this remedy once the Order is published. These include the setting up of the governance to ensure data is collected and disseminated to relevant providers, and preparation work for a tender to appoint survey companies. However, we also recognise that it can take time to undertake good quality surveys of the scale we have proposed (including fieldwork, data checks and collation), but we do not consider that this would be more than six months. Therefore our provisional view is that this remedy would be implemented within six months of the Order being published.

3.189 We do not see any benefits in specifying particular points in the year when (updated) data on service quality should be collated and published (eg 1 January and 1 July), over publishing as soon as the data is available and every six months from then on. However, in order to have the greatest impact, all relevant providers should publish their (updated) data on the same day so that customers can make like-for-like comparisons across providers.

3.190 As it may take up to six months after publication of our Order for core service quality data specified under this remedy to start being published by providers, in the interim period we would require continued provision of the existing data initiative such as the BBI survey,¹³⁶ as:

- (a) there are benefits to customers from the publication of this comparative data;
- (b) there is an option for providers to use existing data in order to meet the requirements under this remedy; and
- (c) it is an important interim measure considered for the implementation of our remedy on developing a comparison site(s) for SMEs as discussed in Section 6.

3.191 The implementation of the obligation to collect and publish Additional Service Quality Indicators, including finalising the precise measures included, evaluation and refinement of measures over time, would be better facilitated by the FCA. We propose to make a recommendation to the FCA to implement and monitor this part of the remedy (within the FCA's existing remit). The FCA would consider the appropriate additional measures, as well as the scope,

¹³⁶ For details of the specific transitional measure regarding the underlying survey of the BBI website that we are proposing please see Section 6.

methodology and publication of these measures. We expect that this part of the remedy would be implemented within two years after the publication of our final report.

3.192 This remedy is expected to deliver continuing benefits to consumers and SMEs, and we do not envisage changes in the markets that would reduce significantly, or remove, the need for this remedy. Therefore, our provisional view is that we should not require a sunset clause, but that this remedy should be subject to the CMA's usual remedy review procedures. We and the FCA may consider in future whether the Core and Additional Service Quality Indicators could be grouped together under the FCA's overall responsibility.

Cost of remedies

3.193 In order to form a view of the cost of this remedy, we looked at information on how much existing surveys cost, how much providers currently spend on research and how much it may cost providers to start collecting and publishing various metrics on their performance.

3.194 BBI told us that the BBI project as a whole, including the existing survey, website rebuild and maintenance, and PR, had cost around £[redacted] a year and was currently funded by four larger providers. Each of the surveys of PCA and SME customers that we propose above may cost somewhat more as they would need to cover more providers and achieve sufficient sample sizes for the smaller providers. However, based on the CMA's experience from its inquiries, we would not expect these together to cost more than £5–£6 million a year and these costs would be spread across a greater number of providers than the BBI project.

3.195 In addition, we are aware that many providers already do various pieces of customer research, some of which may be replaced by the proposed surveys, and which would therefore reduce the cost of this remedy to the providers.

3.196 We believe that the costs of collecting the providers' own data for the purpose of Additional Service Quality Indicators should be fairly low as much of the data may already be collated (though perhaps using different definitions than may be required under this remedy).

3.197 Further, providers periodically update their websites, information displayed in branches and informational leaflets, which should make publishing the data required under this remedy easy and relatively inexpensive.

3.198 Costs of monitoring compliance with this remedy are also likely to be low since monitoring will be based on providers, and/or any independent body set up to collect service quality data (see paragraph 3.168), providing periodic

compliance reports to the CMA in relation to Core Service Quality Indicators. It will be for the FCA to work with providers to develop and test the efficacy of specific Additional Service Quality Indicators and implement this part of the remedy, and we would expect the costs of supervision of this part of the remedy to also be low.

3.199 We welcome views on this, and on possible ways of reducing the costs of the remedy.

Measures to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements

Summary of the measures we are proposing to take forward

3.200 We have provisionally decided to introduce measures aimed at prompting customers to review their PCA or BCA arrangements at times when they may have a higher propensity to consider a change. The purpose of these measures will be to increase customer awareness of the potential benefits of switching PCA or BCA and to prompt further investigation of other providers. Figure 3.7 below summaries our proposed remedy.

Figure 3.7: Measures to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements

- We have provisionally decided to make an Order requiring all PCA and BCA providers in the UK (possibly subject to a de minimis level) to cooperate with the FCA in a research programme, including RCTs, to identify those prompts that are most likely to be effective in changing customer behaviour. We also intend to consider further (as an alternative to issuing an Order) seeking undertakings from providers to cooperate with the FCA.

Providers will only be required to participate in the research programme if selected by the FCA.

- We have provisionally decided to recommend to the FCA to:
 - (a) undertake a research programme, including RCTs, in conjunction with a selection of PCA and BCA providers in the UK to identify those prompts that are most likely to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements;
 - (b) subject to the results of the research programme, use its rule-making powers in keeping with the FCA's Banking Conduct of Business

Sourcebook (BCOBS),¹³⁷ to implement a series of prompts to be communicated to customers in line with the optimal timing, content and medium parameters identified by the research programme. We would expect the FCA to monitor and supervise compliance with their rules;

- (c) consider the extent to which the content and presentation of the prompts should be standardised, in order to ensure that a consistent message is delivered to customers by all providers; and
 - (d) monitor the effectiveness of these prompts, and, as and when necessary, redesign the prompts to reflect market and regulatory developments, including the impact of our wider remedies package on customer engagement.
- In addition, we have provisionally decided to order or seek undertakings from BCA providers to also send prompts to those SMEs not covered by the FCA's BCOBS, but included within our [terms of reference](#). We expect the Order or undertakings to apply to the BCA providers subject to the FCA's rules.

How this remedy addresses the AECs and/or the resulting customer detriment

3.201 We provisionally found that customer engagement in both the PCA and BCA markets in both GB and NI was low.

3.202 For PCA customers, we provisionally found that few customers search for better offers and the number of customers switching PCAs, in part or in full, remains very low. This is due to a lack of triggers for customers to engage in the market, the low cost of PCAs for many customers, reported satisfaction despite low levels of searching, and a belief by many customers that there is little to be gained from searching and/or switching.¹³⁸ Our provisional findings for BCA customers were very similar.¹³⁹

3.203 PCAs and BCAs are 'evergreen' products (ie they have no contract end date), and consequently, PCA customers and SMEs are not required to consider if their PCA or BCA is the best available, or most appropriate, product for them.

3.204 The purpose of this remedy is to prompt customers, both periodically and at key milestones throughout their relationship with their current account

¹³⁷ The FCA's BCOBS applies to microenterprises (ie a business with an annual turnover of balance sheet total of less than £2 million and fewer than ten employees), which comprise around 97% of autonomous SMEs (see the [FCA discussion paper on its approach to SMEs as users of financial services](#), p5 (November 2015)).

¹³⁸ [Provisional findings](#), paragraph 12.3(c).

¹³⁹ [Provisional findings](#), paragraph 12.7(d).

provider, to review their existing banking arrangements and to perform one or more of the following actions:

- (a) Consider whether their existing banking arrangements meet their needs by reference to their account usage and the related costs.
- (b) Consider changing their banking behaviour to make more effective use of their existing BCA or PCA, or to reduce the costs of their account usage.
- (c) Consider switching to a more suitable product and/or provider. This could be achieved by switching to another product offered by the customer's existing provider (internal switching) or by switching to a product offered by an alternative provider (external switching).

3.205 We have identified two different sets of prompts:

- (a) Event- or situation-based trigger points: prompts triggered by the occurrence of specific events or situations, such as the closure of a branch or the end of an SME's free banking period.
- (b) Periodic prompts: recurring prompts, such as the issue of an annual summary.

3.206 The use of event- or situation-based trigger points and periodic prompts is intended to achieve different, but complementary, objectives:

- (a) Delivery of prompts upon the occurrence of selected trigger points engages with a segment of customers at times when they are more likely to be receptive to the potential benefits of switching and the consideration of other providers. However, they are only likely to reach any individual customer on an irregular basis.
- (b) Periodic prompts engage with a wider audience on a more regular basis. Further, our qualitative research indicated that periodic reminders could help to normalise consideration of switching providers.¹⁴⁰ For example, TSB has proposed to us that all PCA customers should be provided with a standardised Monthly Bill, in order to encourage regular engagement with their banking arrangements.¹⁴¹ The use of periodic prompts also addresses, to some degree, the 'evergreen' nature of PCAs and BCAs (see paragraph 3.200) by replicating to some extent the annual

¹⁴⁰ [Optimisa Research report](#), p38.

¹⁴¹ [TSB response to Remedies Notice](#), paragraphs 22 & 23.

contractual renewal process inherent in other markets, such as the insurance industry.

3.207 We considered how else the evergreen nature of current accounts could be addressed. Virgin Money, for example, told us that the lack of prompts arising from the evergreen nature of PCAs could be addressed by requiring customers to renew their PCA every five years.¹⁴²

3.208 We considered that mandatory renewal could potentially be implemented via an opt-in or opt-out mechanism:

(a) Opt-in: customers would be required to give consent to their provider to continue their existing banking arrangements.

(b) Opt-out: customers would continue their existing banking arrangements unless they notified their provider to close their account.

3.209 Given the fundamental importance of current accounts to customers in managing their finances, there is a high risk of unintended consequences by requiring customers to opt in to ensure the continuation of banking services. For example, the closure of a PCA or BCA could result in the loss of income and/or the failure to meet financial obligations.

3.210 However, the alternative mechanism (ie requiring customers to notify their provider to close their account), although eliminating the risk of the withdrawal of banking services, is not materially different to existing conditions and does not encourage or incentivise customers to act.

3.211 We provisionally concluded that the use of periodic prompts was preferable to the introduction of a mandatory renewal process.

Remedy design considerations

3.212 We set out below our consideration of the key issues relating to the design of the remedy, covering:

(a) our proposals for further testing of remedy design prior to implementation;

(b) the timing of messages to customers;

(c) the content and presentation of those messages;

(d) the source of prompts; and

¹⁴² [Virgin Money further response to provisional findings](#), paragraph 34.

(e) the medium of their delivery.

Testing

- 3.213 In our [Remedies Notice](#), we signalled our intention to undertake customer research to help inform our judgements about whether to take forward particular remedies as well as how they might be designed.¹⁴³
- 3.214 We have conducted qualitative research to assess whether the use of event- or situation-based trigger points and periodic reminders is likely to prompt PCA customers and SMEs to review their current account provider at times when they may have a higher propensity to consider a change of provider.¹⁴⁴ This research¹⁴⁵ has helped guide our selection of appropriate trigger points and periodic reminders.
- 3.215 In response, parties were generally of the view that for this remedy in particular, a further programme of trials and behavioural research was necessary to ensure that the prompts were likely to change customer behaviour. We agree with parties that further research is necessary to identify the most suitable design features of the remedy, such as the content and presentation of the prompts, as well as the most effective channels of communication.
- *Research programme*
- 3.216 We have provisionally decided to recommend further research and field testing prior to the implementation of this remedy. The use of RCTs¹⁴⁶ is likely to be most effective in developing the remedy, because the introduction of a randomly assigned control group eliminates external factors, such as response and measurement biases, which can affect the results of other forms of testing. Further, the use of RCTs allows a number of variables to be tested in respect of the timing, content and medium of the prompts, thus identifying those interventions that are most likely to impact upon customer awareness, attitudes and behaviour.¹⁴⁷

¹⁴³ [Remedies Notice](#), p40.

¹⁴⁴ We [appointed Optimisa Research on 25 November 2015](#) to explore the extent to which PCA customers and SMEs were inclined to consider switching current account provider at certain times; customers' reaction to receiving prompts to consider switching; and customer views on the appropriate content and source of the prompts and the most effective medium(s) to deliver the prompts.

¹⁴⁵ [Optimisa Research report](#).

¹⁴⁶ RCTs could be preceded by other forms of testing, such as lab trial, further qualitative research or quantitative research, to further refine the high level remedy design proposed in this document.

¹⁴⁷ See [Test, Learn, Adapt: Developing public policy with RCTs](#).

3.217 RCTs could help finalise the following design features of the remedy:

- (a) Further assessment and refinement of the prompts that we have provisionally decided are more likely to impact upon customer awareness, attitudes and behaviour.
- (b) Identification of the appropriate content and presentation of the prompts to drive action, including the degree to which language and presentation should be standardised.¹⁴⁸
- (c) Identification of the optimal channels to deliver the prompts.

3.218 We recognise that RCTs can be complex to design, organise and implement, and may only assess the direct effects of an intervention on customer behaviour. Further, RCTs may suggest variations in the approach to be tested rather than provide a conclusive answer within a single trial.

3.219 While it is feasible to undertake some testing within our statutory timetable, we will be unable to conduct a comprehensive research programme within this time frame. We have provisionally decided to recommend to the FCA that it undertakes a research programme, including RCTs, to inform the effective implementation of the prompts.

3.220 The FCA is best placed to assume this role, as it has existing expertise in conducting RCTs within the financial services sector. Further, it has an ongoing regulatory function in relation to PCA providers.

3.221 With regards to the FCA's regulation of BCA providers, the FCA's BCOBS applies to microenterprises, which comprise around 97% of autonomous SMEs.¹⁴⁹ For the remaining 3% of SMEs, we have provisionally decided to order or seek undertakings from BCA providers to also send the prompts to those SMEs not covered by the BCOBS, but included within our [terms of reference](#). We expect the Order or undertakings to apply to the BCA providers subject to the FCA's rules.

3.222 We consider that the FCA should assume responsibility for the design and management of the research programme, rather than, for example, providers designing and undertaking this programme (either independently or with regulatory oversight). Providers will not be suitably incentivised to design a

¹⁴⁸ This will include taking into account the standardisation to be required under PAD (see paragraphs 3.342–3.345).

¹⁴⁹ See the [FCA discussion paper on its approach to SMEs as users of financial services](#), p45 (November 2015).

research programme (and subsequent remedy) that could potentially cause their customers to switch to another provider.

- *Respective roles of the CMA and the FCA in remedy design and testing*

3.223 The FCA and the CMA have concurrent competition powers and there is a commitment on both sides to work together to promote competition for the benefit of consumers. We do this by the sharing of expertise, information, ideas and experience while mindful of each other's statutory position and strategic objectives. In the spirit of that commitment, the CMA has consulted with the FCA through the course of the retail banking market investigation on this remedy and a number of other remedies in our proposed package.

3.224 Following the publication of our final report, the FCA will be responsible for the design, testing and implementation of this remedy, including:

- (a) selecting which prompts to test;
- (b) designing the prompts for testing;
- (c) selecting which providers to work with;
- (d) finalising the evaluation framework for measuring the effectiveness of the prompts; and
- (e) consulting with the CMA regularly and at key decision-making points.

3.225 We expect the FCA to assess the effectiveness of the prompts by measuring their effect on customer engagement. The evaluation framework will include indicators relating to customer awareness and understanding, attitudinal change and behavioural change. Such indicators might include:

- (a) awareness and understanding of account usage and costs, alternative products and providers, and CASS;
- (b) attitudinal change: willingness to search and switch and change in perceptions of products and providers; and
- (c) behavioural change: improved account management, searching, multi-banking, internal and external switching.¹⁵⁰

¹⁵⁰ We do not think that the measurement of switching rates alone is likely to be an appropriate indicator of customer engagement, as this will not take into account those customers who review their banking arrangements, but decided not to switch provider for reasons other than low engagement.

- 3.226 The evaluation framework may be different for prompts aimed at PCA customers and those targeting BCA customers, as BCA customers may react differently to PCA customers. Further, both BCA and PCA customers are diverse and an effective remedy may drive different behaviours across different customer segments and different competitive responses from providers. The outcomes sought may also vary for different prompts.
- 3.227 It is important that the evaluation of the effectiveness of the prompts reflects that the research programme will be undertaken prior to the implementation of our full package of remedies, and that a number of our proposed remedies are interdependent and it will be some time before they all take effect.
- 3.228 We expect that the FCA will prepare for testing following the publication of our final report, and begin testing following the making of the Order or the negotiation of undertakings with providers.

Timing of messages to customers

- 3.229 In our [Remedies Notice](#), we suggested that in certain situations or following certain events, referred to as ‘trigger points’, current account customers may be more disposed to consider a change of product or provider.¹⁵¹
- 3.230 In response, parties were in principle supportive of the use of situation- or event-based prompts to stimulate greater customer engagement. For example, the Behavioural Insights Team (BIT)¹⁵² told us that providing timely feedback was an effective method of encouraging behavioural change.¹⁵³ Similarly, our qualitative research found that that customers were open to engaging with prompts at certain trigger points.¹⁵⁴
- 3.231 However, other parties told us that periodic prompts were more likely to increase customer engagement. For example:
- (a) Danske told us that it favoured using periodic communications rather than trigger point based communications to prompt customers to review their current account provider, as the latter type of communication should focus on the resolution of the event that caused the trigger.¹⁵⁵

¹⁵¹ [Remedies Notice](#), p8.

¹⁵² The BIT is a social purpose company (jointly owned by the government, Nesta (an innovation charity) and its employees) which applies behavioural sciences to make public services more cost-effective and easier for people to use.

¹⁵³ [Behavioural Insights Team response to Remedies Notice](#), p3.

¹⁵⁴ [Optimisa Research report](#), p5.

¹⁵⁵ [Danske Bank response to Remedies Notice](#), pp1–2.

(b) Nationwide told us that periodic prompts could be sent to all customers, and that such prompts would be easier to implement than those based on individualised events, as they could be sent out automatically at set intervals, and did not require any additional human intervention.¹⁵⁶

3.232 The use of both event- or situation-based trigger points and periodic prompts can serve different, but complementary, purposes (see paragraph 3.206).

3.233 In identifying prompts that are most likely to be effective in increasing customer engagement, and are likely candidates for further testing by the FCA, we are mindful of the need to avoid excessively frequent contact with customers, which could result in the potential dilution (rather than reinforcement) of the message or its impact.

3.234 Our selection of the prompts we recommend for further testing is guided by an individual evaluation of various potential prompts, including those set out in our [Remedies Notice](#),¹⁵⁷ and other trigger points or periodic reminders suggested by parties or identified in our qualitative research. We have also sought to strike a balance between those prompts that are likely to resonate with customers, but only reach a small audience, and those prompts that may have a lesser impact on individual customers, but have the potential to reach a wider audience.

- *Event- or situation-based prompts recommended for further testing*

3.235 We have provisionally decided to recommend to the FCA that it tests the following situation- or event-based prompts, in order to assess whether they are likely to increase customer engagement:

(a) A material change in the key product features of a BCA or PCA.

(b) The closure of a customer's branch.

(c) The imposition of overdraft charges.

(d) The expiry of an SME's free banking period.

3.236 The list of prompts selected for further testing is not exhaustive and testing may identify other viable prompts.

¹⁵⁶ [Nationwide response to Remedies Notice](#), paragraphs 3.4 & 3.5.

¹⁵⁷ [Remedies Notice](#), p9.

- *A material change in the key product features of a BCA or PCA*

3.237 Our qualitative research found that where changes to terms and conditions were felt by customers to have a material impact on their banking arrangements, they may be receptive to receiving prompts.¹⁵⁸ The research also found that there was greater potential for such changes to have an impact on SMEs, in particular where there were changes to lending terms (eg the reduction or removal of an overdraft facility); increase in banking charges; and a change in relationship manager (for larger SMEs).¹⁵⁹

3.238 Subject to further testing by the FCA, we consider that the following material changes to the key product features of a BCA or PCA could represent effective trigger points:

- (a) An adverse change to the pricing of the BCA or PCA (eg the removal of an introductory offer, such as an initial credit interest rate, or the increase of a BCA tariff).
- (b) The withdrawal of a product (eg the removal of a legacy BCA or PCA).
- (c) The withdrawal of a service (or services) from a product's offering (eg the reduction or removal of an overdraft facility).

3.239 We do not think that a change in relationship manager represents a particularly effective trigger point. We provisionally found that only larger SMEs (ie those SMEs with turnover above £2 million) generally had access to a relationship manager and the remainder of SMEs typically had access to a call centre.¹⁶⁰ Given that larger SMEs represent a small proportion of the overall SME population, this trigger point would not reach a sufficiently large target audience to make this a priority for further testing.

3.240 Further, there is likely to be some variation in the importance of a relationship manager to SMEs, such that the departure of a relationship manager may not cause some customers to reconsider their existing banking arrangements.

- *The closure of a customer's branch*

3.241 Our qualitative research found that for some customers, particularly SMEs who typically accept cash and cheque payments, the closure of a branch represented a point at which customers could be receptive to messages

¹⁵⁸ [Optimisa Research report](#), p32.

¹⁵⁹ [Optimisa Research report](#), p33.

¹⁶⁰ [Provisional findings](#), p30.

encouraging the consideration of alternative products and/or providers, However, the research also indicated that the impact of the prompt would be likely to depend on the customer's use of their branch and the proximity of an alternative branch.¹⁶¹

- *The imposition of overdraft charges*

3.242 We have provisionally decided to recommend to the FCA to identify, research, test and implement measures to increase PCA overdraft customers' engagement with their overdraft usage and charges, including the use of prompts and alerts.¹⁶²

3.243 In addition to prompts and alerts intended to change transactional behaviour, we also see a need to encourage BCA and PCA customers to consider whether their existing banking arrangements are suitable for their needs, particularly with regards to their overdraft usage, or whether an alternative product and/or provider is more suitable.

3.244 Our qualitative research found that cumulative overdraft charges, such as those incurred over the course of a year, were more likely to capture a customer's attention (than a prompt of linked to the incurrence of a single overdraft charge).¹⁶³

3.245 We propose that a periodic overdraft prompt is provided along with a periodic summary to PCA and BCA customers (see paragraphs 3.249 to 3.254), whereby the prompt can be tailored for specific messages to overdraft users.

- *The expiry of an SME's free banking period*

3.246 Most providers offer start-up SMEs (and, to a lesser extent, SMEs switching BCAs) free banking periods of between 12 and 24 months during which transaction fees are waived.

3.247 The expiry of the free banking period seems a logical time to prompt SMEs to consider their banking needs. Not only will the SME begin to incur fees at this point, but their banking needs may also have begun to extend beyond the transactional aspects of its BCA.

3.248 HSBCG told us that there was a significant increase in switching rates at this point in time, which suggests that this is a good time to seek to engage

¹⁶¹ [Optimisa Research report](#), p31.

¹⁶² See Section 5.

¹⁶³ [Optimisa Research report](#), p35.

customers to consider their banking arrangements.¹⁶⁴ Further, our qualitative research suggested that the end of the free banking period seemed a natural point for SMEs to reconsider their banking provider.¹⁶⁵

- *Periodic prompts recommended for further testing*

3.249 We have provisionally decided to recommend to the FCA that it tests the effectiveness of periodic prompts along with the issue of periodic summaries to PCA and BCA customers.

- *Annual summaries*

3.250 Most providers issue their PCA customers with an annual summary on the anniversary of their account opening, which is intended to remind them of the costs and benefits of their account.¹⁶⁶ Annual summaries typically provide a breakdown of any charges incurred and the amount of credit and debit interest accrued over the last 12 months.

3.251 Providers will soon be required to provide their PCA customers with an annual summary. Regulation 10 of the Payment Accounts Regulations¹⁶⁷ (which implements Article 5 of PAD)¹⁶⁸ mandates the provision by PCA providers of annual summaries containing specific information.¹⁶⁹

3.252 Providers are under no legal requirement to provide annual summaries to their BCA customers and do not currently do so. Instead, BCA customers typically receive a monthly statement, which details the account's opening and closing balance and a summary of payments in and out.¹⁷⁰

3.253 The issue of a periodic prompt included within/upon the submission of an annual summary could encourage customers to actively review their banking arrangements on a regular basis, and at a time when they have to hand information about the costs and benefits of their existing banking arrangements.

¹⁶⁴ [HSBCG response to Remedies Notice](#), paragraph 29(d).

¹⁶⁵ [Optimisa Research report](#), p27.

¹⁶⁶ The introduction of annual summaries to PCA customers was a voluntary initiative, established following the [OFT's 2008 report into PCAs](#), which included a number of initiatives to help customers understand and manage their PCAs.

¹⁶⁷ See [The Payment Accounts Regulations 2015](#).

¹⁶⁸ See [European Commission website](#).

¹⁶⁹ It remains to be seen exactly when firms will have to start providing consumers with an annual 'statement of fees', as the EU technical standards containing the necessary document templates have yet to be developed by the European Banking Authority, after which they are to be formally adopted by the EU institutions.

¹⁷⁰ Most providers allow the customer to choose the frequency of the issue of this statement.

- 3.254 Annual summaries have potentially even greater value to BCA customers. This is because banks typically either charge for each transaction or charge a monthly fee, which could include a specific volume of transactions within the fee.
- 3.255 The FCA recently found that annual summaries sent to PCA customers, as designed by the providers that they looked at, had no discernible effect on customer behaviour in terms of incurring overdraft charges, altering balance levels or switching to other providers.¹⁷¹ However, findings from an RCT conducted by LBG suggest that a redesigned annual summary with an explicit call to action could prompt some PCA and BCA customers to review their banking arrangements.¹⁷²
- 3.256 We have provisionally decided to recommend to the FCA that it:
- (a) undertakes further testing, in order to understand whether changes to the content, presentation and timing of annual summaries can encourage customers to take action upon receiving them; and
 - (b) considers requiring providers to provide annual summaries to their BCA customers.
- 3.257 **Content.** The content could be enhanced to include information that helps customers to assess the true cost of their account. This could include information about the benefits of holding the account (eg cashback earned on purchases), and the associated costs (eg the amount of credit interest forgone).¹⁷³ The annual summary could also include indicators of service quality.¹⁷⁴

¹⁷¹ See [FCA occasional paper on the impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#) (March 2015).

¹⁷² In this trial, the redesigned annual account review with a prompt to upgrade to the interest-paying Club Lloyds account led to a doubling in the internal switching among LBG customers with credit balances above £5,000 receiving low interest and a 66% increase in those with balances between £1,000 and £5,000. Note that the trial was not designed to test external switching. A redesigned annual account review prompt to increase a planned limit to reduce unplanned overdraft usage was found not to have an impact on the behaviour of unplanned overdraft users. However, an SMS message with a similar prompt increased the proportion of customers increasing their planned limit by 42%. LBG has conducted an equivalent trial among SME customers with high/medium account costs, which more than doubled the rate of account opening (increase of 216% and 180% for SMEs with turnover below/above £1 million respectively), but had no impact on other metrics among this segment or on the behaviour of other segments of SMEs treated). Note that these are findings of a one-off trial and as such they are likely to be sensitive to a number of factors, such as the timing and the design of the treatment (including the nature of the call to action, its prominence and clarity, as well as the ease of action from the point of view of the customer), and sample selection (including whether segments targeted have an incentive to act). As LBG has told us, an iterative programme of trials with a number of variants tested is required to improve efficacy and ensure reliability of the findings.

¹⁷³ Interest forgone could be calculated with reference, for example, to the base rate, in order to ensure consistency and enhance comparison across providers.

¹⁷⁴ See paragraph 3.174.

- 3.258 In addition to prompting SMEs about their banking arrangements, an annual summary could also include a message designed to encourage SMEs to consider alternative providers when requiring finance. We have provisionally found that SMEs typically approach their BCA provider for finance.¹⁷⁵ The consideration of other lending providers could be facilitated by a link to sources of price and service comparison (see paragraphs 3.295 to 3.298).
- 3.259 **Presentation.** Our qualitative research found that disruptive communications would attract greater attention and invite engagement.¹⁷⁶ Tesco Bank has proposed to us the use of traffic light colour coding to make it clear to customers both the cost of their current account and how it compares to other products in the market.¹⁷⁷ Given the diversity of PCA offers in the market and the importance of a customer's preferences in determining value for money, it may not be possible to represent a bespoke or individualised summary via standardised labelling. However, we agree with Tesco Bank's suggestion that a visual representation of costs and/or service may improve customer engagement.
- 3.260 **Timing.** For PCA customers, issuing an annual summary at the start or end of the calendar or tax year (rather than on the anniversary of account opening), when customers may be more prone to review their financial arrangements, could have greater impact. For SMEs, aligning the issue of an annual summary with the end of the tax year or with an SME's financial year-end may prove more effective than issuing an annual summary upon the anniversary of account opening. Alternatively, providers could allow customers to choose their preferred date of receiving an annual summary.
- *Other periodic summaries*
- 3.261 TSB has proposed to us that all PCA customers should be provided with a standardised Monthly Bill, in order to encourage regular engagement with their banking arrangements.¹⁷⁸
- 3.262 Our current view is that a monthly summary will only provide a snapshot of the costs and benefits of a PCA and it is likely to be difficult for customers to extrapolate that information, in order to obtain a clearer view of their banking arrangements over the longer term. However, there could be some benefits in

¹⁷⁵ Our SME survey found that around 90% of SMEs went to their main bank for overdrafts, general-purpose business loans and credit cards; 69% went to their main BCA bank for invoice discounting and factoring and 76% for commercial mortgages ([Summary of provisional findings](#), p27).

¹⁷⁶ [Optimisa Research report](#), p38.

¹⁷⁷ [Tesco Bank response to Remedies Notice](#).

¹⁷⁸ [TSB response to Remedies Notice](#), paragraphs 22 & 23.

prompts with a shorter monthly or quarterly summary, which could complement the information contained in a more detailed annual summary.¹⁷⁹

3.263 We have provisionally decided to recommend to the FCA that it undertakes further testing, to understand whether prompts with other periodic summaries, in addition to prompts along with to the submission of an annual summary, can increase customer engagement.

- *Prompts not recommended for further testing*

3.264 We have provisionally decided not to recommend to the FCA that it tests the following situation or event-based triggers and periodic reminders, as we think that they are relatively unlikely to prompt customers to consider their banking arrangements:

- (a) A serious or widespread loss of service to a provider's PCA or BCA customers arising, for example, from an IT breakdown.
 - (b) A data breach or data security issue.
 - (c) A major dispute between a provider and a customer.
 - (d) A PCA customer's transition from a student or graduate account to an adult account.
 - (e) The opening of a BCA for the first time.
 - (f) The refusal of credit by an SME's existing provider.
 - (g) The end of the tax year.
 - (h) Other major life events.
- *A serious or widespread loss of service to a provider's PCA or BCA customers*

3.265 This does not appear to be an appropriate time to prompt PCA or BCA customers to consider switching current accounts for the following reasons:

- (a) A number of parties told us that following the loss of service, customers, particularly SMEs, were more likely to be focused on swift resolution of the issue and minimising any adverse impact on their banking arrangements. This typically involved continued dialogue with their

¹⁷⁹ To comply with PAD, any monthly or quarterly summary would need to be provided in addition to (and not in place of) an annual summary.

existing provider. To the extent that there was an opportunity to prompt customers once the loss of service (and its consequences) had been resolved, the efficient resolution of the issue could potentially strengthen the customer's relationship with their existing provider (rather than encourage the consideration of alternative providers).

(b) Our qualitative research suggested that a loss of service was only likely to drive customers to consider switching current account provider if it happened on multiple occasions.¹⁸⁰ This adds to the complexity of determining when to deliver the prompt.

(c) There is a risk that customers could switch in response to a loss of service without undertaking a considered assessment of their current banking arrangements and any suitable alternative products or providers. This may not leave them in a better position than before the switch.

o *A data breach or data security issue*

3.266 Given the increasing digitalisation of banking, the importance of data security and the risk of data security issues or breaches to customers is likely to increase over time.

3.267 However, our qualitative research found that if a data breach or data security issue was a one-off event and handled well by the provider, it would not be a suitable point at which to prompt customers to consider switching providers.¹⁸¹

3.268 Further, we do not think that data breaches occur with sufficient regularity to enable them to act as effective trigger points, and it is not possible to test (through RCTs) the effectiveness of their occurrence as a potential trigger point.

3.269 We think that the increasing prominence of data security could be better addressed under our proposed measure to increase customer awareness of and confidence in CASS. Under this remedy, Bacs could, for example, following the occurrence of a widespread data breach or data security issue, raise awareness of the benefits of switching via a mass advertising campaign.¹⁸²

¹⁸⁰ [Optimisa Research report](#), p37.

¹⁸¹ [Optimisa Research report](#), p37.

¹⁸² See Section 4.

- *A major dispute between a provider and a customer*
- 3.270 Our qualitative research found that prompts sent during disputes are unlikely to be effective, as during this time customers were primarily focused on the swift resolution of the dispute and would have concerns that if they switched during this time, the issue would never be resolved.^{183,184}
- 3.271 As with a serious loss of service, the efficient resolution of the dispute could potentially strengthen the customer's relationship with their existing provider.
- *A PCA customer's transition from a student or graduate account to an adult account*
- 3.272 Our qualitative research found that for recent graduates, the withdrawal of their interest-free overdraft was generally felt to be a more natural point to consider switching current account than the migration from a student to a graduate account. This was because graduation was felt to be a busy period, often involving job seeking, travelling and/or house-hunting, meaning that changing current account provider was not a particularly high priority at this point in time. Further, many student account benefits, including the interest-free overdraft, were retained for an interim period, meaning there was no immediate material change in their banking arrangements.¹⁸⁵
- 3.273 We have provisionally decided that the withdrawal of an interest-free overdraft would represent a more effective trigger point than a PCA customer's transition to an adult account. We consider that the withdrawal of an interest-free overdraft represents a material change in the key products features of a PCA (see paragraph 3.238).
- *The opening of a BCA for the first time*
- 3.274 Customers may have considered their options prior to selecting their preferred BCA provider and may not welcome a switching prompt at this point in time. Barclays told us that directing customers towards alternative products or providers at the start of the relationship was likely to give customers mixed signals and intimate that providers did not value their business, which may lead in turn to lower satisfaction, through no fault of the provider.¹⁸⁶

¹⁸³ [Optimisa Research report](#), p37.

¹⁸⁴ This finding is in line with the result of a trial conducted by LBG. LBG enclosed a leaflet outlining the simplicity of switching in letters sent to customers in response to complaints. LBG found no significant impact on switching rates (or other outcomes measured).

¹⁸⁵ [Optimisa Research report](#), pp27–28.

¹⁸⁶ [Barclays response to Remedies Notice](#), paragraph 2.2.4.

3.275 Further, our qualitative research found that it could be difficult to identify the trigger point, as it would not be immediately clear when an SME was in fact searching for a BCA. When it became known that an SME was looking to open a BCA, they would have likely already started searching for a suitable product and provider.¹⁸⁷

- *The refusal of credit by an SME's existing provider*

3.276 At this time, an SME is likely to be focused on securing finance rather than considering their BCA arrangements. Further, the SME's current BCA provider may have had legitimate reasons for refusing credit (eg the customer had a poor credit rating or did not meet the provider's lending criteria), which will not necessarily be resolved by changing BCA provider.

3.277 Rather than prompting SMEs to consider switching BCA provider, this could be an opportune time to encourage them to consider alternative finance options. The [Small and Medium Sized Business \(Finance Platforms\) Regulations 2015](#) came into force on 1 January 2016.¹⁸⁸ It requires designated providers to pass on information about those SMEs they have rejected for a business loan or credit application to designated finance platforms.¹⁸⁹

- *Other major life events*

3.278 Bacs told us that other life events, such as getting married or changing jobs, could also act as trigger points.¹⁹⁰

3.279 Our qualitative research found that life events were not seen as having obvious timelines when prompts could be delivered to customers.¹⁹¹ Further, we considered that it would be difficult to identify the occurrence of such events.

¹⁸⁷ [Optimisa Research report](#), p29.

¹⁸⁸ These regulations were made pursuant to powers provided in the [SBEE Act](#) (see in particular Section 6). While they came into force on 1 January 2016, they will not have effect until the finance platforms and banks have been designated.

¹⁸⁹ It was recently announced that Bizfitech, Funding Options and Funding Xchange will be designated as finance platforms to help match rejected borrowers and alternative lenders. See [Budget 2016, Section 4: Backing business and enterprise](#).

¹⁹⁰ [Bacs response to Remedies Notice](#), p14.

¹⁹¹ [Optimisa Research report](#), p30.

Content and presentation of messages

- *Content*

3.280 Our qualitative research found that for the prompts to be effective, the message needed to provide a clear rationale for considering switching as well as guidance as to what to do next.¹⁹²

3.281 Our qualitative research also found that there was a degree of confusion among customers as to why their current account provider or a third party would prompt them to switch providers.¹⁹³ Therefore, the prompts require appropriate framing, and an explanation of the reason for the prompt, in order to provide some context and elicit a positive response from the recipient. Further, our qualitative research also suggested that the provision of time frames would convey a sense of urgency and invite further consideration.¹⁹⁴

3.282 There are a number of common messages that could be included in the prompts to achieve these objectives:

- (a) Advising customers to review their existing banking arrangements.
- (b) Communication of the rewards or benefits of switching.
- (c) Referral to sources of comparative information.
- (d) Communication of the benefits of using CASS to switch current accounts.
- (e) Referral to sources of further guidance.

3.283 This list is not exhaustive and each of these messages may not be suitable for all of the prompts that we have provisionally recommended to the FCA for further testing. We recommend that the FCA tests the precise messaging that is likely to be effective in changing customer behaviour for each of the selected prompts.

- *Review of existing banking arrangements*

3.284 The prompt could advise the recipient to review their existing banking arrangements, in order to ensure that they adequately meet their needs.

¹⁹² [Optimisa Research report](#), p7.

¹⁹³ [Optimisa Research report](#), p22.

¹⁹⁴ [Optimisa Research report](#), p57.

3.285 Our qualitative research found that personalised or tailored data heightened customer engagement.¹⁹⁵ In order to facilitate a customer's review of their banking arrangements, the prompt could include a summary of (or link to) the costs and any benefits of the customer's current account over the past 12 months. The prompt could also include an estimate of the customer's likely future charges, based on their past account usage.

3.286 Information provided to customers to allow them to assess the costs and benefits of their account could include a summary of:

- (a) any arranged and unarranged overdraft charges (ie fees and interest) accrued;
- (b) any fees associated with holding the account;
- (c) any transactional charges (particularly relevant for SMEs);
- (d) any credit interest accrued;
- (e) the implicit cost associated with any credit interest forgone;¹⁹⁶ and
- (f) any benefits or rewards associated with holding the account (eg cashback earned).

3.287 Where such information goes beyond that required by PAD,¹⁹⁷ the FCA will need to consider the application of PSD and the Consumer Credit Directive (CCD) in specifying the determination of the precise content of these prompts.

- o *Communication of the rewards or benefits of switching*

3.288 The rewards or benefits of switching could be illustrated to customers:

- (a) through the recommendation of an alternative product and/or provider; or
- (b) by presenting them with the financial gain or loss they could achieve or incur by switching or not taking action.

3.289 We are not in favour of the recommendation of an alternative product and/or provider for a number of reasons:

¹⁹⁵ [Optimisa Research report](#), p57.

¹⁹⁶ The provision of this information could have resonance with those customers with high credit balances. Interest rate forgone could be calculated with reference, for example, to the base rate, in order to ensure consistency and enhance comparison across providers.

¹⁹⁷ Or in the case of BCAs, goes beyond what would be required by PAD if it applied to BCAs.

- (a) The referral of a customer to a competitor could have an adverse impact on the provider's relationship with the customer.
- (b) Parties told us that the customer was best placed to assess whether another product was more suitable for their needs, given that there were many product and service features to consider, and the provider could not be sure as to which of these features the customer valued most. We agree that the customer, through the use of price and comparison services and through access to further guidance, is best placed to consider alternative products and/or providers.

3.290 We consider that presenting customers with the financial gain or loss they could achieve or incur by switching or not taking action is more likely to drive action. Our qualitative research found that providing customers with the tangible benefits of switching, particularly through the use of personalised or tailored data, heightened customer engagement.¹⁹⁸

3.291 There are inherent challenges in the calculation of the gain or loss from switching or not taking action. For example, the exact quantum of the gain or loss will depend upon the features of the alternative current account identified as most important by the customer, which will likely reflect the customer's personal preferences, and this may not be solely based on price considerations, but also service and quality factors.

3.292 To ensure that customers take into account non-price factors when considering alternative products and/or providers, the prompt could also direct customers to sources of price and service comparison (see paragraphs 3.295 to 3.298).

3.293 The financial gain or loss from switching or not taking action could be presented to customers in a number of ways:

- (a) An average gain or loss based on the market as a whole.
- (b) An indicative gain or loss based on different customer profiles (eg a heavy overdraft user or a customer holding a high credit balance in their current account).
- (c) A personalised gain or loss based on a customer's transaction data, to the extent that this is compatible with PSD (see paragraphs 3.345 to 3.347).

¹⁹⁸ [Optimisa Research report](#), p57.

- 3.294 We recommend that the FCA tests the most effective way of presenting this information to customers.
- *Referral to sources of comparative information*
- 3.295 Our qualitative research found that the provision of comparison data would give the customer immediate, definitive evidence of the benefits of switching.¹⁹⁹
- 3.296 The prompt could direct customers to sources of price and service comparison, such as PCWs, where they could compare between prospective providers by accessing details of the available products and, when available, sharing securely their transactional history via open APIs. SMEs could also use PCWs and finance platforms to consider alternative lending products and/or providers.
- 3.297 This prompt could be supported by a number of our proposed remedies in relation to facilitating price and service comparison between providers. In particular, we intend to:
- (a) require providers to adopt an open API standard for BCA and PCA customers, thus making customer-specific transaction data more easily available and usable, including by PCWs;²⁰⁰
 - (b) require the collection and dissemination of service quality measures of PCA and SME banking services providers in a form that would enable customers to make valid comparisons between them;²⁰¹ and
 - (c) facilitate comparisons of BCAs and SME lending.²⁰²
- 3.298 We expect the availability of sources of comparative information available to both PCA customers and SMEs to increase over time. Therefore, the prompt could refer customers to an independent portal or website that details all of the different comparison services available to customers. We welcome views on who might be best placed to develop and manage this portal or website for BCA and PCA customers.

¹⁹⁹ [Optimisa Research report](#), p7.

²⁰⁰ See paragraphs 3.13–3.102.

²⁰¹ See paragraphs 3.103–3.199.

²⁰² See Section 6.

- *Communication of the benefits of using CASS to switch current accounts*

3.299 Our qualitative research found that while there was some awareness of CASS, there was little understanding of the benefits of using the service to switch current accounts, and that providing reassurances about the switching process would bolster the switching message.²⁰³

3.300 The prompt could include a number of messages about CASS. For example, it could inform the recipient that under CASS:

- (a) the switch will only take seven working days;
- (b) the new provider will take care of moving all payments going out (eg direct debits and standing orders) and all payments coming in;
- (c) if anything goes wrong, the new provider will refund any interest paid or lost and charges made on either the customer's old or new account; and
- (d) the customer has the opportunity to try a new account and cancel the switch if they change their mind.

3.301 We propose that the FCA considers further the content that is most likely to assure customers about the security and convenience of using CASS to switch current accounts.

- *Referral to sources of further guidance*

3.302 Given the low level of customer engagement and the complexity of comparing current account providers, there may be some benefit in providing customers with access to further guidance on their banking needs.

3.303 For PCA customers, the Money Advice Service (MAS)²⁰⁴ is currently responsible for enhancing consumer understanding and knowledge of financial matters and the ability of consumers to manage their financial affairs.

3.304 On 16 March 2016, the government announced its intention to replace MAS with a new organisation from April 2018. We are working with MAS to understand whether it can provide PCA customers with guidance on their banking arrangements up until April 2018, and whether its replacement body can perform this function thereafter. We welcome views on whether there is another body that could adequately perform this role in place of MAS.

²⁰³ [Optimisa Research report](#), p58.

²⁰⁴ MAS was set up by the government in April 2010 to offer free and impartial money advice to consumers.

3.305 For BCA customers, there does not appear to be single source of guidance. The prompt could encourage SMEs to discuss their banking requirements with their individual trusted adviser, such as their accountant. We have also proposed to recommend to BIS that it works with the [British Business Bank](#) and professional associations, such as the [Institute of Chartered Accountants in England and Wales](#) (ICAEW) to explore ways in which their members can channel such guidance to SMEs.²⁰⁵ We welcome views on which body or bodies is/are best placed to provide financial guidance to BCA customers.

- *Tailored messages by type of prompt*

3.306 The common messages described above could be supplemented with or modified by messages tailored to reflect the particular circumstances for each prompt, although further testing will be required by the FCA to assess the likely effectiveness of any such content.

3.307 For example:

- (a) A material change in the key product features of a BCA or PCA product used by the customer: the prompt could include a clear and concise description of the change(s), and any features of or benefits attached to the existing account that would be withdrawn or modified following the change.²⁰⁶
- (b) The closure of a customer's branch: the prompt could include the details of three alternative providers with branches closest to the branch due to be closed. This could include the name of the provider, the location of the branch and confirmation that they offered BCA or PCA services.
- (c) The imposition of overdraft charges: the periodic statements could be modified to include:
 - (i) a breakdown of the charges incurred in the past year an estimate of the customer's likely charges for the coming 12 months, based on their past account usage;
 - (ii) clear and concise guidance on how to avoid future charges, for example, by signing up to pre-notification alerts; and

²⁰⁵ See Section 6.

²⁰⁶ This is required by [BCOBS 4.1](#).

(iii) reassurance that overdraft users can switch current accounts using CASS.²⁰⁷

(d) The expiry of an SME's free banking period: subject to compatibility with PSD, the prompt could include a warning that the SME was approaching the end of their free banking period, together with an estimate of their likely charges for the coming 12 months, based on their account usage during the free banking period.

- *Presentation*

3.308 The manner in which a prompt is delivered, both in terms of the content used and its presentation, could impact the level of customer engagement with the communication.

3.309 For example, our qualitative research found that:

(a) Letters received from a customer's existing provider tended to be opened, but were often only superficially reviewed.²⁰⁸

(b) For emails, subject headings were important if the communication was to be opened and read.²⁰⁹

(c) It was considered important that the prompts featured prominently to encourage engagement.²¹⁰

3.310 As discussed earlier in paragraph 3.259, our qualitative research found that disruptive communications would attract greater attention and invite engagement.²¹¹ Tesco Bank's proposal on the use of traffic light colour-coding is one example of how this could be applied.²¹² Although we have concerns with a standardised labelling approach, we agree with Tesco Bank's suggestion that a visual representation of costs and/or service may improve customer engagement.

3.311 We propose that the FCA tests a number of presentational styles and formats, in order to understand how best to present the messaging to encourage greater customer engagement.

²⁰⁷ Our qualitative research found that there was a lack of clarity over whether it was possible to switching current account providers with an overdraft or lending facility ([Optimisa Research report](#), p22).

²⁰⁸ [Optimisa Research report](#), p48.

²⁰⁹ [Optimisa Research report](#), p49.

²¹⁰ [Optimisa Research report](#), p8.

²¹¹ [Optimisa Research report](#), p38.

²¹² [Tesco Bank response to Remedies Notice](#).

- *Standardisation of language and presentation*

3.312 We received mixed feedback from parties in response to whether the content and presentation of the messages delivered to customers should be standardised, specified or approved by a regulator.

3.313 Some parties told us that standardised messages would be easier to draft and implement, given that they would not require tailoring to specific customer circumstances. Standardised messaging would also ensure consistency in messaging, which would promote customer trust.

3.314 Other parties were against the standardisation of language and presentation. For example:

(a) The Institute of Directors told us that mandating messages to consumers or businesses in some cases would only serve to reinforce the notion that all providers were the same.²¹³

(b) Nationwide told us that it was essential that it was able to communicate with its customers using its own 'tone of voice', which it viewed as an important differentiator of its customer proposition and service quality.²¹⁴

3.315 We have provisionally decided that a customer's existing current account provider is best placed to deliver the prompts (see paragraph 3.322), and allowing providers to prompt customers in line with their existing communications may bolster the authenticity and credibility of the messages. However, at the same time, some form of standardisation of content and presentation may ensure that a consistent message is delivered to customers by all providers.

3.316 We recommend that the FCA:

(a) considers the extent to which the content and presentation of messages should be standardised, in order to ensure that a consistent message is delivered to customers by all providers; and

(b) monitors the effectiveness of these prompts, and as and when necessary, redesigns the prompts to reflect market and regulatory developments, including the impact of our wider remedies package on customer engagement.

²¹³ [Institute of Directors response to Remedies Notice](#), p2.

²¹⁴ [Nationwide response to Remedies Notice](#), paragraph 3.9.

Source of prompts

- 3.317 Our qualitative research found that a customer's existing provider emerged as the preferred source of the prompts, as they were perceived as a trusted, known source, whereas an approach from a commercial third party, such as a rival provider or a PCW, was considered intrusive and would raise data security concerns.²¹⁵ The research also indicated that non-commercial third parties, such as a regulator or consumer advice body, had more credibility, but would be best utilised by adding credibility to prompts delivered by a customer's existing provider.²¹⁶
- 3.318 In our [Remedies Notice](#), we noted that there was a risk that providers could circumvent the remedy by framing the message in such a manner that the key messages in relation to searching and switching were obscured or given insufficient prominence.
- 3.319 We suggested that this risk might be mitigated by facilitating access to relevant customers by a regulator or third party, so that they could deliver the message in place of the customers' existing provider.²¹⁷
- 3.320 In response, a number of parties told us that this could have data security implications. For example:
- (a) The ICO²¹⁸ told us that consumers had a range of concerns (in relation to the sharing of their data), including potential data loss, data misuse and unexpected data sharing.²¹⁹
 - (b) HSBCG told us that it did not believe that customers would welcome additional marketing communications from third parties, and that such a requirement would also conflict with the marketing preferences of many customers, who actively opted out of receiving marketing materials.²²⁰
 - (c) The BCC told us that businesses must have confidence that the data was used fairly and lawfully, for specifically stated purposes, kept for no longer

²¹⁵ [Optimisa Research report](#), p40.

²¹⁶ [Optimisa Research report](#), p42.

²¹⁷ [Remedies Notice](#), p10.

²¹⁸ The Information Commissioner has responsibility for promoting and enforcing the Data Protection Act 1998, the Freedom of Information Act 2000, the Environmental Information Regulations 2004 and the Privacy and Electronic Communications (EC Directive) Regulations 2003. He is independent from government and upholds information rights in the public interest, promoting openness by public bodies and data privacy for individuals. He does this by providing guidance to individuals and organisations, solving problems where he can, and taking appropriate action where the law is broken.

²¹⁹ [Information Commissioner's Office response to Remedies Notice](#), paragraph 10.

²²⁰ [HSBCG response to Remedies Notice](#), paragraph 46.

than was absolutely necessary, handled according to their data protection rights and kept safe and secure.²²¹

3.321 In addition to these concerns, there are also some practical barriers to the use of third parties in delivering the prompts:

- (a) Given the current low levels of customer engagement in the market, it is not clear to us that PCWs, which typically generate revenue by imposing fees on a provider upon click-through to their website or following a completed switch, yet have sufficient incentive to communicate the benefits of switching and to prompt investigation of other providers.²²² We consider that PCWs have an important role in this market in facilitating price and service comparison. However, they may not be best placed to stimulate competition.
- (b) The customer's existing provider can utilise its existing channels of communication, which are not available to third parties, to deliver the prompts.
- (c) The customer's existing provider is best placed to identify a number of the proposed trigger points, such as branch closure and a material change in the key product features of a BCA or PCA.

3.322 Given the security concerns and practical barriers described above, and the findings of our qualitative research, we have provisionally decided that the customers' existing current account provider is best placed to deliver the prompts.

3.323 We think that the risk of circumvention of the remedy can be addressed by the FCA considering the extent to which the content and presentation of messages should be standardised, in order to ensure that a consistent message is delivered to customers by all providers (see paragraph 3.316).

Medium of delivery of prompts

3.324 Our qualitative research found that channel usage would likely be dependent on a customer's existing communication preferences, and where possible, the use of multi-channel communication could help maximise the effectiveness of the prompts.²²³

²²¹ [British Chambers of Commerce response to Remedies Notice](#), p3.

²²² Our proposed remedies package intends to increase customer engagement, so PCWs may be incentivised to play a larger role in the market in the future.

²²³ [Optimisa Research report](#), pp46–47.

3.325 For example:

- (a) A letter and/or email could be appropriate channels to initiate contact with the customer as these mediums were well-suited to communicate detailed messages.²²⁴
- (b) The initial communication could then be followed up by a notification or reminder via the customer's mobile banking application or a secure message via the customer's online banking portal.^{225,226}

3.326 Electronic channels are particularly effective in driving prompt action, as they allow the recipient to act immediately upon receiving the message by, for example, clicking on a link to direct them to their mobile banking application or to a portal listing all available price and service comparison services. For example, the FCA found that that signing up to text alerts and mobile banking reduced the amount of unarranged overdraft charges incurred by customers by 24%.²²⁷

3.327 We propose that the FCA undertakes further testing in order to determine the optimum multi-channel communication method.²²⁸

Implementation issues

3.328 We have considered the following issues in relation to the implementation of the remedy:

- (a) Method of implementation.
- (b) Timing of implementation.
- (c) The remedy's interaction with existing and future laws and regulations.
- (d) Monitoring of compliance with and enforcement of the remedy.

²²⁴ [Optimisa Research report](#), p57.

²²⁵ Our qualitative research suggested that secure messaging was often ignored, and the prompts would need to appear at the log-in stage to attract attention ([Optimisa Research report](#), p50).

²²⁶ Although the research suggested that customers were less familiar with receiving notifications via their mobile banking application, we consider that mobile banking adoption – which is largely driven by smartphone adoption, which is greater among the younger population – is likely to increase over time.

²²⁷ See [FCA occasional paper on the impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#) (March 2015).

²²⁸ The consideration of optimal channels should allow for the development of new mediums in line with ongoing technological change.

Method of implementation

- 3.329 We have provisionally decided to issue an Order requiring all PCA and BCA providers in the UK (possibly subject to a de minimis level) to cooperate with the FCA in a research programme, including RCTs, to identify those prompts that are most likely to be effective in changing customer behaviour. Providers will only be required to participate in the research programme if selected by the FCA.
- 3.330 We will consider any representations on whether there should be a de minimis level for implementing this remedy. This may be set relatively low (eg at 150,000 to 200,000 active PCAs²²⁹ and 20,000 to 25,000 active BCAs), thus covering the majority of active accounts and including larger providers in both GB and NI, while also excluding the large number of very small providers.
- 3.331 For those providers who are selected by the FCA to participate in RCTs, this will include as a minimum:
- (a) selecting a sample of customers (according to the criteria specified by the FCA) and randomly assigning each customer to either a treatment or control group;
 - (b) delivering the prompts identified as suitable for further testing by the FCA (see paragraphs 3.235 to 3.260) via different channels to each of the groups; and
 - (c) gathering the data necessary for the FCA to measure the effectiveness of the various prompts.
- 3.332 Our initial view is that an Order appears to be the most effective way of ensuring the participation of providers, although we intend to consider further whether seeking undertakings from providers can fulfil the same objective. We think that a recommendation to providers could allow for circumvention of the remedy by, for example, providers refusing to cooperate with the FCA, or allowing scope for negotiation in relation to the design of the RCTs, which could have an adverse impact on the effectiveness of the subsequently designed prompts.
- 3.333 We have provisionally decided to recommend to the FCA to:
- (a) undertake a research programme, including RCTs, in conjunction with a selection of PCA and BCA providers to identify those prompts that are

²²⁹ Using a common definition across providers.

most likely to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers;

- (b) subject to the results of the research programme, use its rule-making powers in keeping with the FCA's BCOBS to implement a series of prompts to be communicated to customers in line with the optimal timing, content and medium parameters identified by the research programme. We would expect the FCA to monitor and supervise compliance with their rules;
- (a) consider the extent to which the content and presentation of messages should be standardised, in order to ensure that a consistent message is delivered to customers by all providers; and
- (b) monitor the effectiveness of these prompts, and as and when necessary, redesign the prompts to reflect market and regulatory developments, including the impact of our wider remedies package on customer engagement.

3.334 In addition, we have provisionally decided to order or seek undertakings from BCA providers to also send prompts to those SMEs not covered by the FCA's BCOBS, but included within our [terms of reference](#). We expect the Order or undertakings to apply to the BCA providers subject to the FCA's rules.

Timing of implementation

3.335 We expect the FCA to prepare for testing following the publication of our final report, and to begin testing following the making of the Order. We expect that testing and the analysis of results will be completed by the end of 2017. The FCA would then consult on any proposed changes to its rules or guidance in the summer of 2018.

Laws and regulations

3.336 The design and implementation of the remedy would need to have regard to the following laws and regulations:

- (a) Data protection legislation;
- (b) PAD; and
- (c) PSD, PSD2 and CCD.

- *Data protection legislation*

3.337 In response to our [Remedies Notice](#), the ICO told us that the prompts to be delivered to customers under this remedy might constitute direct marketing. Therefore, the remedy would need to comply with the regulation of direct marketing provided for in the [Data Protection Act 1998](#) (DPA) and [Privacy and Electronic Communications \(EC Directive\) Regulations 2003](#) (PECR).²³⁰

3.338 In particular, Regulation 22(2) of PECR prohibits the sending of direct marketing by electronic mail, which includes text messages, unless the recipient has provided consent (ie the recipient has opted in to receiving direct marketing) or the requirements of Regulation 22(3) are met.²³¹

3.339 As only some customers have currently opted in to receive marketing messages, the efficacy of this remedy would be significantly diminished if the prompts were considered to represent direct marketing.

3.340 We have consulted with the ICO and are satisfied that sending prompts intended to change customers' behaviour will not, in principle, constitute direct marketing, although this depends on the precise wording of the prompts. The prompts are not intended to be the communication of advertising or marketing material.

3.341 We do not consider that this issue will act as a significant obstacle to the effective implementation of this remedy. It will be for the FCA to ensure that this remedy complies with the relevant data protection and electronic marketing legislation.

- *PAD*

3.342 PAD sets common regulatory standards that EU member states must meet, in order to improve the transparency and comparability of fees related to current accounts. PAD came into force on 17 September 2014 and has been implemented in the UK by the Payment Accounts Regulations 2015.

3.343 PAD requires member states to mandate to PCA providers the provision of two new standardised documents to PCA customers: a pre-contractual fee

²³⁰ Section 11 of the DPA defines direct marketing as 'the communication (by whatever means) of any advertising or marketing material which is directed to particular individuals'. The ICO has also [published guidance](#) on direct marketing, which explains that the definition of direct marketing extends beyond commercial marketing and includes 'the promotion of an organisation's aims and ideals'.

²³¹ Regulation 22(3) allows for direct marketing to be sent by electronic mail without the recipient's consent if the recipient is provided with an opportunity to opt out of receiving such messages at the time they provide their details, and at each subsequent communication, if contact details are obtained in the course of the sale or negotiations for the sale of a product or service and the direct marketing is in respect of the provider's similar products and services.

information document and an annual statement of fees. The statement of fees must include at least the following information:

- (a) the unit fee charged for each service and the number of times the service was used;
- (b) the total amount of fees incurred for each service, each package of services provided and services exceeding the quantity covered by the packaged fee;
- (c) the overdraft interest rate applied and the total amount of interest charged relating to the overdraft (where applicable);
- (d) the credit interest rate and the total amount of interest earned; and
- (e) the total amount of fees charged for all services.

3.344 PAD is a minimum harmonisation measure, thus allowing member states to adopt more favourable provisions to the consumer, including sending more frequent summaries. The content and presentation of these documents will be prescribed in forthcoming EU technical standards, which are yet to be developed by the European Banking Authority.

- *PSD, PSD2 and CCD*

3.345 PSD sets out various requirements as to the information which must be provided to customers by banks. PSD is a maximum harmonisation directive, which means that member states may not impose varied or additional requirements on banks concerning matters falling within its scope. However, PSD does not seek to harmonise all informational requirements on banks, and there remains flexibility for member states to impose requirements relating to matters falling outside the scope of PSD.

3.346 Articles 47 and 48 of PSD set out the information that providers are required to provide customers in relation to individual payment transactions. They include a reference to identify the payments, the amount of payment, any charge for the transaction, exchange rates, date of credit or debit.

3.347 PSD2 will replace PSD.²³² It aims to update the current framework on payment services, extending its scope to payment services providers that were previously unregulated, and to improve the transparency and security of payment services.

²³² PSD2 came into force in January 2016. Member states must transpose it into national law by January 2018.

- 3.348 CCD harmonises certain aspects of the provision of consumer credit across the EU. It is considered in greater detail in our discussion on overdraft alerts (see Section 5).
- 3.349 We do not think that the information that we have proposed to be provided to customers under this remedy conflicts with PSD, PSD2 or CCD. Among other considerations, the FCA will, however, need to take into account the scope of these directives when designing, testing and implementing the remedy via its rule-making powers.
- 3.350 These directives would not restrict the FCA's ability to mandate providers to send prompts to customers. However, care would need to be exercised in relation to mandating the content of prompts which duplicates information required under either PSD, PSD2 or CCD. We expect any uncertainty in this regard to be the subject of consultation between the FCA and the CMA as set out in paragraph 3.224.

Monitoring and enforcement

- 3.351 We will ensure that providers comply with the provisions contained in the Order or undertakings. Once the remedy is implemented, the FCA will be best placed to monitor and supervise compliance with its rules.

Cost of remedies

- 3.352 There are likely to be three principal costs associated with this remedy:
- (a) Finalisation of remedy design.
 - (b) Remedy implementation.
 - (c) Monitoring and enforcement.
- 3.353 The cost of finalising remedy design largely comprises the undertaking of further testing by the FCA, and will depend on the extent of testing required to finalise the key remedy design parameters. There could also be additional costs should it be deemed necessary by the FCA to undertake testing (eg lab testing) in preparation for RCTs, and to engage an academic expert to assist in the design of the prompts.
- 3.354 The primary costs of delivering the prompts to customers are likely to involve the design of content and changes to providers' IT systems and wider communications infrastructure.

- 3.355 The cost of monitoring compliance with and enforcement of the remedy will depend on the rules made by the FCA, and the extent to which the FCA will be required to modify the arrangements for monitoring and supervising compliance with its rules.
- 3.356 We invite views on the likely costs of each of these elements of the remedy.
- 3.357 The FCA will assess the costs of the remedy design, implementation and monitoring and enforcement against the benefits that the introduction of the prompts, as part of our overall package of remedies, will be expected to deliver.

4. Current account switching package

Overview

Measures we intend to adopt

- 4.1 In our [Remedies Notice](#), we characterised the switching of current account provider by PCA customers or SMEs not as an event but as a process or ‘journey’ comprising a sequence of steps. The last step in this journey is customers initiating the switching process, either closing their former account (which we refer to as a ‘full switch’) or keeping both the old and the new account open (referred to as ‘partial switch’ or ‘multi-banking’).
- 4.2 In this section we set out remedies aimed at improving customers’ experience of this final step. These remedies will provide additional assurance to customers about the ease and benefits of switching accounts. They will also create a more effective governance framework for the Current Account Switch Service (CASS)²³³ operated by Bacs,²³⁴ so that the service continues to be developed and operated, through effective participation of a wide range of relevant stakeholders, in the interest of customers.
- 4.3 These remedies include:
- (a) measures to reform CASS governance including changes to its corporate governance and introducing regulatory oversight²³⁵ of CASS by the PSR;
 - (b) measures to improve specific aspects of the switching process, specifically increasing the length of the CASS redirection period, and requiring provision of transaction history; and
 - (c) measures to increase awareness of and confidence in CASS.

²³³ CASS is managed and owned by Bacs. CASS is a free-to-use service designed to make it quicker and easier for customers to switch current accounts. It is available to consumers, small businesses, small charities and small trusts. Customers can switch their personal or business current accounts to another provider with all their incoming and outgoing payments (ie direct debits and standing orders) switched automatically. The switching process takes seven days and customers can choose the exact date of the switch. The service includes a CASS Guarantee which fully protects customers against financial loss if something goes wrong during the switch. Over 40 banks and building societies participate in CASS.

²³⁴ Bacs is a membership company limited by Guarantee, with responsibility for the schemes behind the clearing and settlement of UK automated payment methods, direct debit and Bacs direct credit, as well as the provision of managed services for third parties, such as the Cash ISA Transfer Service, and the development, management and subsequent ownership of CASS. See [Bacs website](#).

²³⁵ To implement this measure, we have provisionally decided to make a recommendation to HMT to provide additional powers to PSR for it to assume regulatory oversight of CASS. While acting on our recommendation, HMT may want to consider if another appropriate body would be more suited to provide regulatory oversight of CASS. See paragraphs 4.68–4.69.

- 4.4 The specific objectives of these measures are to:
- (a) ensure that Bacs management and the CASS Management Committee (the MC) have stronger incentives to operate and develop CASS in the interest of customers;
 - (b) reduce customers' concerns about payments made to their old current account going astray, and losing access to transaction history after switching through CASS; and
 - (c) increase personal and business customers' awareness of and confidence in CASS so that their concerns in relation to the convenience and security of switching would no longer pose a barrier to switching current accounts.

Measures we do not intend to adopt

- 4.5 We also set out those remedies which we considered in our [Remedies Notice](#) but have decided not to pursue further as part of this inquiry. These are:
- (a) introducing account number portability (ANP);
 - (b) introducing a partial switch service guarantee and requiring all providers to offer the partial switch service; and
 - (c) requiring the transfer of continuous payment authorities (CPAs) on debit cards when switching through CASS.
- 4.6 While we felt that each of these measures had merit, we have provisionally decided not to pursue these further for the following reasons:
- (a) Both ANP and our proposal for an extension to the redirection period are ways of addressing the same underlying concerns relating to incoming payments going astray in the switching process. While ANP is generally easier for customers to grasp and tends to perform better in customer surveys, in practical terms, our proposal of extended redirection is effective at reducing the risks of missed payments. ANP also raises some concerns about security, specifically a greater perceived danger of account fraud. Further, our proposal, which allows for permanent redirection for customers who may need it, costs substantially less to implement than ANP and is capable of much more rapid implementation, which is an important dimension of effectiveness. After taking all factors into account, extended redirection is effective in addressing our concerns, and is much less expensive and onerous to implement compared with ANP.

- (b) Bacs told us that it was considering revisiting the attitudinal and behavioural considerations of overdraft users, those who wished to retain more control over the switching process, and the more complex requirements and needs of SMEs. It believed that based on this analysis, a partial switching proposition could be built into the wider CASS. It is unclear to us that requiring all banks to offer the partial switch service will be an effective remedy, since customers effectively already have the option of a partial switch by opening a new account without closing their existing account. While we are not proposing a partial switch remedy, we note that this facilitates multi-banking, and we encourage Bacs to further investigate the partial switch service, and work with banks that offer the partial switch service to increase the customer awareness of this service.
- (c) Our assessment of requiring transfer of CPAs on debit cards when switching through CASS suggests that:
- (i) few customers are likely to be adversely affected by the non-transfer of CPAs;
 - (ii) debit card scheme providers already offer a solution for many customers who could be affected; and
 - (iii) the likely cost and complexity of building a facility to automatically transfer CPAs as part of the switching process would be considerable.

How these remedies address the AECs and/or the resulting customer detriment

- 4.7 We provisionally found that there are barriers to switching PCAs and BCAs, which give rise to AECs in both GB and NI. Even where customers had decided that switching an account to a new provider could be advantageous, some nonetheless refrained from doing so because they lacked confidence in the switching process.
- 4.8 PCA customers perceive that switching accounts is burdensome, and have a fear that something will go wrong. For many SMEs, the switching process is perceived to be time-consuming, difficult and risky. Further, awareness of and confidence in the CASS switching service was low both for PCAs and BCAs.
- 4.9 To address these issues, we have provisionally decided to introduce reforms to the governance of CASS,²³⁶ and adopt measures to improve specific

²³⁶ CASS is available to all PCA customers and almost all (99%) of BCA customers. Since April 2015, an SME with an annual turnover that does not exceed £6.5 million and employs fewer than 50 people can use the CASS.

aspects of the switching process, which should increase customer confidence in the service. We have also provisionally decided to adopt measures to increase awareness of and confidence in CASS. These measures together seek to address existing barriers to customer (PCA and BCA) engagement and switching in both GB and NI. We provide an overview of these measures, including the contribution made by each to address the AECs below.

Reforms to CASS governance

- 4.10 A well-designed and more customer-focused CASS governance structure would provide those managing the service with stronger incentives to operate and develop the service in the interests of customers. In particular, it would lead to greater transparency, customer focus and diversity of views in the management of CASS.
- 4.11 The specific changes to CASS governance that we intend to adopt are: requiring greater transparency around the decisions made by the MC and CASS's performance; expanding the membership of the CASS decision-making bodies to ensure greater independence, and diversity of views in the MC and its sub-committees/groups; and introducing regulatory oversight of CASS by the PSR.
- 4.12 These changes would have the benefit of motivating the MC and Bacs' management team to continue to seek out new ways to improve the switching process for the benefit of customers over the long term. These, in turn, would help in addressing the AECs by increasing the confidence in and awareness of CASS thereby reducing barriers to switching.

Improvements to the switching process

- 4.13 The measures that we intend to adopt to improve specific aspects of the switching process, ie extending the length of the CASS redirection period, and making transaction history more easily available to customers, will increase customers' confidence in CASS and the reliability of the switching process.
- 4.14 Our remedy to extend the redirection period under CASS will provide further assurance to customers that their payments will not go missing after switching accounts through the implementation of a form of 'perpetual' redirection of incoming payments for users who may need it. This measure achieves many of the perceived benefits of ANP at a much lower cost.

- 4.15 Providing a facility for customers to receive their transaction history at the time of and after account closure will help reduce the perceived or real risks of switching, and encourage customers to switch accounts.²³⁷

Measures to increase awareness of and confidence in CASS and the switching process

- 4.16 This remedy will support Bacs in its efforts to increase customer awareness of and confidence in CASS, so that customers' concerns in relation to the convenience and security of switching no longer pose a barrier to switching current accounts.
- 4.17 It complements our proposal to reform CASS governance enhancing the incentives of Bacs and the MC to operate and develop CASS in the interests of customers. It also complements our proposed measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers, where the message can be communicated to individual customers at times when they are more likely to be receptive of such messages.
- 4.18 In the remainder of this section, we set out further details of our provisional decisions on the design and implementation of the remedies included in the current account switching package.

Reforms to CASS governance

Introduction

- 4.19 We provisionally found that barriers to switching accounts still remain despite the introduction of CASS and that awareness of and confidence in CASS was low. In our [Remedies Notice](#), we noted that a well-designed governance structure would have the benefit of motivating Bacs' management team and the MC in operating and developing CASS in the interests of the customers in the long run.
- 4.20 From an operational and strategic perspective, CASS is run by participating banks through the MC²³⁸ and is supported by Bacs' resources and staff. CASS's budget and spending plans are decided by the MC, and Bacs' board approves these only from a financial planning perspective. Although CASS is

²³⁷ For example, past bank statements could be required to be submitted for a mortgage or loan application.

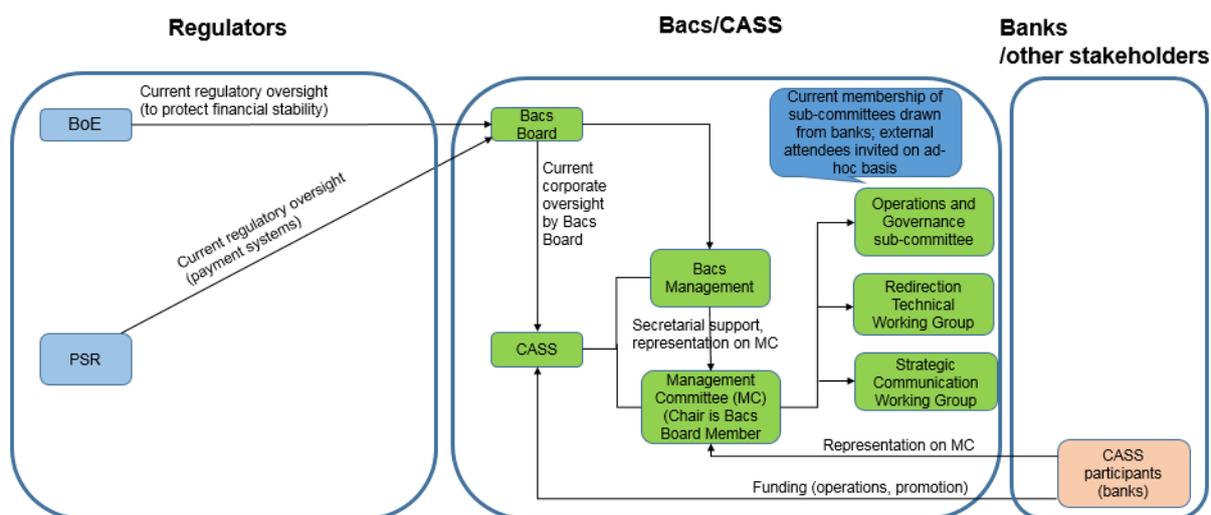
²³⁸ The MC's Terms of Reference state that in addition to CASS participants (banks), other external experts may also be invited to attend the MC meetings where necessary. These may include representatives from the BBA, other Scheme companies, regulators and suppliers (eg Vocalink).

subject to corporate oversight by the Bacs board,²³⁹ this is limited to activities that might result in reputational or financial impacts to Bacs, or have any potential implications on the stability of the payment systems.

4.21 The Bank of England (BoE) and the PSR have some oversight of Bacs, but this does not extend to directly overseeing CASS governance.

4.22 Figure 4.1 illustrates current governance of CASS.

Figure 4.1: CASS current governance



Source: CMA.

4.23 We also stated in our [Remedies Notice](#) that the current balance of influence between providers in the MC who are likely to be net winners and those that are likely to be net losers from the switching process may not fully align with Bacs' objectives of promoting awareness of and confidence in CASS.

Summary of the measures we are proposing to take forward

4.24 We have provisionally decided to introduce a remedy to strengthen CASS governance, with the overall objectives of increasing awareness of and confidence in the service, to address existing barriers to switching and customer engagement. This remedy is summarised in Figure 4.2.

²³⁹ See [Bacs board](#).

Figure 4.2: Proposed reforms to CASS governance and requiring regulatory oversight

Changes to CASS corporate governance

Currently, the MC²⁴⁰ is chaired by a Bacs board member and includes representatives of participating banks. The CMA is proposing the following reforms to transparency and decision-making of CASS.

- The CMA has provisionally decided to seek undertakings from Bacs to ensure greater transparency around decisions of the MC, and CASS performance. This could be done, for example, through Bacs publishing on its website on a regular basis (a) minutes of the meetings of the MC and its subcommittees/groups; (b) CASS's performance against Key Performance Indicators (KPIs); and (c) an annual report on CASS's performance by the MC Chair, which is also provided to the PSR.
- The CMA has provisionally decided to seek undertakings from Bacs that it appoints an independent²⁴¹ Chair of the MC, and includes independent members, representatives of relevant customer groups and intermediaries, for example PCWs in the MC and its subcommittees/groups.²⁴²

Regulatory oversight of CASS

The CMA has provisionally decided to make a recommendation to HMT to provide additional powers to the PSR for it to assume regulatory oversight of CASS.

We envisage that the proposed regulatory oversight of CASS by the PSR would be relatively light touch, and be limited to potentially include the following:

- Ongoing: review of, and report on CASS's performance against KPIs.
- Annually/periodically:
 - Agree CASS's governance arrangements including KPIs, membership and Terms of Reference of the MC; and
 - Agree CASS's annual and longer-term (eg three-year) strategic plans.

We expect the implementation of changes to CASS corporate governance within six months of the CMA's acceptance of undertakings from Bacs. We expect the PSR to assume regulatory oversight of CASS once HMT provides it with additional powers.

How this remedy addresses the AECs and/or the resulting customer detriment

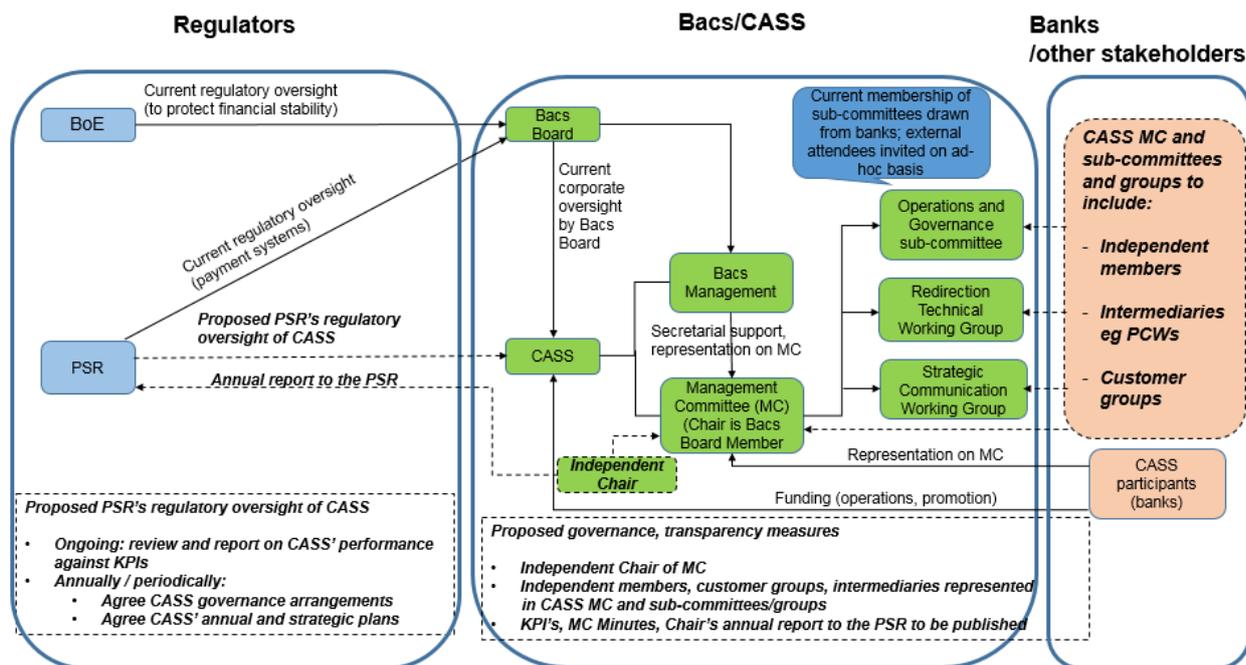
- 4.25 In our [provisional findings](#) we found that aspects of the current account switching process act as a barrier to switching for both BCA and PCA customers. In particular, we found that some customers had a concern that something would go wrong when switching accounts, and that awareness of and confidence in CASS was low.
- 4.26 A well-designed CASS governance structure based around principles of transparency, independence and diversity of views would provide those managing the service with stronger incentives to operate and develop the service in the interest of customers. This would have the benefit of motivating Bacs' management to continue to innovate to improve the switching process over the long term. Overall, our proposed measures would help in addressing the AECs provisionally identified, by increasing confidence in CASS and reducing barriers to switching.
- 4.27 Another potential benefit of reforming CASS governance would be that it would reduce the need to mandate particular conduct by CASS participants on an ongoing basis. Our proposed changes to the governance of CASS will both enhance our other remedies that target specific aspects of CASS, and also ensure that the service is run and developed effectively in the interests of customers in the future.
- 4.28 Figure 4.3 illustrates our proposed changes to CASS governance under this remedy.

²⁴⁰ Effectively CASS's board.

²⁴¹ Independent from banks and Bacs.

²⁴² These new members should have full membership rights.

Figure 4.3: Changes to CASS governance



Source: CMA.

Note: Changes to current governance are indicated by dashed lines and text in bold italics.

Remedy design considerations

Changes to CASS corporate governance

4.29 In the design of this remedy, we considered the composition of the MC, its subcommittees/groups, the need for greater transparency around the decisions made in these and CASS performance against KPIs.

- *Composition of the MC and representation of a wider group of stakeholders' interests*

4.30 The MC, which is chaired by a Bacs board director and includes representation from CASS bank participants, is charged with managing the scheme from an operational and strategic perspective. It meets once every two months where a minimum of eight banks must be present for each meeting. Bacs told us that it also invited external attendees, for example regulators, the BBA, other scheme companies and appointed suppliers (eg VocaLink) to the meetings of the MC, but this was based on specific agenda items being discussed.

4.31 Bacs' executive management is represented in the MC by its Director of Product and Strategy, whose team also provides secretarial and administrative support for its meetings. The Bacs board receives, for

information, regular updates on various aspects of CASS performance including operations, budgets, risk management and compliance. Under the MC's Terms of Reference, issues that cannot be resolved by the MC are referred to the Bacs board.²⁴³

- 4.32 The MC has also empowered the following subcommittees or groups to take decisions within their defined areas of responsibility:
- (a) CASS Operations and governance committee;²⁴⁴
 - (b) CASS Strategic Communication Group;²⁴⁵ and
 - (c) CASS Redirection Technical Group.²⁴⁶
- 4.33 Bacs told us that each CASS subcommittee/group comprised subject matter experts drawn from the participant banks, and its chair was appointed by the MC. External specialists could also be invited to attend meetings, but this was ad hoc and agenda-driven. Although each subcommittee/group was empowered to take decisions within its sphere of responsibility, in practice they provided a report to the MC and where appropriate, the MC noted and confirmed the decisions taken by the subcommittees/groups.²⁴⁷
- 4.34 Banks that responded to our [Remedies Notice](#) were generally of the view that the current membership and voting structure of the MC did not blunt its incentives to promote switching between current account providers.
- 4.35 Virgin Money told us that the membership and voting structure of the MC were satisfactory and provided adequate representation for the smaller banks.
- 4.36 HSBCG stated that there were 26 member banking groups on the MC, and each of these had a right to only one vote. Given that a 75% voting majority (ie 20 or more votes if all members voted) was required for measures to be

²⁴³ Bacs told us that the Bacs board may overturn any decision taken by the MC where they were able to demonstrate that the integrity of the Bacs payment system was put at risk as a consequence of the decision, and/or the risk associated with a decision were deemed to be unacceptable to the Bacs Scheme Company Limited. In this situation, Bacs would provide the MC with details in writing.

²⁴⁴ This committee is responsible for product, rules, participant compliance, CASS operation and communications.

²⁴⁵ The main function of this committee is the delivery of the communications strategy to meet targets set by the MC.

²⁴⁶ Its main function is to ensure that the redirection technical solution complements the revised and strengthened customer guarantee as it is developed by the CASS Strategic Communications.

²⁴⁷ Bacs told us that the only scenario where the MC would be likely to overrule the subcommittees/groups was where the CASS budget was a critical consideration or where the integrity and/or reputation of CASS were deemed to be at risk.

implemented, it meant that smaller banks had a significant influence over policies, and it was not possible for larger banks to veto proposals.²⁴⁸

- 4.37 According to Danske, the voting structure was agreed as ‘one man – one vote’ to ensure that all participants had a voice and carried the same weight in discussions.²⁴⁹
- 4.38 Bacs told us that the MC worked on the basis of consensus and voting on issues was only required where agreement could not be attained. It stated that voting was on the basis of ‘one person, one vote’ and this meant that participants with multiple brands only had one vote, and 75% majority of the votes cast was required before a decision was carried.
- 4.39 It stated that the only issue that had been presented for voting since the MC’s inception in 2014 related to a call for funding for additional communications activity that had not been in the service budget for 2015. It informed us that those voting for the additional funding had included a number of participants that had been net losers of accounts, contrary to what might have been expected. Bacs also told us that it was possible for a participant to change from being a net loser to a net gainer based on the timing of a new product and advertising campaign, and some net loser organisations had brands that were net gainers.
- 4.40 HSBCG told us while smaller banks had a significant influence over CASS policies, and it was not possible for larger banks to veto proposals, the governance of CASS could be improved, to ensure a more strategic and customer-focused approach. This could be done, for example, by having independent directors with votes, and allowing PCWs to sit on the MC since they were likely to have incentives to ensure that CASS was effective.²⁵⁰
- 4.41 LBG noted that, while the MC had been effective in developing and establishing the redirection service and that CASS was operating well,²⁵¹ changes to its management structure were likely to be required to deliver effectively the enhancements to the CASS service envisaged by the CMA’s proposed remedies. LBG stated that it would welcome these changes.²⁵²
- 4.42 Danske stated that CASS was a management committee rather than a company board, but it believed that elements of Principle 2 (Governance) of

²⁴⁸ [HSBCG response to Remedies Notice](#), paragraph 144.

²⁴⁹ [Danske Bank response to Remedies Notice](#), paragraph 2.12(a), p31.

²⁵⁰ Provided they were prepared to make a small contribution to its costs. [HSBCG response to Remedies Notice](#), paragraph 145.

²⁵¹ LBG stated that this was acknowledged by the FCA.

²⁵² [LBG response to Remedies Notice](#), paragraph 12.1.

the CPSS-IOSCO²⁵³ framework should apply to it. It also welcomed independent oversight of CASS. According to Danske, this could be achieved through having an independent Chair and/or by referring key matters for ratification/noting to a subset of the Bacs board.²⁵⁴

- 4.43 Although the responses to our [Remedies Notice](#) did not in general raise concerns about the current voting structure of the MC, we consider that the CASS governance arrangements need to be strengthened to ensure a more strategic and customer-focused approach.
- 4.44 We have therefore provisionally decided to introduce measures to ensure that relevant stakeholders' interests are properly represented in the CASS decision-making processes. This can be achieved by having an independent Chair of the MC and opening up the membership of the MC and its sub-committees/groups to include independent members and representatives of relevant customer groups and intermediaries such as, for example, PCWs.²⁵⁵ This will provide a more balanced representation of the views of a wider range of stakeholders in the CASS decision-making processes, and help ensure that the service is developed in the interests of customers both in the short and the long term.
- 4.45 It is important that the new governance process and arrangements under this remedy are supported by a strong and effective Bacs management structure, including a strong CASS executive office. We therefore encourage Bacs to undertake a review of its organisation structure and implement any necessary changes so that the new CASS governance framework under this remedy can be further embedded.²⁵⁶
- *Transparency*
- 4.46 Having greater transparency about the decisions made by the MC, as well as CASS's performance against prescribed KPIs will strengthen the CASS corporate governance.
- 4.47 Although the MC is technically not a 'board', it plays a board-like role in respect of CASS operations, and greater transparency will help relevant

²⁵³ Committee on Payment and Settlement Systems: Technical Committee of the International Organization of Securities Commissions. Bank for International Settlements (April 2012), [Principles for financial market infrastructures](#), Part 3.

²⁵⁴ [Danske Bank response to Remedies Notice](#), paragraph 2.12(d), p32.

²⁵⁵ These non-bank members should have full membership rights.

²⁵⁶ CASS's day-to-day operations are supported by a team of five permanent Bacs staff based within its Product and Strategy team, which is led by Bacs' Director of Product and Strategy, who also sits on the MC. In addition, currently there are also four other non-permanent/contractual roles, which support the management of CASS at Bacs. These roles relate to accreditation, marketing, communications and research activities.

stakeholders to better understand its decisions, raise any concerns, and ultimately help increase confidence in the service.

- 4.48 Therefore, we have provisionally decided that Bacs should take steps to have greater transparency around the MC's decisions and decision-making processes, as well as CASS performance against KPIs. This could be achieved, for example, through regularly publishing the minutes of the MC, its subcommittees/groups and CASS's performance in achieving its target KPIs on Bacs' website and also sharing these with the PSR.²⁵⁷ The independent Chair of the MC should also provide an annual report to the PSR detailing CASS performance and strategy. This report should also be published on Bacs' website.
- 4.49 Overall, we believe that our proposed remedy would both strengthen the incentives for the Bacs management team and the MC to ensure that CASS is run in the interest of the customers on an ongoing basis.

Regulatory oversight of CASS

- 4.50 The PSR²⁵⁸ was established under the Financial Services (Banking Reform) Act (FSBRA) 2013 to regulate designated payment systems, of which Bacs is one, but the PSR does not regulate CASS or any other alternative switching schemes under FSBRA.
- 4.51 The FCA undertook a review of CASS²⁵⁹ before the creation of the PSR, and has been engaging with Bacs over the implementation of the FCA's recommendations following its review.
- 4.52 The BoE oversees Bacs' operations, but this oversight is only in relation to the BoE's statutory responsibility to oversee certain payment systems and does not extend to directly overseeing CASS.
- 4.53 Several parties²⁶⁰ who responded to our [Remedies Notice](#) were of the view that some form of independent oversight of CASS would improve its governance.

²⁵⁷ See paragraphs 4.50–4.65, where we discuss our proposed measure to introduce regulatory oversight of CASS by the PSR.

²⁵⁸ www.psr.org.uk.

²⁵⁹ FCA (March 2015), *Making current account switching easier. The effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability*.

²⁶⁰ For example, HSBCG, LBG, Nationwide, TSB, Danske, Financial Services Consumer Panel (FSCP).

- 4.54 RBSG made the point that CASS was already overseen by Bacs and was subject to scrutiny by the FCA/HMT, which was a satisfactory arrangement.²⁶¹ Santander's view was that CASS governance worked well in practice, and awareness and promotion of CASS were more significant issues than further innovation.²⁶²
- 4.55 LBG stated that CASS was already subject to oversight from the CMA, the FCA and the PSR. It told us that it may be preferable if CASS were principally accountable to a single regulator. It considered that the FCA was best placed to maintain regulatory oversight of CASS.²⁶³
- 4.56 Virgin Money stated that it was not aware of any significant concerns that would justify independent oversight. If independent oversight of CASS was considered appropriate, Virgin Money suggested that it should be done by the PSR.²⁶⁴
- 4.57 FSCP stated that it supported reforms to the governance of CASS to remove it from the control of the industry. It was of the view that CASS should either be governed by an independent board or brought within the oversight of the PSR.²⁶⁵
- 4.58 While TSB has had no issues with its CASS membership and the management structure of CASS to date, it stated that greater regulatory oversight of CASS would be beneficial to ensure that the scheme was operated in the interests of the entire industry and customers. TSB suggested that the FCA adopts this supervisory role.²⁶⁶
- 4.59 Our provisional view is that there is merit in having a clear regulatory oversight of CASS to ensure that it is run in the interest of customers on an ongoing basis.
- 4.60 We note that in implementing the switching provisions of the PAD, the government has made the PSR the competent authority for the designation of any alternative switching arrangements as alternatives to the switching process set out in the Directive. This will involve the PSR making a determination on whether any alternative switching arrangement meets the criteria of regulation

²⁶¹ [RBSG response to Remedies Notice](#), paragraph 3.12(d), p54.

²⁶² [Santander response to Remedies Notice](#), paragraph 15.1.

²⁶³ [LBG response to Remedies Notice](#), paragraph 12.2, p10.

²⁶⁴ [Virgin Money response to Remedies Notice](#), p20.

²⁶⁵ [Financial Services Consumer Panel response to Remedies Notice](#), p6.

²⁶⁶ Given that the FCA has oversight of PCAs more broadly and has recently acquired competition enforcement powers, and CASS is integral to the PCA switching process ([TSB response to Remedies Notice](#), paragraph 60).

15 of the Payment Accounts Regulations 2015 (the PARs).^{267,268} The PSR's powers and duties under the PARs are not limited to CASS but apply to any alternative switching arrangement, which is designated as such.

- 4.61 The FCA will have responsibility for monitoring whether all payment service providers who seek to rely on participation in an alternative arrangement to discharge their Article 10 obligations are in fact a party to such arrangements.²⁶⁹
- 4.62 Given the PSR's role in designating alternative switching services under PAD, and its remit as the regulator of payment systems (including Bacs) in the UK, we have provisionally decided to recommend to HMT to provide for regulatory oversight of CASS by the PSR.
- 4.63 We consider that this proposed oversight aligns well with the PSR's goals to promote competition and innovation and to ensure payments systems are operated and developed in the interests of the people and businesses that use them.²⁷⁰ It also complements the PSR's current focus and work agenda on governance of payment systems in the UK.²⁷¹
- 4.64 We envisage that regulatory oversight of CASS would be relatively light touch, and be limited to potentially include the following:
- (a) Ongoing: review of, and report on CASS's performance against KPIs, for example awareness/confidence metrics, operational and accuracy indicators.²⁷²
 - (b) Annually/periodically:
 - (i) agree CASS's governance arrangements including KPIs, membership (subject to the changes we propose above in paragraph 4.44) and Terms of Reference of the MC, (subject to the changes we propose above in paragraph 4.48); and

²⁶⁷ Transposing Article 10(1) of PAD.

²⁶⁸ HMT (16 November 2015), [Implementation of the EU payments accounts directive](#). Consultation Outcome, Section 3.

²⁶⁹ *ibid.*

²⁷⁰ See [Payment Systems Regulator](#).

²⁷¹ In December 2015, the PSR published a report on [Access and governance of payment systems](#).

²⁷² In respect of KPIs Bacs uses to manage CASS, it told us that the MC was responsible for the overall service and specifically the awareness and confidence targets as these were consumer-focused. In addition, there were a number of operational requirements of the service, for example adhering to the message response times which were monitored by a subcommittee made up of participant representatives. Further, it told us that the Bacs board was responsible for the integrity of the Bacs system which underpinned the service infrastructure and ensured that the underlying communication channels and payments were processed in accordance with the scheme rules. There were a number of service KPIs around the redirection service which were monitored and managed by the board.

- (ii) agree CASS's annual and longer-term (eg three years) strategic plans.

4.65 Effective regulatory oversight of CASS by the PSR, or another appropriate body, would enable it to review and report on governance and operations of CASS, and recommend appropriate action as necessary. For example, if the KPIs or the targets were not appropriate, or if they were not met. This will, in turn strengthen the incentives of the MC and Bacs' management team to run and develop the scheme in the interest of customers.

Implementation issues

Method and time of implementation

- 4.66 In our view, the measures related to changes to CASS's corporate governance under this remedy should be implemented through seeking suitable undertakings from Bacs, since the measure only involves one party. We expect CASS participant banks to fully support Bacs in the implementation of this remedy. However, we will consider issuing an order if we are unable to negotiate satisfactory undertakings with Bacs.
- 4.67 We expect the implementation of changes to CASS's corporate governance to be done within six months of the CMA's acceptance of undertakings from Bacs.
- 4.68 On the assumption that the PSR would need additional powers to assume the proposed regulatory oversight of CASS, we have provisionally decided to make a recommendation in this regard to HMT. HMT may want to consider whether the PSR's additional powers need to be more general, ie to also cover other switching services that may emerge in the future, to ensure non-discriminatory treatment. We welcome views on whether the PSR currently has existing powers to undertake the regulatory oversight we are proposing.
- 4.69 HMT may also want to consider if another appropriate body would be more suited to provide regulatory oversight of CASS.
- 4.70 We have outlined in paragraph 4.64 broad principles about the proposed regulatory oversight of CASS, but it will be for HMT to determine the scope as well as the implementation timetable.

Monitoring

- 4.71 In light of our proposal for the PSR to have regulatory oversight of CASS, the PSR should monitor the ongoing compliance with this remedy.

4.72 Until HMT provides the PSR with additional powers to assume regulatory oversight of CASS, we have provisionally decided that the CMA will monitor compliance with this remedy, possibly through reviewing periodic reports provided by Bacs on how it has complied with the requirements of its undertakings.

Cost of remedies

4.73 We do not consider that Bacs will incur any material incremental costs from the measures we have proposed in this remedy. While there may be additional administrative costs by, for example, having more members in the MC and subcommittees, we expect these to be relatively small, ie less than £50,000 a year.

4.74 We consider that the proposed regulatory oversight of CASS will not impose any significant incremental costs on the PSR, Bacs and the industry, and will complement the PSR's role of regulating payment systems, and in designating alternative switching arrangements in the UK under PAD.

4.75 The costs of monitoring compliance with this remedy are also likely to be low since they will be based on reviewing and reporting on periodic reports provided by Bacs on how it has complied with the requirements of the remedy.

4.76 We invite further views on the costs of implementing this remedy.

The length of the redirection period

Introduction

4.77 CASS was launched in September 2013 to reduce barriers to switching by making the process simpler and quicker for customers. CASS guaranteed incoming payments being routed to a customer's new account for up to 13 months after a customer switched account to both prevent payments from going astray in that period, and provide third parties with a period of time to update their records with the switching customer's new details.

4.78 In its review of CASS, the FCA reported that around 8% of switched accounts still had at least one redirected payment after 12 months, after which the proportion of accounts with such payments fell further but much more slowly. It argued that if this problem was not addressed, there was a risk that when the redirection period ended, the number of payments that failed to be

redirected would cause detriment to those affected customers and could also be sufficient to undermine confidence in the service.²⁷³

- 4.79 Following the announcement in the 2014 Autumn Statement to upgrade CASS to include 99% of SMEs and an extension of the redirection service, Bacs extended the CASS redirection period from 13 to 36 months, and this extended redirection period was subsequently included in the CASS Guarantee at the end of March 2015.²⁷⁴
- 4.80 In our [Remedies Notice](#), we noted that customers may be deterred from initiating the switching process because of the risk that payments made into their old account after the end of that period would be lost. In its review of CASS, the FCA noted that despite the planned extension to the redirection period to 36 months, the issue still remained.²⁷⁵ Accordingly, we proposed a remedy to address the actual and perceived risk that payments made into an account that had been closed as part of the switching process would go astray. We considered two remedy options:
- (a) an extension of the CASS redirection period; and
 - (b) introduction of account number portability (ANP).

Summary of the measures we are proposing to take forward

- 4.81 We have provisionally decided to introduce a remedy to extend the CASS redirection period based on a proposal that is being developed by Bacs in conjunction with the industry.²⁷⁶ This remedy is summarised in Figure 4.4.

Figure 4.4: Extending the CASS redirection period

The CMA has provisionally decided to seek an undertaking from Bacs to the effect that:

- Beyond the current 36-month redirection period, after a PCA or BCA customer has switched account using CASS, it provides perpetual redirection for customers as long as they have had a redirected payment within the preceding 13 months.
- This will mean that:

²⁷³ [FCA CASS report](#), paragraph 8.19.

²⁷⁴ HMT (December 2014), [Autumn Statement](#), p47.

²⁷⁵ [FCA CASS report](#), paragraph 1.7.

²⁷⁶ In its [review of CASS](#) (p59), the FCA made a recommendation that Bacs develops a proposal to mitigate the risk of the end of the redirection service undermining confidence in CASS.

- for the first 36 months after switching, incoming payments to a customer's old account will be redirected to their new account; and
- after the first 36 months, incoming payments will continue to be redirected to their new account for a customer, if they have had a redirected payment within the preceding 13 months.

We expect this to be implemented within six months of the CMA accepting undertakings from Bacs.

How this remedy addresses the AECs and/or the resulting customer detriment

4.82 This remedy will provide further assurance to PCA and BCA customers (to the extent that CASS applies to BCA customers) in GB and NI that their payments will not go missing after switching accounts through the implementation of a form of 'perpetual' redirection of incoming payments for users who may need it.

4.83 By instilling users with greater confidence in the switching process, we believe that this remedy will help in removing potential barriers that occur at the end of a customer's switching journey and reduce the incumbency advantages of the longer-established banks.

Remedy design considerations

4.84 We considered two solutions that had the potential to ensure, and provide assurance, that payments from a customer's old account do not go astray when they are redirected to a customer's new account:

- (a) an extended redirection period within the existing CASS framework; and
- (b) account number portability (ANP).

An extended redirection period

4.85 Our proposal is to strengthen the current CASS guarantee so that, beyond the current 36-month redirection period after a customer has switched account, CASS provides perpetual redirection for switching customers from their old account to their new one as long as they have had a redirected payment within the preceding 13 months.

- *Perpetual and extended redirection period options*

4.86 Bacs told us that its research showed that the proposed extension to the redirection period would be a robust and effective solution to address the risk of the end of the redirection service undermining confidence in CASS because it provided:

- (a) a strengthened 'CASS Guarantee' that all participants could stand behind;
- (b) 'future-proofing' in that it would cover some of the most affected customers for an unlimited period;
- (c) a safeguard for most recurrent day-to-day transactions which took place within a 13-month time frame; and
- (d) an environment that ensured the integrity of the payment system was maintained.

4.87 We also considered an alternative approach of requiring an unlimited redirection period. The BoE told us that an unlimited redirection period could potentially give rise to operational risks in managing a much larger and complex redirection database, and increase risk to the smooth functioning of the Bacs and Faster Payment Service payment systems. Further, the BoE stated that it could provide a disincentive for the customers and payment initiators to update their records, which would create unnecessary dependence on the redirection system.

4.88 By contrast, the BoE told us that an approach along the lines of what had been proposed by Bacs would allow the redirection database to be cleansed of materially obsolete data and therefore prevent a build-up of multiple redirections, thus helping to minimise operational risk.

4.89 Therefore, although an unlimited redirection period would be attractive for customers, it will subject the payment systems to various operational risks, and could also have a negative impact on financial stability for the reasons outlined above. Overall, we consider that the proposed changes to the redirection service beyond the current 36 months will provide an adequate safeguard for most recurrent day-to-day transactions, which take place within a 13-month time frame.

- *Customer impact*

- 4.90 Of those eight parties²⁷⁷ who responded to our [Remedies Notice](#) that the current 36-month redirection period was not sufficient, five parties were of the view that Bacs' proposal²⁷⁸ was a solution that would sufficiently reassure customers in the switching process.^{279,280,281}
- 4.91 Many of these parties indicated that Bacs' proposal in effect created an indefinite redirection for the relatively small number of affected customers who still had a redirected payment 36 months after they had switched accounts. Of those who did not consider that an enhancement to the extension period would be effective, Virgin Money believed that only ANP would be sufficient to increase switching, BGL Group told us that ANP would induce more switching than an extended redirection period while the three others²⁸² considered that the existing three-year redirection period was sufficient. RBSG and First Trust Bank considered that more time was needed to evaluate the recent extension to a 36-month redirection period before considering the effectiveness of a further extension.
- 4.92 To help us assess the potential impact of an extension to the redirection period, we referred to our omnibus survey results on an extension to the redirection period and the FCA's evidence on an unlimited extension to the redirection service.
- 4.93 Our omnibus surveys suggested that by itself, an extension to the redirection period would only encourage a small proportion of PCA or BCA customers to switch account providers.²⁸³

²⁷⁷ Nationwide, Barclays, Danske, LBG, HSBCG, Virgin Money, FSCP, BGL Group.

²⁷⁸ Which HSBCG said was for regular payments.

²⁷⁹ Barclays, HSBCG, Nationwide, LBG and Danske.

²⁸⁰ Santander also told us that it believed that the proposal had already been implemented and therefore the issues we identified had already been addressed.

²⁸¹ Specifically, Barclays told us that the current 36-month redirection period might not be sufficient for some customers. It was of the view that the proposal being developed by industry was a solution that would provide reassurance for customers in the switching process. It also stated that the number of customers utilising the switching process after 36 months was estimated at [X]%.

²⁸² TSB, Tesco Bank and the Institute of Directors.

²⁸³ In response to the question, 'I am going to read out some changes which might be made to the switching process. For each one I'd like you to tell me if it would make you any more or less likely to consider changing your account?' 12% of PCA users said that they would be more likely to switch and 15% said that they would be less likely to switch if the redirection period of any payment made to their old account lasted for longer than 36 months, which is currently the case. See [PCA survey](#), p111. In response to the same question 11% of BCA users said that they would be more likely to switch and 14% said that they would be less likely to switch if the redirection period of any payment made to their old account lasted for longer than 36 months, which is currently the case. See [SME survey](#), p32. Note that the greater proportion of respondents saying they would be **less** likely to switch (compared with those saying they would be more likely to switch) may indicate that the question was misunderstood.

- 4.94 The FCA's evidence painted a mixed picture. While the FCA's quantitative research results²⁸⁴ showed that an unlimited extension of the redirection service would not be a material improvement above extending the then 13-month period to the current 36-month redirection period,²⁸⁵ its qualitative research suggested that an unlimited incoming payment redirection service was a welcome improvement for users as there was even less risk of payments going missing once the switch has been completed relative to any form of capped extension to the redirection system.
- 4.95 The Moorhouse report on ANP²⁸⁶ commissioned by the FCA noted that the customer experience from the perpetual CASS redirection model (for unlimited redirection) was likely to be positive since it provided more time for third parties to update records of customers' account details and therefore greater assurance to customers. Further, it noted that the disruption to the customer should be minimal since the new bank would be responsible for the transfer of outgoing mandates, and incoming payments would be rerouted.²⁸⁷
- 4.96 We note that since all these sources assessed the effectiveness of proposed extensions to the redirection service on a stand-alone basis, in the absence of our remaining package of remedies, their findings should be treated as indicative of a lower bound on the potential effectiveness of the relevant proposals.
- 4.97 Overall, the evidence suggests that extending the redirection period would provide some further reassurance to customers. While unlikely to act as a catalyst for customers to switch, it may act as a 'hygiene factor', and help reduce customers' fears about the risks of switching using CASS.
- 4.98 Since our proposal is sufficiently closer to an unlimited redirection than a fixed period extension (as it provides perpetual redirection for many customers beyond 36 months from the switch date), it is more likely to provide greater confidence in the switching process, particularly if it was effectively promoted by Bacs.
- 4.99 This measure would also help ensure that our other remedies would be effective since switching customers would have few reasons to perceive that

²⁸⁴ Report commissioned by the FCA. YouGov (March 2015), [Current Account Switch Service – Quantitative research](#). The results of this research indicate that extending the redirection period would lead to 4% more customers being more likely to switch than they would if redirection stayed at 36 months. The same was also true for businesses though the finding was not statistically significant.

²⁸⁵ *ibid*. The results of this research indicate that extending the redirection period indefinitely would only lead to 4% more PCA customers being more likely to switch than if redirection remained at 36 months. The same was true for businesses but the result was not statistically significant.

²⁸⁶ Report commissioned by the FCA. Moorhouse (March 2015), [Account Number Portability](#), p44.

²⁸⁷ Customers will still need to provide updated details of their new debit card numbers, if they used these to make certain payments. This is not true for ANP.

at the end of their switching journey payments would go astray, thus removing this barrier to switching.

- *Costs*

4.100 Bacs told us that the current estimated central spend spanning 2016 and 2017 to deliver the incremental change to the redirection service was in the order of £2.5 million. In respect of costs for CASS participants, Bacs stated that it did not monitor participant costs, but as a guide its experience suggested that central costs represented around 10% of the total industry-wide costs.

4.101 On this basis, the total cost of implementing this proposal is likely to be around £25 million.

Account number portability

4.102 Account number portability (ANP) is the ability for a customer to switch current account provider while still retaining the same banking identifier. This means that after having switched current accounts, all customers would not have to change any of the payment instructions associated with their account or inform payors. Instructions for incoming payments could remain unchanged as the underlying infrastructure would route payments to the new account. Further, outgoing payments such as direct debits could also be pulled from the new account without interruption.

4.103 The Moorhouse report commissioned by the FCA identified three separate variants for ANP:²⁸⁸

(a) The Retain Identifier Model provides ANP by using a customer's combined original sort code and account number as a unique identifier. This solution would run on the existing bank infrastructure, but would not integrate with international payments or other payment system provider solutions. It also puts restrictions on banks reallocating old account numbers. It would require a number of centrally managed services such as a repository for identifiers and a payments mandate database that are integrated with the existing payments infrastructure, along with active management of this repository to prevent the re-issue of account numbers.

(b) The New Identifier Model provides ANP by using an alternative identifier as a proxy to a sort code and account number. This solution would

²⁸⁸ [Account Number Portability](#), p4.

integrate with international payments or other payment system provider solutions. However, the viability of this option would depend on the selection of an alternative identifier, in terms of its uptake and integration with the existing payments infrastructure.²⁸⁹ Similar to the Retained Identifier Model, it would require a number of centrally managed services such as a repository for identifiers, a payments mandates database and a payments redirection database that are integrated with the existing payments infrastructure.

(c) The Central Utility Model could provide ANP through either an existing or new identifier. It could have wider benefits in addition to ANP in that it provides an opportunity to modernise banking infrastructure through a centrally managed core banking platform; enables wider capabilities such as the ability to retain historical payment records upon switching; and lowers the barriers to entry for challenger banks.²⁹⁰ It would require a new redirection database, payments mandates database, and shared operations platform that would replace significant parts of the existing payments infrastructure, which would all be enhanced by a Know Your Customer (KYC) database.

- *Customer impact*

4.104 In response to our [Remedies Notice](#), Virgin Money said that only ANP would be sufficiently effective now or in future to address the issue of customers' concerns about missing payments. BGL Group told us that ANP would be sufficiently effective now or in future to address the issue of customers' concerns about missing payments whereas an extended redirection would not be. The FSCP told us that ANP, or a system which performed the same function, might be better in the long run, but it should be informed by a full cost-benefit analysis. Other than the Social Market Foundation,²⁹¹ the same parties²⁹² who considered that an extension to the redirection period would not be effective also believed that ANP would not be.

4.105 To help us assess the effectiveness of introducing ANP we have considered the results from our omnibus surveys, the FCA's quantitative research and the FCA's qualitative research.

²⁸⁹ In particular, if mobile telephone numbers were used as an alternative identifier, one would need to take account of the fact that they are regulated separately by Ofcom, and that any changes to the identifier would be outside of the banking industry's control.

²⁹⁰ Through access to a common platform. [Account Number Portability](#), p5.

²⁹¹ Who told us that there was little evidence that ANP would encourage switching.

²⁹² TSB, Tesco Bank, Institute of Directors.

- 4.106 Our omnibus surveys results suggest that the introduction of ANP would encourage some PCA and BCA users to switch current account providers.²⁹³ In addition, out of all potential changes to the switching process mentioned in the survey, ANP was most popular among both PCA and BCA holders.²⁹⁴
- 4.107 The FCA's quantitative survey results²⁹⁵ suggested that the introduction of ANP would be perceived as more of an improvement over and above extending the, then, 13-month period to the current 36-month redirection period, than an unlimited redirection period. The results also suggested that a greater proportion of PCA holders and SMEs^{296,297} would be more likely to switch if they could retain their existing account details or were to have portable account details compared with an unlimited extension period.
- 4.108 When given the choice to pick among a number of different improvements to the switching process that would make them more likely to switch (in the same context of a 13-month redirection period pre March 2015), 38% of businesses and 33% of customers chose the ability to keep the same account details as the option that would make them most likely to consider switching.²⁹⁸ This result was not substantially greater than that for the unlimited redirection of payments.²⁹⁹
- 4.109 At a high level, the FCA's qualitative research found that ANP was regarded to be more seamless and less risky than the existing means of switching

²⁹³ In response to the question 'I am going to read out some changes which might be made to the switching process. For each one I'd like you to tell me if it would make you any more or less likely to consider changing your business account?' 21% of PCA users said that they would be more likely to switch and 13% said they would be less likely to switch if they could keep their existing account number and sort code when switching. See [PCA survey](#), p120. In response to the same question 26% of BCA users said that they would be more likely to switch and 10% said that they would be less likely to switch if they could keep their existing account number and sort code when switching. See [SME survey](#), p34.

²⁹⁴ 45% of PCA holders and 49% of BCA holders who rated at least one of the proposed changes positively, selected ANP as a change most likely to encourage them to switch. See [PCA survey](#), p146 and [SME survey](#), p41.

²⁹⁵ [Current Account Switch Service – Quantitative research](#).

²⁹⁶ 32% and 35% of PCA users respectively said that they would be more likely to switch providers in the next 12 months if they had portable account details or retained their account details when switching. This was compared to 24% of PCA users who would be more likely to switch providers in the next 12 months if their providers were to offer a 36-month redirection period and 28% of PCA users more likely to switch if they were offered unlimited redirection.

²⁹⁷ 38% and 40% of BCA users respectively said that they would be more likely to switch providers in the next 12 months if they had portable account details or retained their account detailers when switching. This was compared to 26% of BCA users who would be more likely to switch providers in the next 12 months if their providers were to offer a 36-month redirection period and 30% of BCA users more likely to switch if they were offered unlimited redirection.

²⁹⁸ The other options were incoming payments being redirected for an indefinite redirection, a guarantee that nothing will go wrong when switching, all payments, direct debits and standing orders being automatically transferred to the new account, the ability to choose the date of the switch, the switch taking place within five days and none of these.

²⁹⁹ 30% of businesses and 29% of customers chose incoming payments being redirected for an indefinite period as the option that would make them most likely to consider switching.

accounts. It was also seen as an easier concept for users to grasp as there are fewer elements to take on board when compared with CASS.³⁰⁰

4.110 ANP was also seen to address some of the barriers that were commonly associated with changing account details including the ‘hassle’ of changing account details (such as the need for notifications and the need for admin updates) and the risks of changing account details (if something changes it creates room for error). Businesses and charities who felt that they would be likely to experience greater inconvenience from changing account details than consumers would, found ANP to be particularly useful because it removed the need to notify customers of a change in details and make changes to stationery and invoicing documentation.³⁰¹

4.111 However, ANP also caused customers to raise some concerns about security, in that it was felt that it could increase the risk and impact of fraud if account details were unique and it was so easy to switch banks.³⁰²

4.112 Further, ANP may not completely eliminate the need to change some payment details when changing current account provider. Some international inward payments and regular payments associated with customers’ debit cards would not be transferred automatically under ANP, unless separate and specific arrangements were incorporated into the system.³⁰³

4.113 Taken together, the research evidence suggests that both our remedy and ANP could appeal to both PCA users and BCA users, and would be effective in addressing confidence in CASS. However, the incremental benefit of ANP over extending the redirection period is less clear. In particular, one of the reasons for ANP’s popularity raised in the qualitative research was that it was a concept that was easier to grasp than other solutions. This suggests that if other remedies raise the awareness and understanding of the switching service, the difference in appeal between ANP and Bacs’ proposed extension to the redirection period would fall.

- *Costs*

4.114 Many parties raised concerns about the proportionality of ANP in their response to our [Remedies Notice](#). They considered that the cost of implementing ANP was high and the number of customers affected by

³⁰⁰ Optimisa report commissioned by the FCA (March 2015), [Engagement with current accounts and the switching process](#) (‘FCA CASS qualitative research’), p53.

³⁰¹ [FCA CASS qualitative research](#), pp53–54.

³⁰² [FCA CASS qualitative research](#), p55.

³⁰³ [FCA CASS report](#), paragraph 1.23.

payments going astray in the switching process was small, so given its high cost ANP would not be a proportionate remedy. However, two parties³⁰⁴ told us that a variant of ANP would be their favoured solution now or in future.

4.115 We have used the Moorhouse report, which was commissioned by the FCA, to provide estimates of the likely cost and complexity associated with ANP.³⁰⁵ It evaluated that:

- (a) The Retain Identifier Model, the most basic solution for ANP, has industry costs in the region of £2–£3 billion³⁰⁶ and would take five to seven years to implement according to an estimate provided by VocaLink.³⁰⁷ The implementation risk and operational financial stability of this option was considered to be low since it used existing technology and solutions.³⁰⁸
- (b) The New Identifier Model, which enables greater integration with international payments and other Payment Service Provider (PSP) solution, has a total industry indicative cost range of £3–£4 billion and would take seven to ten years to implement according to an estimate provided by VocaLink. Overall, the risk of using the new identifier model was considered to be medium to high.³⁰⁹
- (c) The Central Utility Model, which would modernise banking infrastructure through a centrally managed core banking platform, was considered to be highly complex, very expensive and taking long to implement, which could also result in significant disruption to banks as they integrate systems to the new model.³¹⁰ The Moorhouse Report cited a report by KMPG for the Payments Council, which estimated that the costs of building such a model were £5–£10 billion with annual running costs of over £1 billion. The migration costs for the largest individual banks were estimated to be over £1 billion. Overall, the risk for implementing this option was considered high.³¹¹

³⁰⁴ Virgin Money and BGL Group.

³⁰⁵ [Account Number Portability](#).

³⁰⁶ The Moorhouse Report stated that 'In addition, the cost of a payments mandates database is likely to range between £100–200 million. The total cost to implement CASS was estimated to be £750 million. Given that a similar infrastructure is required for the Retain Identifier model (redirection database), with the addition of a payment mandates database (£200–300 million), the incremental cost is likely to be in the region of £1–2 billion.' [Account Number Portability](#), p21.

³⁰⁷ [VocaLink](#) was formed out of the merger between Voca Limited and LINK Interchange Network Limited on 2 July 2007. As part of the merger a newly established holding company was formed (VocaLink Holdings Limited) which acquired the entire share capital of both Voca and LINK Interchange Network Limited. VocaLink Limited is the principal trading entity, which is a wholly owned subsidiary of VocaLink Holdings Limited. A consortium of 18 banks and building societies own VocaLink Holdings Limited.

³⁰⁸ [Account Number Portability](#), p22.

³⁰⁹ *ibid*, p30.

³¹⁰ *ibid*, p37.

³¹¹ *ibid*, p38.

4.116 Based on the above estimates, the cost of providing ANP (minimum £2–£3 billion) is likely to be substantially higher relative to our proposal (estimated at £25 million) to extend the redirection period, and it will take in excess of five years for ANP to be implemented.

Conclusion on remedy options

4.117 Both ANP and our proposal for an extension to the redirection period are ways of addressing the same underlying concerns relating to incoming payments going astray in the switching process. ANP is generally easier for customers to grasp and tends to perform better in customer surveys.

4.118 However, in practical terms, extended redirection is able to reduce the risks of missed payments to very low levels. In effect, our proposal allows for permanent redirection for customers who may need it.

4.119 Our proposal on extended redirection is also likely to cost substantially less to implement than ANP. Estimates suggest that it will cost about £25 million to be implemented industry wide, while the estimated costs (£2–£10 billion) for implementing ANP are substantially higher. Our proposal is also capable of much more rapid implementation, which is an important dimension of effectiveness. Further, there are fewer risks in implementing this proposal, given that it will be using a proven technology.

4.120 Taking all factors into account, extended redirection is effective in addressing barriers to switching and is clearly much less expensive and onerous to implement.

4.121 Overall, it is a more proportionate remedy that would provide a low-cost, timely solution to improve this aspect of the AECs. Our conclusion aligns with our guidelines for market investigations, which state that a proportionate remedy is one that is the least onerous if there is a choice between several effective measures.³¹²

4.122 Further, when considered in conjunction with our overall package of remedies, we consider that this remedy will instil greater confidence in the switching process.³¹³

³¹² The [Guidelines](#), Part 4, paragraph 344(c).

³¹³ We note that the PSR has set up an industry forum (Payments Strategy Forum or PSF) to develop and agree strategic priorities and how to best implement them. The PSF is expected to produce a draft strategy in mid July, followed by a six-week consultation period, with a final strategy by the end of October 2016. Its Horizon Scanning Working Group (HSWG) is progressing the analysis of ANP. It submitted a [Horizon Scanning ANP Report](#), to the recent April 2016 PSF meeting, where it was agreed that analysis of ANP should be progressed to the next

Implementation issues

- 4.123 Since Bacs is already working with the stakeholders to develop and implement this proposal, we consider that inviting Bacs to provide suitable undertakings would be the most appropriate method of implementing this remedy. However, we will consider issuing an order if we are unable to negotiate satisfactory undertakings with Bacs.
- 4.124 We would expect the banks that participate in CASS to fully support Bacs in its efforts to implement this remedy, for example by fulfilling their obligations which fall within scope of the redirection service.
- 4.125 We would require implementation of this remedy within six months of accepting undertakings from Bacs.
- 4.126 The CMA will monitor compliance with this remedy, possibly through reviewing periodic reports provided by Bacs on how it has complied with the requirements of the remedy.

Costs of remedies

- 4.127 As we outlined in paragraph 4.101, the total cost of implementing these changes to the CASS redirection process is likely to be around £25 million, which is substantially lower than the other remedy options we considered. We also note that Bacs is already working with CASS-participating banks to introduce these changes, and therefore any additional costs associated with implementing this remedy can be expected to be minimal.
- 4.128 The cost of monitoring compliance is also likely to be low since it will be based on reviewing periodic reports provided by Bacs on how it has complied with the requirements of the remedy.
- 4.129 We invite further views on the costs of implementing this remedy.

stage, which will focus on the benefits to service users and the costs of a potential technical solution. The HSWG will continue to develop its thinking and proposals in its next stage of work, and its outputs are due to be considered by the forum in late June 2016.

Provision of transaction history

Summary of the measures we are proposing to take forward

- 4.130 In our [Remedies Notice](#), we noted that customers may be deterred from initiating the switching process since, once their old account has been closed, they may no longer have access to their transaction history.
- 4.131 In our qualitative research we found that one potential barrier to switching is that SMEs will lose access to their previous transaction history following a switch through CASS. This could potentially affect businesses' ability to apply for financial products in the future as they would not have proof of their transaction history.³¹⁴
- 4.132 A customer survey commissioned by LBG found that customers believed that loss of history with their current provider was a potential barrier to them switching current accounts. It also found that keeping or having access to transaction history (and relationship banking) had 'broadest appeal' for potential customers to switch their bank accounts, although this was stronger for customers who were already considering moving, rather than a trigger to move accounts. LBG did not conduct behavioural research to test these survey results. However, it believed that the conclusions of the survey did reflect the importance of transaction history to customers considering switching.³¹⁵
- 4.133 To address this issue, we had proposed a remedy to retain and provide BCA and PCA customers, on demand, with their transaction history.
- 4.134 We have now come to a provisional decision to introduce such a remedy, which is summarised in Figure 4.5.

³¹⁴ [Provisional findings](#), paragraph 8.126(a).

³¹⁵ LBG stated that, in particular, there were still a number of situations in which a customer may need access to historical bank statements (for example, when applying for a mortgage) to prove their income and/or allow a provider to assess affordability and verify monthly expenditure. Past statements for six months are usually required, and although former PCA providers will make bank statements available on request, the need to contact a former provider (and potentially pay a charge) introduces further hassle for a customer who has switched their account.

Figure 4.5: Providing transaction history to PCA and BCA customers

We have provisionally decided to make an Order requiring that all PCA and BCA providers:

- At the time of closing a PCA or BCA, provide free of cost at least five years' transaction history to their customers. This would be subject to an opt-out choice by the customers.
- Retain, at the minimum, five years' transaction history for PCAs and BCAs after account closure, and provide it to ex-customers at their request, free of cost, or at a fee which should not be more than what would be payable under the [Data Protection Act 1998](#) (DPA) (currently £10).³¹⁶
 - Example: if the date of the account closure is 31 December 2015, and the customer requests transaction history details on 1 January 2017 (one year after account closure), the bank would at the minimum be required to retain/provide the transaction history for the period between 1 January 2012 and 31 December 2015 (covering four years).
- Publish on their website, their policy regarding retention of transaction history of old accounts, and the process and other requirements for requesting transaction history.

The transaction history would need to be provided to the customer within a reasonable period, but no later than one week after the customer's request, subject to the customer providing necessary identity/other documentation required by the bank.

We would expect the implementation of this remedy to be completed within six months of our final Order.

How this remedy addresses the AECs and/or the resulting customer detriment

4.135 This remedy would address the AEC by providing assurance to PCA and BCA customers who are considering switching, or have switched accounts, that their transactions history will continue to be available to them, thus reducing this barrier to switching in both GB and in NI.

³¹⁶ Section 7 of the DPA provides rights to individuals in respect of personal data that the organisations hold about them. Organisations may charge a fee of up to £10 (£2 if it is a request to a credit reference agency for information about your financial standing only) for providing this information. [Information Commissioner's Office. The Data Protection Act.](#)

- 4.136 It requires banks to retain and provide transaction history to customers both at the time of, and after, closing their accounts. The remedy also requires banks to publish on their website, their policy regarding retention of transaction history of old accounts, and the process and other requirements for requesting transaction history.
- 4.137 In response to our [Remedies Notice](#), several banks³¹⁷ told us that they already had a policy of providing transaction history to ex-customers. However, the number of years for which this facility was available varied between banks, and not all banks automatically provide transaction history to their customers when they close their account.
- 4.138 Barclays told us that it had a policy of providing transaction history to ex-customers on request. HSBCG stated that it had a policy to retain ex-customers' transaction history and provide it upon request from ex-customers.
- 4.139 According to our omnibus survey results, while the perceived benefit of having five years of historical transactions was relatively low for PCA users overall, it was higher for PCA users who had switched or considered switching, and those who used overdrafts.³¹⁸ Availability of historical transaction data seemed more important for BCA users.³¹⁹
- 4.140 Section 7 of the [DPA](#) provides rights to individuals in respect of personal data that the organisations hold about them. However, we are of the view that by mandating the provision of transactions history at the time of switching or closing their account, the proposed remedy makes it easier to receive transaction history than under the provisions of the [DPA](#). It also provides further assurance to customers who are considering switching that they will continue to have access to their transaction history for a certain period of time after closing their accounts.
- 4.141 Overall, our view is that being able to receive transaction history both at the time of, and after, account closure can reduce the perceived or real risk of switching. Transaction history may be required as part of, for example, a mortgage application and while in the past customers may have retained hard

³¹⁷ For example, Virgin Money, LBG, Santander, Nationwide, RBSG.

³¹⁸ This is against a backdrop of low switching rates. See, for example, [provisional findings](#), paragraphs 7.16–7.22 and 8.40.

³¹⁹ 24% of BCA users said that they would be more likely to switch if they received five years of bank statements as evidence of their transaction history and 10% said that they would be less likely to switch. When it comes to PCA users, 14% said that they would be more likely to switch and the same proportion (14%) said that they would be less likely to switch if they received the statements See [PCA survey](#), p129 and [SME survey](#), p36; 22% of PCA users who have switched or considered switching and 26% of overdraft users said they would be more likely to switch if they received five years of bank statements. See [PCA survey](#), p133.

copies of bank statements, as they are increasingly accessed online, fewer customers may retain them.

4.142 Further, this remedy will provide a minimum standard across the industry about access to transaction history, and help in reducing this barrier to account switching.

Remedy design considerations

4.143 We identified the following design parameters for the remedy:

- (a) Should the provision of transaction history at the time of account closure be automatic or based on customers' request?
- (b) For how long should a bank retain, and provide, transaction history to ex-customers?
- (c) Should banks be allowed to charge for providing transaction history to customers?
- (d) What role, if any, should CASS play in the provision of transaction history?

Should the provision of transactions history at the time of account closure be automatic or on customers' request

4.144 In response to our [Remedies Notice](#), many banks³²⁰ expressed the view that requiring providers to offer transaction history on demand was more efficient both for the providers and the customer than if providers were mandated to automatically provide transaction history, which they may not need at the time of account closure.

4.145 LBG's view was that porting of transaction history should form part of the CASS switching service, and therefore transaction history should be provided automatically to the new provider when the account was closed.³²¹

4.146 Although Clydesdale was unconvinced about the potential benefit of this remedy, it stated that if pursued, it should be integrated into the account

³²⁰ For example, HSBCG, Nationwide, RBSG, Danske, Virgin Money.

³²¹ [LBG further response to Remedies Notice](#), p43.

closure process in order to reduce the burden of ad hoc transaction data requests.³²²

4.147 After considering the pros and cons of automatic provision of transaction history at the time of account closure, we have provisionally decided to adopt a remedy which requires banks to provide transactions history at the time of account closure, unless customers decide to opt out. This will provide a degree of certainty for customers about receiving transaction history at the time of closing their account. Further, even if customers decide to opt out of receiving their transaction history at the time of closing their account, the remedy design will ensure that they are reassured about the facility of receiving it in the future.

4.148 The transaction history could be provided in either physical or/and electronic format, based on customers' request.

For how many years after account closure should the banks be obliged to provide transactions history

4.149 Respondents to our [Remedies Notice](#) generally felt that although banks should not be required to retain details of BCA and PCA transactions over an unnecessary long period, a five-year period was broadly acceptable.

4.150 A few parties questioned the usefulness of providing such historical data, since lending applications and identity requirements were usually supported by much more recent data.³²³ Danske made the point that while implementing the remedy, we needed to give consideration to the manner in which information relating to past transactions was provided to customers, to ensure its confidentiality.³²⁴

4.151 Our view is that customers should have access to their transaction history for as long a period as practically possible, to give them confidence that it will be available in case they needed it after having switched accounts using CASS. This in turn, will reduce the perceived or real risk of switching. We understand that pursuant to the [Money Laundering Regulations 2007](#) (MLR), banks retain

³²² Clydesdale questioned whether, based on customer behaviour to date, customers would request and benefit from reviewing a five-year transaction history, particularly given that this information will be provided once customers have switched. [Clydesdale Bank response to Remedies Notice](#), paragraphs 6.1–6.2.

³²³ For example, RBSG, Santander, First Trust Bank.

³²⁴ [Danske Bank response to Remedies Notice](#), paragraph 2.9(a).

transaction history of their customers for five years,³²⁵ and many banks already have a policy to provide transaction history to their ex-customers.

4.152 Therefore, our provisional decision on this remedy is that banks should retain a minimum of five-year transaction history for their PCA and BCA customers, and should provide it (unless customers opt out) at the time of account closure. We consider that this would provide adequate assurance to customers and help to remove this barrier to switching across the UK. Regarding access to transaction history after account closure, we believe that ex-customers should be able to request transaction history from previous providers for the period that falls within the five-year retention period.

Should banks be allowed to charge for providing transaction history?

4.153 Many parties who responded to this question in our [Remedies Notice](#) favoured levying a charge, which was proportionate to the actual cost of providing this information to ex-customers.

4.154 HSBCG pointed out to us that it charged a fee for the provision of copy statements (of account transaction history) for both existing and ex-customers, and suggested that providers should continue to be permitted to charge for the provision of this service as there were costs associated with storing data and also administrative costs of making the data available.³²⁶

4.155 Danske's view was that providers should be able to levy a charge for this information, which was proportionate to the actual cost of providing this information.³²⁷

4.156 Subject to the final design of this remedy, LBG did not consider that providers should be permitted to charge for this information except in certain situations, for example, if an ex-customer were to make a number of requests which required additional manual steps to process.³²⁸

4.157 Business Finance Compared stated that the provision of the transaction history to be free of charge where it is ported as part of the switching process and to be available at a minimum cost where the data is required post switching.³²⁹

³²⁵ Paragraph 8.16 of the Joint Money Laundering Steering Group's (JMLSG) [guidance](#) on prevention of money laundering/combating terrorist financing for the UK financial sector (revised November 2014) states in relation to Regulation 19(3) of the MLR: records of all transactions relating to a customer must be retained for a period of five years from the date on which the transaction is completed.

³²⁶ [HSBCG response to Remedies Notice](#), paragraph 131.

³²⁷ [Danske Bank response to Remedies Notice](#), paragraph 2.9(b).

³²⁸ [LBG further response to Remedies Notice](#), p43.

³²⁹ [Business Finance Compared response to Remedies Notice](#), p24.

- 4.158 After considering the responses received and the issues sought to be addressed by this remedy, namely reducing barriers to switching, we have come to a provisional decision that customers should be able to receive (unless they opted out) their transaction history at the time of closing their account free of cost.
- 4.159 However, banks should be allowed to levy a charge if they so wished, when providing transaction history to customers after they had closed their account. This charge, however, should be not higher than what would be payable under the DPA (currently capped at £10).

Role of CASS in the provision of transaction history

- 4.160 In our [Remedies Notice](#), we had sought comments on what role, if any, would it be appropriate for Bacs/CASS to play in the provision of transaction history to customers.
- 4.161 RBSG told us that Bacs/CASS could play a role in delivering the transactions data to the new bank, and this would open up an opportunity for the recipient bank to provide this data electronically to the new customer. It stated that this solution would have a large impact on RBSG as it would require additional capability in respect of data storage and presenting the information. Further, CASS and CASS participating banks would also face considerable cost and challenge in building such a service. It submitted that there was little evidence of demand for this service, and further customer research would be required if this approach were to be pursued.³³⁰
- 4.162 HSBCG did not consider it to be either necessary or appropriate for Bacs/CASS to have a role in providing transaction history to customers.³³¹ Danske stated that provision of transaction history was primarily a matter between the provider and the customer.³³²
- 4.163 A contrasting view was expressed by LBG, which favoured the porting of transaction history to become part of CASS, and provided automatically to the new provider when the account was closed. In addition, customers could also be prompted to port their transaction data with them when switching accounts

³³⁰ [RBSG response to Remedies Notice](#), paragraph 3.9(e).

³³¹ [HSBCG response to Remedies Notice](#), paragraph 132.

³³² [Danske Bank response to Remedies Notice](#), paragraph 2.9(e).

using their Midata³³³ profile which could be provided automatically by providers at account closure.^{334,335}

- 4.164 Business Finance Compared told us that ideally Bacs/CASS could be one of the intermediaries which could access transaction data on behalf of the SME and pass this to the new provider. It stated that it might require technical investment by Bacs/CASS to enable secure retention and transfer of this data. Further, it was put to us by Business Finance Compared that by enabling open access to transaction data, the transaction history could be ported to the new provider removing the need for providers to hold archived information for previous customers.³³⁶
- 4.165 In response to our [Remedies Notice](#), TSB suggested the introduction of a 'Credit Passport',³³⁷ which would provide absolute assurance to prospective switchers that they would not be losing their credit history in the event that they switched account.³³⁸
- 4.166 Although building a capability to port transaction history in CASS and introducing the Credit Passport could be attractive, we have provisionally concluded that the remedy we provisionally propose to adopt is a simpler and less onerous solution to effectively address the customers' concern around losing access to their transaction history after switching accounts.^{339,340}
- 4.167 Therefore, we are content with the current account providers being made responsible to provide transaction history to customers both at the time of, and after closing their account.

³³³ In our [provisional findings](#) we explained the background and purpose of HMT's Midata project, which launched on the GoCompare PCW in March 2015. Midata aimed to facilitate price comparisons between PCAs using customers' own transaction history. See [provisional findings](#), paragraphs 7.94–7.96 and [Appendix 3.1](#), paragraphs 203–205.

³³⁴ [LBG further response to Remedies Notice](#), p43.

³³⁵ LBG considered that a new provider would be in a better position to curate the transaction history and also, having the prime relationship with the customer, be best placed to guard against the potential risks of identity theft and other fraud which the retention model presented. [LBG response to Remedies Notice](#), paragraph 9.2.

³³⁶ Business Finance Compared is a platform dedicated to helping UK SMEs find and compare alternative sources of funding to grow and support their business through the use of innovative technology and analytics. [Business Finance Compared response to Remedies Notice](#), p24.

³³⁷ Under the Credit Passport proposed, all PCA providers would be mandated to provide a centralised resource, such as an existing credit rating agency, with customers' account usage and transactional histories. The credit agency, when requested by the consumer, would make the data available, in a usable format, to any prospective alternative PCA provider. This would make it easier to assess an applicant's risk and affordability at the point of application or inquiry, thereby increasing the likelihood that a new provider will match a consumer's existing overdraft limit. [TSB response to Remedies Notice](#), paragraphs 35 & 36, p7.

³³⁸ [TSB response to Remedies Notice](#), paragraph 39.

³³⁹ This also aligns with our guidelines for market investigations, which state that a proportionate remedy is one that is the least onerous if there is a choice between several effective measures. The [Guidelines](#), Part 4, paragraph 344(c).

³⁴⁰ Further, as we note in our remedy on open banking standards set out in Section 3, the sharing of PCA transaction data using APIs may perform the function of the 'Credit Passport' proposed by TSB.

Implementation issues

Duration and timing of implementation

- 4.168 HSBCG suggested having a sunset clause for this remedy because access to transaction history may be available through other means in the future. It made a reference to the emergence of open data and API standards, whereby transaction history may become accessible via those channels without the need for customers to approach their former PCA/BCA provider directly.³⁴¹
- 4.169 LBG supported using open APIs to allow customers to transfer their historical transaction history when they switched to their new provider to remove any perceived hassle factor and remove a potential reason why some customers might be reluctant to switch.³⁴²
- 4.170 Business Finance Compared told us that open API would enable this data to be transferred in a standard format to an intermediary (such as a PCW) or to the new provider where it acknowledged receipt of the data and securely stored this data on behalf of the SME. It noted that without this, there was an unintended consequence of passing sensitive data to SMEs who might not have the necessary knowledge and systems to store this data securely.³⁴³
- 4.171 We agree that in the future, transaction history may become accessible to customers through other means. However, it is not clear at this stage whether this will extend to transaction history once a customer has switched.³⁴⁴
- 4.172 With regard to timing, we would expect this remedy to be implemented within six months after CMA's final Order.

Which providers should be covered by this remedy

- 4.173 Our provisional view is that we would require all PCA and BCA providers to be covered by this remedy. We will consider any representations on whether there should be a de minimis threshold for implementing this remedy; this may be set relatively low (for example at 150,000 to 200,000 active³⁴⁵ PCAs per provider and 20,000 to 25,000 active BCAs per provider) thus covering the

³⁴¹ [HSBCG response to Remedies Notice](#), paragraph 133.

³⁴² LBG did not, however, support the use of credit reference agencies (CRAs) to act as the hub for customers' transaction history as they currently relied on a business model that typically charged customers between £10 and £15 a month for access to the data they held on customers.

³⁴³ [Business Finance Compared response to Remedies Notice](#), p24.

³⁴⁴ Should there be market developments affecting this remedy, it will always be open to the CMA to consider whether there has been any change of circumstances such that the order should be varied or revoked (see section 162 of the EA02).

³⁴⁵ Using a common definition across providers.

majority of active accounts and including larger providers in both GB and NI, while also excluding the large number of very small providers.

Monitoring of compliance

4.174 We propose that the CMA would monitor compliance with the requirements of this remedy. This could be through the provision of an annual compliance statement from banks.

Legal /regulatory issues

4.175 We also considered if there could be any legal or regulatory issues in relation to implementing this remedy.

4.176 A number of respondents to our [Remedies Notice](#) referred to potential issues around data protection and security while implementing this remedy.

4.177 For example, FSCP pointed out that although this remedy might give some consumers confidence to switch, it needed to be aligned with UK and EU data protection requirements.³⁴⁶ RBSG made the point that measures would need to be in place to verify the identity of the customer before historical transactional data was released, and there might be data protection issues if customer data was retained for too long with no specific purpose.³⁴⁷

4.178 We note that the [DPA](#) requires that organisations do not hold records for longer than is necessary for the purposes(s) for which it is processed. However, we understand that pursuant to the [MLR](#),³⁴⁸ banks retain transaction history of their customers for five years.

4.179 Since our remedy does not require banks to retain customers' transactions data for any longer than what is prescribed by existing industry guidance on the MLR, we do not consider there are any regulatory issues or hurdles in implementing this remedy.

Cost of remedies

4.180 Banks already have a duty to retain transactions data of customers for five years. We have provisionally decided to oblige banks to provide transaction history to customers at the time of account closure on the basis of an opt-out

³⁴⁶ [Financial Services Consumer Panel response to Remedies Notice](#), p6.

³⁴⁷ [RBSG response to Remedies Notice](#), p47.

³⁴⁸ Paragraph 8.16 of the [JMLSG guidance](#) on prevention of money laundering/combating terrorist financing for the UK financial sector (revised November 2014) states in relation to Regulation 19(3) of the [MLR](#): records of all transactions relating to a customer must be retained for a period of five years from the date on which the transaction is completed.

choice, and have also allowed the banks to charge a reasonable fee for providing it to ex-customers after closing their account. Therefore, we expect the costs of implementing this remedy to be low.

4.181 Barclays made a point that since start-up and newer SMEs have the highest failure rates, the majority of new businesses would not benefit from business data being kept for five years. It stated that implementing a remedy that would only be available for a maximum 40% of all SMEs would not be proportionate.³⁴⁹ Even if only 40% of all SMEs benefited from this remedy, we provisionally consider this proportionate given that the costs of implementing are likely to be low. We discuss proportionality of the package as a whole in Section 9.

4.182 The cost of monitoring compliance with this remedy will also be low since it will be based on annual compliance statements provided by the banks.

4.183 We invite further views on the costs of implementing this remedy.

Measures to increase awareness of and confidence in CASS

Summary of the measures we are proposing to take forward

4.184 The current account switching remedies that we have provisionally decided to introduce will be most effective if there is greater customer awareness of and confidence in the switching process. We have therefore provisionally decided on the following measures to increase public awareness of the benefits of using CASS to change current account provider. This remedy is summarised in Figure 4.6.

Figure 4.6: Remedy of increasing awareness of and confidence in CASS

The CMA has provisionally decided to seek undertakings from Bacs to:

- work with the participants of CASS to ensure their commitment to a long-term promotional campaign to first meet and then exceed the awareness and confidence targets agreed with HMT, and to sustain these levels over time;
- ensure that any future promotional activity reflects any changes made to CASS as a result of our remedy package (eg an increase in the redirection period), and aligns with our measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers in

³⁴⁹ [Barclays response to Remedies Notice](#), paragraph 10.5, p24.

communicating to customers the security and convenience of using CASS to switch current accounts;

- continue to target those customer groups that have low awareness of CASS and/or could benefit most from switching current account providers, notably SMEs, overdraft users, customers with high credit balances, the young and the financially disadvantaged; and
- develop its awareness and confidence metrics to measure customer understanding of the switching process.

Our proposed remedy to strengthen CASS's corporate governance will ensure that both Bacs and the participants of CASS are suitably incentivised to operate and develop the service in the interest of customers.

4.185 In our [Remedies Notice](#), we proposed that in addition to communicating the benefits of using CASS to change current account provider, the remedy could also increase public awareness of the potential savings or rewards that could be obtained by switching.

4.186 We have provisionally decided that a general advertising campaign would not be effective in increasing public awareness of the potential savings or rewards that could be obtained by switching current account provider, because the value of any such rewards, whether financial or related to service or quality, are likely to be specific to each customer, and therefore, difficult to communicate via a mass campaign.

4.187 We believe that the raising of awareness of the benefits of switching is better addressed under our proposed measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers, where the message can be communicated to individual customers at times when they are more likely to be receptive to such messages.

How this remedy addresses the AECs and/or the resulting customer detriment

4.188 We provisionally found that, despite the introduction of CASS and its promotion by Bacs, customer awareness of and confidence in CASS was low, customers perceived that switching account was burdensome and there was a fear that something could go wrong.³⁵⁰ For example, our PCA survey found

³⁵⁰ [Provisional findings](#), p238.

that 55% of customers considered that switching was a 'hassle' and 42% fear that something 'may go wrong'.³⁵¹

4.189 The purpose of the remedy is to support Bacs in its ongoing efforts to increase customer awareness of and confidence in CASS, so that customers' concerns in relation to the convenience and security of switching no longer pose a barrier to switching current accounts in GB and NI.

Remedy design considerations

4.190 We set out below our consideration of issues relating to the design of the remedy, covering:

- (a) the effectiveness of raising awareness of the benefits of switching through mass advertising;
- (b) the scale and duration of promotional activity required to sufficiently raise awareness of and confidence in CASS;
- (c) whether there are any particular customer segments that should be targeted by such promotional activity;
- (d) who should undertake and manage the promotional activity; and
- (e) how the effectiveness of promotional activity should be measured.

Benefits of switching

4.191 In our [Remedies Notice](#), we proposed that in addition to communicating the benefits of using CASS to change current account provider, the remedy could also increase public awareness of the potential savings or rewards that could be obtained by switching.³⁵²

4.192 In response, Which? questioned whether a general advertising campaign would be effective in increasing public awareness of the potential savings or rewards that could be obtained by switching current account provider.³⁵³ Similarly, the MAS told us that an advertising campaign might raise awareness of improvements to the CASS process and how it worked, but it was unlikely to prompt people not already interested in the market to switch.³⁵⁴

³⁵¹ [Provisional findings](#), p20.

³⁵² [Remedies Notice](#), pp12–13.

³⁵³ [Which? response to Remedies Notice](#), p2.

³⁵⁴ [Money Advice Service response to Remedies Notice](#), p10.

- 4.193 We think that mass promotional activity similar to that required to raise awareness of and confidence in CASS is unsuitable to raise awareness of the benefits or rewards of switching, because the value of any such rewards, whether financial or related to service or quality, are likely to be specific to each customer and therefore difficult to communicate via a mass campaign.
- 4.194 We have provisionally decided that the raising of awareness of the benefits of switching is better addressed under our proposed foundation remedy to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers (as set out in Section 3). Under these measures, the rewards of switching can be communicated to individual customers at times when they are more likely to be receptive to consider switching provider. We intend for this measure to focus on communicating to customers the security and convenience of using CASS to switch current accounts to address customers' negative perceptions of the switching process.
- 4.195 We intend to seek an undertaking from Bacs that its future promotional campaigns are aligned with our proposed measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers in communicating the benefits of using CASS to switch current accounts.
- 4.196 For example, both the targeted prompts delivered to individual customers under our proposed foundation remedy to prompt customers to consider their banking arrangements and Bacs' mass promotional activity under this remedy should share common wording and messaging in explaining the security and convenience of switching current accounts using the service. Bacs' future promotional campaign under this remedy could also help in addressing data security issues we have highlighted earlier (see Section 3). Bacs could, for example, following the occurrence of a data breach or data security issue, raise awareness of the benefits of switching via a mass advertising campaign.

Scale and duration of promotional activity

- 4.197 We think that raising awareness of and confidence in CASS requires sustained investment over time. For example:
- (a) Danske told us that a promotional period of one to three years seemed appropriate, where the promotion could be concentrated in the first year, with periodic reminders throughout years two and three.³⁵⁵

³⁵⁵ [Danske Bank response to Remedies Notice](#), paragraph 2.2, p6.

- (b) HSBCG told us that a short-term promotional campaign of approximately 12 months would provide an initial boost and re-launch customer awareness, but it was imperative that promotion in the long term was considered so as to avoid a drop off in customer awareness as soon as any initial campaign was concluded.³⁵⁶
- (c) The government's 'Power to Switch' campaign, launched in February 2015 to encourage consumers to switch energy supplier.³⁵⁷ In March 2015, the government reported that more than £38 million was saved by 130,000 households switching energy supplier.³⁵⁸ However, BIT told us that switching rates in the energy sector fell in the months following the campaign.³⁵⁹ This suggests that the effect of the campaign was short-lived and required sustained advertising over a longer period to drive lasting behavioural change.

4.198 We have provisionally decided to seek an undertaking from Bacs that it works with participants to ensure their commitment to a long-term promotional campaign to increase levels of awareness of and confidence in the service, and to sustain these levels over time. These campaigns should also reflect any changes made to CASS as a result of our wider remedies package, for example an increase in the redirection period.

4.199 It is for Bacs, in consultation with participants, to determine the level of funding that it requires to first meet and then exceed the awareness and confidence targets agreed with HMT,³⁶⁰ and to sustain these levels over time. The changes to the CASS governance intended under our proposed measures, especially the PSR's regulatory oversight and greater transparency around achievement against KPIs, will support Bacs in achieving this objective.

4.200 We also expect CASS participants to ensure their commitment to Bacs' efforts to promote CASS, and in particular, support a long-term promotional campaign to be undertaken by Bacs as envisaged in this remedy.

4.201 We consider that the promotion of partial switching could also increase customer confidence in the switching process and encourage more people to

³⁵⁶ [HSBCG response to Remedies Notice](#), paragraphs 52–55.

³⁵⁷ The 'Power to Switch' campaign ran for four weeks across the UK and included national, regional and online advertising. It focused on raising the awareness of the savings to be gained from shopping around for the best energy deal using Ofgem accredited sites, such as uSwitch.com.

³⁵⁸ See DECC press release (24 March 2015): '[Millions saved in one month as switching energy supplier rockets](#)'.

³⁵⁹ [Behavioural Insights Team response to Remedies Notice](#), pp7–8.

³⁶⁰ Prior to the launch of CASS, Bacs agreed with HMT targets of 75% consumer awareness and confidence in CASS (ie that 75% of consumers and SMEs were aware of and confident in the service).

switch, as under this service, the customer's existing account remains open. Our quantitative research found that there was very low awareness of the partial switching service (5% and 8% of PCA and BCA customers respectively were aware of the service).³⁶¹ We support measures which will facilitate multi-banking, since it puts competitive pressure on banks. We encourage Bacs to work with its partial switch service participants to raise the awareness of the partial switch service (see paragraphs 4.248 and 4.249).

Target customer segments

- 4.202 In our [Remedies Notice](#), we stated that SMEs were relatively uninformed about CASS and were less likely to switch BCAs using the service, and regular overdraft users and customers with large credit balances might specifically be targeted since they could benefit substantially from switching provider.³⁶²
- 4.203 In addition to these customer groups, parties have also identified the young and the financially disadvantaged as being particularly disengaged with CASS.
- 4.204 In relation to SMEs, a number of parties have suggested that in addition to mass marketing campaigns, increasing awareness of CASS could also be achieved through more targeted means. For example, Business Finance Compared³⁶³ told us that SMEs responded very well to advice from their local network and peers.³⁶⁴
- 4.205 Bacs told us that it had established a working group to specifically address audience targeting, and this group would meet on a regular basis to share information and help inform the wider promotional campaign. For example, it told us that it had engaged with SMEs to understand in more depth their existing segmentation, bodies of research, campaigns that had worked well (and why), key contact methods and how they managed relationships. Bacs told us that the outputs from the working groups would enable it to create nuanced messaging, appropriate for the specific needs of each customer segment, and this would be reflected in communications from the second quarter of 2016. Further, it was currently investigating (with participants) audience mapping and segmentation, in order to establish effective ways in

³⁶¹ See [PCA survey](#), p202 and [SME survey](#), p57.

³⁶² [Remedies Notice](#), p13.

³⁶³ Business Finance Compared is a platform dedicated to helping UK SMEs find and compare alternative sources of funding to grow and support their business through the use of innovative technology and analytics.

³⁶⁴ [Business Finance Compared response to Remedies Notice](#), p9.

which customers could be segmented and targeted through paid, owned and earned media.

- 4.206 Bacs told us that it was also paying particular attention to the channels employed to deliver these messages by, for example, considering strategic partnerships with respected and trusted bodies, such as the Federation of Small Businesses (FSB)³⁶⁵ and the Forum of Private Business (FPB). Bacs told us that it had already been working with the FSB and the FPB, among other SME groups, in order to tailor activity directly for this audience and that specific campaigns targeting this group were being designed.
- 4.207 Given the ongoing efforts of Bacs in raising awareness of CASS among those customer groups that have low awareness of CASS and/or could benefit most from switching current account providers, we have provisionally decided to seek an undertaking from Bacs that it continues to target these customers, in future promotional campaigns. Bacs could demonstrate its commitment to this by, for example, allocating a suitable proportion of its annual budget to targeting these key customer segments, and ensuring that its annual and longer-term business plans reflect this allocation.

Management of promotional activity

- 4.208 We think that Bacs is best placed to undertake the long-term promotion of CASS for the following reasons:
- (a) Bacs assumed ownership of CASS when it launched in 2013 and it remains responsible for the development and management of the service. Bacs told us that that it had been selected as the most appropriate organisation to manage CASS in part due to its extensive experience in the development and marketing of the Direct Debit scheme. Bacs was directly involved in the development and execution of the CASS launch campaign, and has subsequently worked with participants to continue to build the brand.
 - (b) Bacs has been relatively successful to date in raising awareness of CASS, although further action is required to increase confidence in the service. Bacs told us that since launch, over 2.25 million consumers had used the service, which was now offered by 40 high street banks and building societies.³⁶⁶ Bacs told us that to date, awareness of CASS had

³⁶⁵ The FSB is a non-profit organisation that promotes and protects the interests of the self-employed and small business owners.

³⁶⁶ [Bacs response to Remedies Notice](#), p5.

reached 74%, while confidence in CASS was currently 10% lower. It told us that the target for awareness would be achieved in 2016, and further work was under way to understand how best to achieve the confidence target.³⁶⁷

- (c) Bacs appears committed to sustained public awareness activity. For example, Bacs told us that it recently launched a multi-million-pound advertising campaign, covering print, radio, online and television advertising, as well as a social media and PR campaign, to coincide with the second anniversary of the service. Further, it told us that participants had committed to spending £9.2 million in 2016 on central activities to increase awareness of and confidence in CASS.

Measuring effectiveness of promotional activity

4.209 We think that Bacs' existing measures in relation to awareness of and confidence in CASS are important in measuring the effectiveness of ongoing and future promotional activity.³⁶⁸

4.210 However, recent research by the FCA found that awareness of and confidence in CASS was lower than that reported by Bacs. The FCA found that:

- (a) only 41% of consumers and 47% of small businesses had heard of CASS prior to completing the FCA's survey; and
- (b) consumers' biggest fear when switching was something going wrong and that the measure for confidence in an error-free process was much lower than the average confidence score of 65%.^{369,370}

³⁶⁷ Bacs measures awareness of and confidence in CASS through an online, monthly omnibus survey. To measure awareness, respondents are asked whether they have heard of the service. To measure confidence, respondents are asked whether switching would be easy, quick and take very little effort; whether they would be in control of the process; and whether the process would be error free, and their responses to these five questions are used to derive a composite confidence metric.

³⁶⁸ We do not think that the measurement of switching rates is an appropriate indicator of customer awareness of and confidence in CASS, as such measures do not take into account those customers who review their banking arrangements, but decide not to switch provider for reasons other than a lack of awareness of or confidence in the service.

³⁶⁹ See [FCA CASS report](#).

³⁷⁰ Bacs told us that it worked with an independent market research agency to understand the differences between its awareness tracking data and the research conducted by the FCA. The agency suggested that the differences were mainly due to different ways of asking the respondents about awareness and that both the FCA's and Bacs' questions introduced some element of bias, however, if the objective was to monitor changes in awareness over time, Bacs' question provided a consistent time series. Bacs told us that it had worked closely with the FCA during its assessment of CASS and to understand how its recommendations might best be fulfilled, including those concerning awareness and confidence.

- 4.211 Similarly, our quantitative research found that awareness of CASS among PCA customers was low (43% of those surveyed had heard of the service).³⁷¹ Further, understanding of its main features was superficial.³⁷² Awareness of CASS was much lower among SMEs (28% of those surveyed had heard of the service),³⁷³ and understanding of its main features was minimal.³⁷⁴
- 4.212 BIT told us that behavioural literature suggested that raising awareness did not automatically lead to changes in behaviour. Therefore, it recommended the consideration of a more in-depth measure of awareness, which assessed whether consumers were aware of the steps required to use CASS.³⁷⁵
- 4.213 In this regard, Bacs told us that it was conducting research with the University of Bristol to define a more appropriate measure of the competitive environment that took account of levels of engagement, and that one such measure might be consideration of switching (ie a metric that measured the level of consumers actively looking at offers in the market).³⁷⁶
- 4.214 In the meantime, Bacs told us that it was developing a number of initiatives to educate customers in using CASS, including:
- (a) the introduction of an infographic to be displayed on the CASS website, explaining the steps involved in using CASS;
 - (b) working with intermediaries, such as PCWs, to explain the benefits of using CASS; and
 - (c) focusing advertising in 2016 on confidence building, which would naturally develop customer understanding in the steps required to use the service.
- 4.215 Given the recent findings of the FCA (see paragraph 4.210) and the results of our qualitative research (see paragraph 4.211), we have provisionally decided to seek from Bacs undertakings to develop its awareness and confidence metrics to measure customer understanding of the switching process. Our proposed measure to strengthen CASS's corporate governance will ensure

³⁷¹ [PCA survey](#), p63.

³⁷² When asked about the features of CASS, the most popular responses given were: 'easy to switch/bank does it all for you/no paperwork' (36% of those who had said they were aware of CASS); 'bank will switch/set up all direct debits/standing orders' (16%); and 'rewards/incentives' (11%). In addition, 18% of respondents replied 'don't know/can't remember/only heard about it'. [PCA survey](#), p70.

³⁷³ [SME survey](#), p22.

³⁷⁴ For SMEs, the most popular responses to the same question were 'I'm generally aware' (41%); 'makes it easier/less hassle/minimises impact on your business' (14%); 'they switch direct debits' (13%). In addition, 20% of respondents replied 'don't know'. [SME survey](#), p23.

³⁷⁵ [BIT response to Remedies Notice](#), pp6–7.

³⁷⁶ The research is planned to report in the middle of 2016.

that both Bacs and the participants of CASS are suitably incentivised to operate and develop the service in the interest of customers.

Implementation issues

- 4.216 We have provisionally decided to seek undertakings from Bacs, as Bacs has already undertaken substantial work to raise awareness of and confidence in CASS, and it has committed to further promotional activity in 2016 and beyond. However, we will consider issuing an order if we are unable to negotiate satisfactory undertakings with Bacs.
- 4.217 Our proposed measure to strengthen CASS's corporate governance will further ensure that both Bacs and the participants of CASS are suitably incentivised to operate and develop the service in the interest of customers.
- 4.218 We think that the PSR is best placed to monitor compliance with the remedy, as under our proposed measure to introduce regulatory oversight of CASS (see paragraphs 4.50 to 4.65), we envisage that the PSR will undertake an annual review of the CASS governance arrangements. This could involve an annual assessment of Bacs' promotional activity in relation to raising awareness of and confidence in the service, as well as reviewing and agreeing KPIs involving awareness and confidence targets.³⁷⁷
- 4.219 Regarding recovery of Bacs' costs, prior to the launch of CASS, Bacs agreed with HMT to fund the operational costs of the service via a fee of £5 split evenly between the old and new provider.³⁷⁸ Bacs told us that at current volumes, this fee was adequate to cover the direct operating costs of the service, but it was insufficient to fund the level of central advertising considered necessary to reach the awareness and confidence targets.
- 4.220 RBSG told us that further funding should be allocated based on net gains from switching, as this would align the costs with the beneficiaries of the service.³⁷⁹
- 4.221 Bacs told us that the service rules allowed for exceptional costs to be recovered via a call to all participants based on their share of the current account market (ie the number of current accounts eligible for the service). It told us that this mechanism was agreed during the development of the service and formed part of the Participation Agreement. Bacs told us that the

³⁷⁷ Until HMT provides the PSR with additional powers to assume regulatory oversight of CASS, we have provisionally decided that the CMA will monitor compliance with this remedy.

³⁷⁸ It was also agreed that the level of the fee could not exceed £5 for the first five years of the operation of CASS.

³⁷⁹ [RBSG response to Remedies Notice](#), p21.

application of a mechanism based on market share rather than switching volumes better reflected the role of CASS in promoting competition in the market by removing a perceived barrier to switching, and it also encouraged participants to improve their customer retention activities.

4.222 This view was supported by TSB, which told us that funding based on net gains from switching would unduly discriminate against those participants most successful in attracting switchers, or even risk deterring providers from actually competing for new customers.³⁸⁰

4.223 We think that the generation of additional funding based on market share is an appropriate mechanism, as it minimises barriers to entry by new providers and encourages providers to compete for new customers. Further, non-switchers also stand to benefit from increased competition in the market, and this also supports cost recovery on the basis of market share. We therefore do not intend to seek any amendments to the CASS funding mechanisms as part of this remedy.

Cost of remedies

4.224 We think that there will be three principal costs associated with this remedy:

- (a) The funding of a long-term promotional campaign to increase levels of awareness of and confidence in CASS and to sustain these levels over time, including the funding of additional promotional activity to target those customer segments that have low awareness of the service.
- (b) The development of a more robust and insightful confidence metric, and an additional metric that measures consumer consideration of switching.
- (c) Monitoring of compliance with and enforcement of the remedy.

Promotional activity

4.225 Bacs told us that participants had committed to spending £9.2 million in 2016 on central activities to increase awareness of and confidence in CASS (see paragraph 4.208(c)). The cost of future promotional activity beyond 2016 will not necessarily require the provision of additional funds; it may be that better outcomes can be achieved within similar scales of budget committed to in recent years. The cost is likely to be determined by the degree of activity required to sustain levels of awareness and confidence above and beyond 75%. This includes our proposal for Bacs to develop its awareness and

³⁸⁰ TSB response to Remedies Notice, p8.

confidence metrics to measure customer understanding of the switching process, and any additional promotional activity required to engage those target customer segments which have low awareness of CASS.

Development of metrics

4.226 Bacs told us that:

- (a) it was due to commission further quantitative research to develop a more robust and insightful confidence measure;³⁸¹ and
- (b) it was conducting research with the University of Bristol to define a more appropriate measure of the competitive environment that took account of levels of engagement, and that one such measure might be consideration of switching.³⁸²

4.227 The costs related to the development of these metrics will be in line with Bacs' current plans. As such, we do not envisage our proposals to result in any significant additional costs.

Monitoring and enforcement

4.228 The cost of monitoring compliance with and enforcement of the remedy is likely to be modest, as this can be incorporated into the PSR's review of CASS governance under our proposed measure to address the service's governance.

4.229 We invite further views on costs of implementing this remedy.

Measures not being taken forward

Enhancements to the partial switch service

4.230 In addition to CASS (referred to as 'full switch'), banks operating in the UK can also offer the partial switch service to their customers³⁸³. The partial switch service can be used to transfer payment arrangements between accounts for PCAs and all SMEs and larger corporate entities. It is defined as such because not all payment arrangements need to be transferred from the

³⁸¹ [Bacs response to Remedies Notice](#), p19.

³⁸² [Bacs response to Remedies Notice](#), p197.

³⁸³ For description of full and the partial switch service, see [Bacs website](#).

old to the new bank during the switch and many other aspects of CASS are also not available to customers.³⁸⁴

- 4.231 We note that the partial switch service facilitates multi-banking, which puts competitive pressure on banks, and may also encourage switching. In our [Remedies Notice](#), we had spelled out the features that could be included in a partial switch service guarantee. These included automatic redirection of incoming payments, ability to choose a switch date and completion of switching within a seven-day period and refunding of any interest paid or lost and any charges made if anything went wrong with the switching process.
- 4.232 Regarding the automatic redirection of incoming payments, we were informed that this worked at sort code and account level under CASS, and therefore, building a facility under the partial switch service for certain payments to be transferred to the new account and for some to remain with the original account would be complex and costly. In particular, Bacs told us that it was technically more complex to identify which payments were to be redirected if both accounts remained open.
- 4.233 It was also pointed out to us that a guarantee for the partial switch service particularly around timelines and redirection would have significant limitations. We were told that since the partial switch service required additional communication with the customer to provide and select lists of payments that are to be transferred, a defined time period for completing the switch would be difficult to implement.
- 4.234 Bacs told us that timescales for a partial switch were agreed on a case-by-case-basis between banks and their customers considering the complexity of the switch, and therefore switching on a time-limited basis might not be appropriate for customers switching using the partial switch service. Further, according to Bacs, since requirements for SMEs with turnover in excess of £6.5 million (which cannot use CASS) were complex, full switching under CASS on a time-limited basis would not be appropriate for these SMEs.
- 4.235 Bacs told us that once the PAD was transcribed into UK law, payment service providers (PSPs) would only be able to offer consumers (personal customers) a PAD-compliant switching service operated in accordance with the regulations or a designated alternative that must meet the criteria stipulated in the regulations. Any PSP that is a member of a designated switching

³⁸⁴ For example, the partial switch service does not guarantee completion of a switch within seven days.

service³⁸⁵ need only offer consumers the designated alternative switching service.

4.236 Bacs also told us that it was possible for PSPs to offer the partial switch service to consumers alongside CASS (or a PAD-compliant switch service), but it was unlikely that Bacs would be seeking PAD designation for a second switching service (eg the partial switch service). However, Bacs informed us that it was reviewing the partial service proposition for different customer market segments while also taking into account the impending implementation of PAD.

4.237 However, clarifying the issue of the possibility of offering the partial switch service under PAD, HMT has stated that:

The government considers that provided a payment service provider offers either a PAD compliant switching service or a designated alternative switching service, the payment service provider will also be able to offer a non-compliant service such as 'Partial Only'. The government considers that a non-compliant service such as 'Partial Only' may also be offered to customers alongside the PAD compliant service or the designated alternative switching service. This will ensure existing provision may be maintained and provides choice for customers.³⁸⁶

4.238 We recognise that many steps in the partial switching process require a customer interface, and are not in banks' control, and therefore, it is difficult to have an overall timescale for completion of a partial switch. Further, automatic redirection of incoming payments is not currently offered under the partial switch service, and it is difficult to introduce such a facility, since the old account remains open. Having two different types of guarantees under CASS and the partial switch service could also confuse customers.

4.239 Overall, we consider that a partial switch service guarantee is likely to be complex to implement, and after having considered the likely effectiveness and practicality of introducing such a guarantee, we have provisionally decided not to pursue it further.

4.240 We also considered if all CASS participants should be mandated to offer the partial switch service both inwards and outwards.

³⁸⁵ We have been told by Bacs that it will be requesting CASS designation from the PSR.

³⁸⁶ HMT (November 2015), [Implementation of the EU payment accounts directive: Consultation responses](#), paragraphs 60–61.

- 4.241 Bacs told us that all CASS participants were required to support customers who wished to move their accounts to a new provider using the partial switch service, although a small number of banks did not support customers switching into them in this way.
- 4.242 Explaining the reasons for not offering the partial switch service and a partial switch guarantee to PCA customers wishing to switch to it, [redacted] outlined the following reasons:
- (a) First, it was unnecessary since customers already effectively had the option of a partial switch since they could open a new account without switching their existing account, and after they had satisfied themselves that they were happy with their new provider, they could approach their bank at any time to carry out a full CASS switch.
 - (b) Second, it would be technically complex and costly to provide a CASS-type guarantee and redirection service, as this would require a move from simple account level redirection to redirection at the level of each individual payment instruction. It would be difficult and costly to re-engineer CASS for certain payments to be transferred to the new account, and for some to remain with the original account.
 - (c) Third, it would be counterproductive, since banks were targeting the primary banking relationships.
 - (d) Fourth, [redacted] had concerns about the risks and potential damage to confidence in CASS given that banks did not have control over customer behaviour. It therefore considered that there were likely to be more issues around guaranteeing a partial switch than a full switch.
- 4.243 Regarding SMEs, [redacted] recognised that there may be particular benefits to choosing certain mandates to be moved or not. However, its view was that, overall, these factors were not sufficient to justify the additional cost and complexity of guaranteeing partial switching under CASS in circumstances where SMEs could already effect a partial switch.
- 4.244 [redacted],³⁸⁷ which previously did so, no longer offers the partial switch service to PCA customers who want to switch to it. It told us that there were a number of issues which generated complaints related to the switching process from partial switching customers. Given that the partial switching service was not covered by the CASS switching guarantee (and therefore not bound by the same requirements and timescale obligations as full switching), [redacted] observed

³⁸⁷ [redacted]

that this caused confusion for customers over the timescales and the account opening process. As a result of customers' feedback, [redacted] removed the partial switching-in option for new PCA customers in [redacted] and from the online channel in [redacted].

- 4.245 It appears that the decision whether to offer the partial switch service or not, is a decision taken by a bank based on various considerations including its technical and commercial viability, and the feedback from customers.
- 4.246 It is unclear to us that requiring all banks to offer the partial switch service both inward and outwards will be an effective remedy, since customers can already undertake an 'effective' partial switch by opening a new account, and at a later stage, make a full switch using CASS, if they were satisfied with their new account. Therefore, we have provisionally decided not to require all banks to offer the partial switch service.
- 4.247 Bacs told us that as a consequence of the impending implementation of PAD, it was considering developing its existing partial switch service offering. It also stated that the industry, through Bacs, was committed to developing CASS to address customer requirements not effectively met by the current 'full switch' service.
- 4.248 In particular, Bacs told us that it was considering revisiting the attitudinal and behavioural considerations of overdraft users, those who wished to retain more control over the switching process, and the more complex requirements and needs of SMEs. At this stage Bacs was unclear whether this would lead to any specific changes to the partial switch service, but it believed that based on this analysis, a partial switching offering could be built into the wider CASS, with the aim of explicitly positioning the partial switch service as an alternative for customers wanting to switch.^{388,389}
- 4.249 While not proposing a partial switch remedy, we encourage Bacs to initiate a detailed investigation of this proposal, and to work with its partial switch service participants to increase the customer awareness of this service.³⁹⁰

³⁸⁸ Bacs told us that a primary objective of this proposal was to provide participants with the ability to tailor their offer to customers with overdrafts. It would be reviewing the information provided by the New Bank to develop the options available for overdrafts. Specifically it would look at the customer engagement with the New Bank to ensure the customer requirements were known and addressed before initiating the switch. It would also review the automated messaging between old and new banks to look for any improvements.

³⁸⁹ Bacs told us that at this stage, it was not considering implementing specific enhancements (for example, introducing a redirection service) to the partial switch service.

³⁹⁰ Only 5% of PCA users and 8% of BCA users in our Omnibus surveys claimed they had heard of it – questions 19 and 23 in respective surveys) See [PCA survey](#), p202 and [SME survey](#), p57.

Continuous payment authorities

- 4.250 In our provisional findings,³⁹¹ we noted that the non-transfer of continuous payment authorities (CPAs) was one of the outstanding operational issues in the CASS, and therefore requiring the automatic transfer of CPAs during the switching process could help instil greater customer confidence in the switching process. Accordingly, we included such a remedy in our [Remedies Notice](#).
- 4.251 In response, most parties considered that requiring the transfer of CPAs in the switching process would not be a proportionate remedy. Many of them told us that there was little evidence that the non-transfer of CPAs presented a material barrier to switching, and that the FCA had stated that this was not something that arose in its customer research and not something that appeared to have impaired the switching process.
- 4.252 Some responses also noted that a technical solution to transfer CPAs may compromise the integrity of the CASS switching service if CPAs were not 100% guaranteed to be transferred in the switching process. Only LBG and TSB were in favour of this remedy in principle.^{392,393}
- 4.253 To assess the impact of this remedy, we looked both at the customers who could potentially benefit from this remedy and the limitations and potential adverse impacts associated with its implementation.
- 4.254 To look at the number of customers who could potentially benefit, we used the results of our omnibus surveys and consulted with Visa and MasterCard, which have around [X]% and [X]% share of the UK debit card sector in the UK respectively.
- 4.255 Both MasterCard and Visa told us that the non-transfer of CPAs affected relatively few customers. MasterCard told us that in 2015 recurring transactions represented less than [X]% of transactions on its debit cards and credit cards, and Visa referred to industry statistics on UK consumer payments which indicated that in 2014, CPA transactions represented less

³⁹¹ See [provisional findings](#), paragraph 7.107.

³⁹² LBG considered that adding the transfer of CPAs would be a positive enhancement to the CASS service and customer experience, and noted that LBG customers had 1.5 million incorrect card details on their accounts, resulting in confusion, payment errors and customer annoyance. LBG also noted that implementation would require the engagement of the card schemes (such as Visa and MasterCard) as well as merchants. It was not something which the banks and Bacs could deliver alone, as they did not possess the relevant information to make a redirection (Bacs is not involved in processing CPAs, and LBG, as a card issuer, does not have the information regarding the arrangements between the customer and a merchant or payment service provider that is necessary to implement a switch). [LBG response to Remedies Notice](#), paragraphs 10.1–10.3.

³⁹³ TSB told us that it was open to exploring this remedy with the rest of the industry.

than [redacted]% of the total recurring payments market. Both card schemes also informed us about the solutions they already had in place – updater services to address many of the perceived issues raised by the non-transfer of CPAs as part of the switching process. For these solutions, [redacted].³⁹⁴

- 4.256 The results of our omnibus surveys suggested that including the non-transfer of CPA payments in the switching process would not address a significant issue for consumers. There was a low reported usage of CPAs on debit cards among PCA and BCA holders³⁹⁵ and among PCA holders, who were aware that they had CPAs linked to their debit cards, there was also a low level of awareness that CPAs are not transferred as part of the switching process.³⁹⁶ According to these results, it is unlikely that the non-transfer of CPAs is a significant issue that prevents many customers from switching.
- 4.257 Bacs told us that, in practice there were a very small number of CPA transactions and processes were in place to enable a merchant to update its records when cards were replaced, including when an account was switched. Bacs also stated that none of its research or performance monitoring of CASS had identified customer concerns about the switching of CPAs and that it did not believe this issue had a material effect on customer switching behaviour.³⁹⁷
- 4.258 This suggested that contrary to our provisional findings, the non-transfer of CPAs was not a material issue that affected many customers' confidence in the switching process.
- 4.259 To look at the limitations and adverse impacts associated with the implementation of the automatic transfer of CPAs as part of the switching process we consulted with Visa and MasterCard.
- 4.260 Visa told us that the costs of implementing a solution that would integrate with CASS could be considerable for a number of stakeholders. It would require the construction of a CPA mandates database and that every merchant would be required to send its CPA mandates to the manager of the database which would require new messaging and connections to be put in place and maintained, creating additional costs to merchants relative to the current existing market solutions. It also told us that since our proposed remedy

³⁹⁴ [redacted]

³⁹⁵ In response to 'Do you have any Continuous Payment Authorities linked to you debit card at the moment', 8% of BCA users and 19% of PCA users said yes. See [PCA survey](#), p174 and [SME survey](#), p49.

³⁹⁶ In response to 'As far as you are aware, are Continuous Payment Authorities automatically transferred as part of the switching process', 30% of PCA users who believe they have CPAs linked to their debit card told us that they were transferred and 22% told us that they were not. The remaining 48% didn't know. See [PCA survey](#), p181.

³⁹⁷ [Bacs response to Remedies Notice](#).

would only apply to the UK it would create an additional cost for cross-border merchants who would want to carry out business in the UK, particularly as enabling retailers to have one single method of payment accepted globally was a key benefit of CPAs for cross-border merchants.

- 4.261 MasterCard told us that although there were no technical limitations in the automatic transfer of CPAs during the switching process, it would require implementing a process and an interface for sharing information between banks. This was likely to include putting in place a coordinated process between a customer's old and new bank to ensure that a customer's new bank updated MasterCard after a customer had switched accounts.
- 4.262 Overall, our assessment of this remedy suggests that (a) few customers are likely to be adversely affected by the non-transfer of CPAs, (b) debit card scheme providers already offer a solution for many customers who could be affected, and (c) the likely cost and complexity of building a facility to automatically transfer CPAs as part of the switching process would be considerable.
- 4.263 Because of these factors, we consider that requiring the implementation of this remedy would not be proportionate. For this reason, we have provisionally decided not to pursue this remedy further.

5. Additional remedies targeted at PCA overdraft customers

Overview

- 5.1 As set out in the previous sections, a key objective of our remedies is to address low engagement and barriers to searching and switching. These market features are present in the PCA and SME banking markets in both GB and NI. The remedies that we have described aim to tackle these issues across all customer groups.
- 5.2 However, we also identified in our [provisional findings](#) that there are additional market features that apply specifically to PCA overdraft users that contribute to their low engagement and further limit awareness and comparison of overdraft offers. We found that overdraft charging structures are particularly complex, and that overdraft users show limited awareness of and engagement with their overdraft usage, and face additional barriers to switching due to the uncertainty surrounding acceptance and timing of an overdraft approval. We also found that heavier overdraft users have a lower tendency to switch.
- 5.3 These factors are likely to affect customers using unarranged overdrafts more than customers using arranged overdrafts. This is due to unarranged overdraft usage being outside a borrowing limit agreed in advance between PCA providers and their customers. Customers who use an unarranged overdraft will often not have intended to do so and underestimate the likelihood of incurring unarranged overdraft charges.³⁹⁸ Without alerts it is difficult for unarranged overdraft users to be aware of when they have exceeded an arranged limit and become liable to the charges associated with doing so. This can be costly for them, since unarranged overdraft customers can accumulate higher charges than arranged overdrafts from interest and fees. PCA providers' incentives to compete on unarranged overdraft charges are therefore particularly limited.³⁹⁹

³⁹⁸ See our provisional findings, [Appendix 7.4](#).

³⁹⁹ Similar concerns may apply in relation to facilities such as Barclays' emergency borrowing facility, which in contrast to other PCA providers' unarranged overdrafts specifies a borrowing limit of the facility. Barclays has stated its views that its emergency borrowing facility is not an unarranged overdraft facility. Whether or not such emergency borrowing facilities are unarranged overdraft facilities, they are alternatives to other PCA providers' unarranged overdraft facilities. They are all lending facilities that are offered to PCA customers after they have exceeded an initial arranged borrowing limit. As with other PCA providers' unarranged overdraft facilities, customers may underestimate their likelihood of using such facilities on top of any initial borrowing limit. Customers can also accumulate higher charges in using such facilities in the same way that customers can accumulate higher charges from using other PCA providers' unarranged overdraft facilities. At this stage, we therefore include facilities such as Barclays' emergency borrowing facility within the full scope of our remedies that are targeted at unarranged overdrafts, although we welcome views on this issue. For convenience, we use the term unarranged overdraft in this document to refer to Barclays' emergency borrowing facility and other PCA providers' unarranged overdraft facilities (or unplanned or unauthorised overdraft facilities).

- 5.4 Since publishing our [provisional findings](#), we have undertaken further analysis on switching rates by type and degree of overdraft usage. This analysis, which is set out in Appendix 1, finds that the switching rates are generally very low and there is some variation depending on the level of overdraft use:
- (a) The heaviest overdraft users tend to have the lowest switching rates of all PCA customers.
 - (b) There is some evidence that users who only use an arranged overdraft facility are more likely to switch than users who go into unarranged overdraft. However, the switching levels among overdraft users as a whole, while very low, are very slightly higher than for customers who do not use overdrafts.
- 5.5 We have also conducted further analysis on the gains from switching for overdraft users, and found that the annual gains from switching for overdraft users can be as much as three to four times as high as that for customers that do not use an overdraft, and higher still if the customer is a heavy user of unarranged overdrafts (see Appendix 1). We found that the gains increased with frequency of overdraft usage. Despite this, the switching rates tend to fall for more frequent overdraft users. This suggests that overdraft users are relatively disengaged, or that they face high barriers to searching and switching, or both.
- 5.6 Given the specific problems we have identified in relation to overdrafts, we consider that additional remedies targeted at overdraft customers are necessary to address these issues and to reinforce the effectiveness of our other measures for these customers. Most of our additional measures focus on unarranged overdraft users for the reasons set out in paragraphs 5.3 and 5.4(b). In combination with our other remedies, we expect these measures to increase competition and to improve the outcomes for PCA overdraft customers (who represent 44%⁴⁰⁰ of PCA customers). The various elements of the package are complementary to and reinforce one another as they:
- build on our other measures to empower overdraft customers to search for better value and to switch;
 - help customers take more control of their overdraft usage; and

⁴⁰⁰ See our provisional findings, [Appendix 7.4](#), paragraph 7.

- introduce a measure targeted at the heaviest users, to increase transparency of the cumulative cost of unarranged overdrafts and constrain customers' exposure to these charges.

5.7 The additional measures we are proposing in relation to overdraft users may be summarised as follows:

- We propose to increase PCA customer awareness of, engagement with and management of their overdraft usage and charges by:
 - requiring PCA providers to automatically enrol all their customers into an unarranged overdraft alert. This alert would inform customers on a reasonably timely basis when they have or are at significant risk that day of exceeding an arranged overdraft limit;⁴⁰¹
 - requiring PCA providers to offer, and inform customers of the opportunity to benefit from, grace periods during which they can take action to avoid or mitigate the charges resulting from unarranged overdraft use;
 - recommending to the FCA that it undertakes further work to identify, research, test and, as appropriate, implement measures to increase overdraft customers' engagement with their overdraft usage and charges.
- We propose the following measures to limit the cumulative effect of unarranged overdraft charges:
 - Requiring PCA providers to introduce a monthly maximum charge (MMC) covering all unarranged overdraft charges (including debit interest). Disclosure of the MMC should be no less prominent than other overdraft charges. The level of the MMC will be set by each PCA provider and may be different for each of its PCAs.
 - Recommending the FCA undertakes work to assess the ongoing effectiveness of the MMC and consider whether measures (such as the introduction of rules if appropriate) could be taken to further enhance its effectiveness.

⁴⁰¹ Where a PCA does not have an arranged overdraft facility, we consider it to have an arranged overdraft limit of £0 for the purposes of the remedies in this section.

- We propose to recommend that the FCA looks at ways to engage customers more in considering overdraft features and their potential relevance and impact, during the PCA opening process.
- We propose the following combination of measures to address specific barriers to searching and switching for overdraft users:
 - Seeking undertakings from Bacs to work with CASS participants to review the account switching process to ensure that PCA providers offer a firm decision on the overdraft offered after a customer has completed the PCA provider’s application process but before they switch accounts.
 - Recommending that, following the introduction of open APIs, the FCA consider requiring PCA providers to offer online tools that indicate whether a prospective customer may be eligible for an overdraft.

5.8 These additional measures reinforce and are complementary to the proposed remedies in Sections 3 and 4 which are just as relevant to overdraft customers as to any other customers. These remedies aim to:

- (a) increase customers’ engagement via prompts to review their PCA arrangements at times when they may have a higher propensity to consider a change;
- (b) make current account switching work even better, building on and improving the existing CASS; and
- (c) improve transparency and make it easier to effectively compare products in respect of both price and quality.

5.9 On the last of these, we propose that one of the five core quality measures to be included in the quality of service metrics to be prominently publicised by providers (see Section 3) should be related to overdraft services.

5.10 It is important to place our overdraft remedies in the context of the overall regulatory landscape. The package includes measures that address the AECs for overdraft users, including heavier overdraft users for whom we observe lower levels of switching and higher charges. In doing so we are mindful of the fact that some of these heavier overdraft users will be customers in financial difficulties. There will be less scope for competition, and therefore for our investigation, to help such customers, in particular those that have reached an unsustainable level of debt. It is not in our remit to tackle the problems arising from over-indebtedness. In this context we note the remit of the FCA to regulate providers of consumer credit, and the provisions its rules make to

safeguard responsible lending and fair treatment of consumers, including those in financial difficulties (principles that are additionally embedded in the industry Lending Code). We also note the UK and EU initiatives to provide basic bank accounts to all customers not otherwise eligible for a bank account, and other government initiatives such as the November 2011 BIS/HMT review of consumer credit and personal insolvency.⁴⁰² We have been mindful, in designing our remedies, of the fact that these will be supplemented by existing additional protections for customers affected by financial difficulties or otherwise potentially excluded from the PCA market.

- 5.11 In the rest of this section we describe our additional overdraft remedies in more detail. For some of these remedies we note a possible de minimis threshold, for which PCA providers below a certain size would not be subject to the remedy. We will consider any representations on whether there should be a de minimis threshold for implementing these remedies; this may be set relatively low (for example, at 150,000 to 200,000 active PCAs⁴⁰³) thus covering the majority of active PCAs and including larger providers in both GB and NI, while also excluding the large number of very small providers.

Measures to increase customer awareness of and engagement with their overdraft usage and charges

Summary of the measures we are proposing to take forward

- 5.12 Figure 5.1 summarises the remedy proposed, which will work alongside the grace period remedy set out in Figure 5.2 in the next subsection. In combination these remedies are intended to increase overdraft users' awareness that they are about to incur charges and allow customers to make an informed decision about whether to use an overdraft facility, or reduce or avoid the charge altogether.

⁴⁰² [BIS/HMT Consumer Credit and Personal Insolvency Review: Formal Response on Consumer Credit.](#)

⁴⁰³ Using a common definition across providers.

Figure 5.1: Summary of the overdraft engagement remedy

We have provisionally decided to make an Order to require PCA providers to enrol automatically all their customers, where feasible, into an unarranged overdraft alert. This alert would inform customers on a reasonably timely basis when they have or are at significant risk that day of exceeding an arranged overdraft limit. All UK PCA providers (subject to a possible de minimis threshold) that charge customers for exceeding or attempting to exceed an arranged limit would be subject to this measure. PCA customers would be able to opt out of these alerts.

To make this measure effective, we would include a requirement on PCA providers to collect an account holder's mobile phone number during the account application process and in instances when an account holder updates their contact details unless the customer has opted out of receiving alerts.

We have also provisionally decided to recommend to the FCA that it identifies, researches, tests and, as appropriate, implements measures to increase overdraft customers' engagement with their overdraft usage and charges.

We have provisionally decided to recommend to the FCA that it considers the following matters as part of this programme of work:

- (a) How PCA providers may be able to enhance the effectiveness of overdraft alerts, for example by changing the type, medium and content of the alerts offered.
- (b) The set of alerts customers should be automatically enrolled into by PCA providers.
- (c) How to articulate the concept of available funds to customers, in particular whether this is inclusive or exclusive of an arranged overdraft.

To facilitate the FCA's testing, we have provisionally decided to follow the same approach as the prompts remedy in Section 3, which would involve making an Order to require all PCA providers (subject to a possible de minimis threshold) in the UK to cooperate with the FCA in RCTs. We would also permit PCA providers to modify or remove the unarranged overdraft alerts for a set of its customers if the FCA requested them to do so as part of its testing.

Our proposal to require UK PCA providers to enrol their customers into an unarranged overdraft alert would be an initial measure which we expect to be in a position to consider removing once the FCA has concluded its testing and is ready to introduce measures that are effective at increasing overdraft customers' engagement with their overdraft usage and charges. In doing so we recognise the need to minimise regulatory duplication.

How this remedy addresses the AECs and/or the resulting customer detriment

- 5.13 In our [provisional findings](#) we found that overdraft users in both GB and NI have limited awareness of and engagement with their overdraft usage, and that overdraft charging structures are particularly complex.⁴⁰⁴ We provisionally concluded that, as a result of this, the competitive pressure on overdraft charges is low.⁴⁰⁵
- 5.14 Increasing customers' awareness of and engagement with their overdraft usage and charges would contribute to addressing the AECs and the detriment arising from them.
- (a) It would lead to greater awareness by customers of their overdraft use and its cost. Greater awareness of the use and cost of overdraft use may prompt customers to consider whether they could get a better deal if they switched provider. This in turn would increase incentives for PCA providers to compete on overdraft charges. As set out in Table 2 at Appendix 1, overdraft users, and particularly heavy overdraft users, have the most to gain from switching their PCAs.
 - (b) It would, in particular through enhanced overdraft alerts, increase customers' price sensitivity in terms of how much they use an overdraft. This would increase constraints on overdraft charges. As set out in paragraph 38 of Appendix 1, 52% of overdraft users and 55% of unarranged overdraft users underestimated their usage by two or more months.
 - (c) The increased awareness and price sensitivity from overdraft alerts and associated reduced usage would be expected to directly reduce the detriment from the AEC in relation to overdraft charges. As noted in our [provisional findings](#), the FCA has found that signing up to text alerts alongside using mobile banking reduced the monthly unarranged overdraft charges incurred by customers by 24% on average (a reduction of around £11 each year per customer). The FCA also found that signing up to text alerts without mobile banking reduced monthly unarranged

⁴⁰⁴ [Provisional findings](#), paragraph 12.6.

⁴⁰⁵ [Provisional findings](#), paragraph 12.12.

overdraft charges incurred by customers by 6% on average (a reduction of around £3 each year per customer).^{406,407}

- 5.15 PCA providers have already taken some steps to increase customer engagement on overdrafts, such as through the use of overdraft alerts and money management tools. These developments have been supported by previous interventions⁴⁰⁸ and we consider that further measures are necessary to increase the levels of engagement of customers on their overdraft usage and charges. In particular, there is scope for improvement in the take-up and impact of overdraft alert services, as customers' awareness of their overdraft usage is still low⁴⁰⁹ even with the existing provision of alerts. The scope for improvement is consistent with PCA providers' conflicting incentives to innovate in these types of services due to the revenue they could lose from increased customer engagement.
- 5.16 It is important to make sure that there is timely implementation of this remedy in order that customers can benefit sooner rather than later. However, we also consider it important that these measures are developed in a way that maximises their impact. Our proposal therefore involves the FCA undertaking further research in order to develop measures to maximise customer engagement. While the FCA undertakes this research with a view to implementing its own measures, we consider it appropriate in the meantime to introduce a simple initial measure to ensure that PCA providers inform customers when they have exceeded, or are at significant risk of exceeding, an arranged overdraft limit. We refer to this alert as an unarranged overdraft⁴¹⁰ alert for convenience in the remainder of this section and set out the case for such an alert in paragraphs 5.42 to 5.43.
- 5.17 In addition to unarranged overdraft alerts, we also propose that the FCA considers how PCA providers articulate available funds to customers, in particular whether this is inclusive or exclusive of any funds available through an arranged overdraft facility. Our proposed recommendation on available funds aims to address the potential customer confusion that can arise relating

⁴⁰⁶ See FCA (March 2015) [Occasional Paper No. 10: Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#). We only report results for Bank A. Note that these estimates refer to the average impact across all active PCAs that are eligible for unarranged overdraft.

⁴⁰⁷ PCA providers have also provided us with similar evidence on the impact of overdraft alerts. LBG, through an RCT, found a 6% average reduction in unarranged overdraft charges for those customers it automatically enrolled in unarranged overdraft text alerts ([LBG Trials Report](#), slide 13). [🔗] HSBCG found that the impact of unarranged overdraft text alerts was significant. The number of customers transferring funds on the first day they went over their arranged limit increased from 16% to 50% for HSBC and the respective increase for First Direct was from 32% to 74%.

⁴⁰⁸ Such as the November 2011 BIS/HMT review of consumer credit and personal insolvency: [BIS/HMT Consumer Credit and Personal Insolvency Review: Formal Response on Consumer Credit](#).

⁴⁰⁹ [Provisional findings summary](#), paragraph 53.

⁴¹⁰ This includes Barclays' 'Emergency Borrowing' for the reasons set out in footnote 399 (above).

to the inclusion of arranged overdrafts in available funds and the widespread customer perception that overdrafts are free as long as customers remain within an agreed limit.⁴¹¹ The way in which available funds are articulated may also impact the extent to which customers are engaged with the management of their overdraft usage, and may affect their price sensitivity to overdraft charges.

- 5.18 Taking all of the above into account, we consider that these proposed measures working alongside the grace period measures set out in the next subsection will help address the AECs identified in both the GB and the NI PCA markets. By making a recommendation to the FCA for further testing, we can also ensure that the full potential of the measures is realised.

Existing provision of alerts

- 5.19 Most PCA providers⁴¹² have some form of alert system in place to communicate account-relevant information to their customers. There is considerable variation in terms of the range of incidents that trigger such alerts, and also in terms of the alert content, the frequency and the medium used to reach the customer.
- 5.20 The overdraft alerts that PCA providers offer, include:⁴¹³
- Imminent arranged overdraft alert: this informs customers whenever they are close to using their arranged overdraft facility (if they have one).
 - Actual arranged overdraft alert: this informs customers whenever they have started using their arranged overdraft facility.
 - Imminent unarranged overdraft alert (retry): this informs customers when there is an upcoming payment that will or may be declined due to lack of funds. Unlike the more general alerts above, this is only triggered by certain types of scheduled transactions (specifically direct debits, standing orders and future dated payments, under the retry scheme agreed between the FCA and a number of PCA providers;⁴¹⁴ for some providers, these alerts are also triggered by cheque payments).

⁴¹¹ [Provisional findings](#), paragraph 78. Also see FCA (7 April 2014), [Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts](#), pA1, which notes 'Overdrafts were rarely seen as debt among consumers. Providers often included overdrafts within the "funds available", positioning the debt as part of the consumers' balance, which was then seen as "my money".'

⁴¹² Excluding, for example, AIB and BoI.

⁴¹³ Building on the different types of overdraft alerts we set out in our [Supplemental Remedies Notice](#), paragraph 60.

⁴¹⁴ While PCA providers offer these alerts, they are not required under the voluntary retry initiative.

- Imminent unarranged overdraft alert (near limit): this informs customers whenever they are close to using an unarranged overdraft facility or are close to exceeding an arranged borrowing limit, based on criteria set by the PCA provider.
- Actual unarranged overdraft alert: this warns customers whenever they have exceeded an arranged borrowing limit. This can be triggered by periodic (eg end of day) overall account status changes, and/or by the processing of transactions, both scheduled and unscheduled, as they occur during the day. Unscheduled transactions include ATM withdrawals, debit card transactions, cheque transactions where not covered by banks' retry schemes, or transactions initiated by the customer in branch or by telephone, mobile or online banking.
- Confirmed declined item alert: this informs customers whenever a PCA provider has refused payment due to lack of funds (and that this decision cannot be reversed).

5.21 Table 5.1 below sets out which PCA providers offer each of these alerts alongside balance alerts. Overall, this shows that the range of overdraft alerts that customers are set up to receive is limited. No PCA provider in the UK offers (either on an opt-in or opt-out basis) all of the alerts specified in the list at paragraph 5.20 above.

5.22 In addition to overdraft alerts, PCA providers also provide balance alerts. Balance alerts are provided on an opt-in basis for all PCA providers that offer alerts, and the balance limits that trigger the alerts can be customised by the account holder. Balance alerts⁴¹⁵ can therefore in theory mimic some types of overdraft alert, for example by setting a low balance limit at the arranged overdraft limit. We distinguish this type of alert from overdraft alerts, which are specifically designed to be triggered by imminent or actual overdraft usage.

5.23 Most PCA providers that offer alerts also offer retry alerts. However, as discussed above retry alerts are not triggered by all transactions, in particular debit card transactions. We therefore distinguish this alert from more general near-limit alerts that warn the customer about imminent risk of using an unarranged overdraft irrespective of the nature of the transaction. We further distinguish between retry alerts and declined item alerts (ie irrevocable decisions to refuse a payment due to lack of funds) and find that the latter are rarely offered (Santander is the only PCA provider we are aware of to offer this alert).

⁴¹⁵ Or rather the combination of different balance alerts and possibly limit alerts.

- 5.24 Arranged overdraft alerts (imminent and actual) are not widely used by PCA providers. We are only aware of Barclays offering an alert that warns its customers when they have started making use of their arranged overdraft facility.
- 5.25 As for unarranged overdraft alerts, some PCA providers (LBG, Santander and TSB) offer imminent unarranged overdraft (near limit) alerts. Many PCA providers (LBG, Santander, TSB, RBS and NatWest)⁴¹⁶ offer alerts which warn of actual unarranged overdraft usage. However, HSBC is the only PCA provider we are aware of that automatically enrolls all relevant customers into an actual unarranged overdraft alert, where this is possible.⁴¹⁷ The others require a customer to opt in to the alert.
- 5.26 For alerts more generally, few PCA providers choose to automatically enrol their customers into them:
- As noted above, HSBC is one PCA provider that does this for all its customers where this is possible.
 - Barclays automatically enrolls all its customers for retry alerts (where this is possible).⁴¹⁸
 - RBS and NatWest automatically enrolled their existing customers into overdraft alerts⁴¹⁹ in 2015 and offer the service on an opt-in basis to new customers.
- 5.27 Coverage of alerts is high when there is some form of automatic enrolment. For example, HSBC estimated that it sent text messages to [X]% of its customers using an unarranged overdraft facility. RBS estimated that [X]% to [X]% of PCA accounts (excluding Ulster Bank) were registered for alerts.
- 5.28 By contrast, PCA providers that do not automatically enrol their customers into alerts have much lower take-up of alerts. For example, [X]% of active PCA customers for Santander, [X]% of the PCA customer base for Clydesdale, [X]% of accounts for Lloyds, [X]% of accounts for BoS and

⁴¹⁶ Barclays offers an alert to its customers when they have started using their Emergency Borrowing facility.

⁴¹⁷ All customers for whom they have a valid mobile contact number and that have not opted out of the service.

⁴¹⁸ Barclays has also auto-enrolled for overdraft alerts, customers that in 2014 had signed up for at least one alert. Since the auto-enrolment is limited to customers that had previously opted into some alert, we do not consider it universal.

⁴¹⁹ Act Now alerts that are triggered in the following situations: account in excess; account in excess reminder after five days; account in excess and possible unpaid item; account in excess reminder after five days and possible unpaid item; possible account excess and likelihood of unpaid item; possible unpaid item and possible account excess.

Halifax, [X] % of accounts for the Co-op Bank, and [X] % of Danske's PCA customers are signed up for text alerts.⁴²⁰

- 5.29 Given the current range and take-up of overdraft alerts there is considerable scope for improvement. This is particularly important for alerts relating to the use of an unarranged overdraft facility, for the reasons set out in paragraph 5.3.

⁴²⁰ The definition of accounts or customers for this purpose varied by PCA provider.

Table 5.1: Summary of existing provision of overdraft alerts

	LBG			RBSG			Barclays*	HSBCG		Santander	Nationwide	TSB	Clydesdale	Co-op Bank	Danske	Tesco
	Lloyds	Halifax	BoS	RBS	NatWest	Ulster		HSBC	First Direct							
Balance alerts																
High balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	✗	opt-in	opt-in	opt-in	opt-in	opt in	opt-in	opt-in	opt-in	opt in
Low balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt in	opt-in	opt-in	opt-in	opt-in
Monthly/weekly balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	✗
Overdraft alerts																
Confirmed declined item†	✗	✗	✗	✗	✗	✗	✗	✗	✗	opt-in	✗	✗	✗	✗	✗	✗
Imminent arranged overdraft†	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Actual arranged overdraft†	✗	✗	✗	✗	✗	✗	opt-in	✗	✗	✗	✗	✗	✗	✗	✗	✗
Imminent unarranged overdraft (retry)	✗	✗	✗	opt-in	opt-in	✗	auto	auto	auto	opt-in	opt-in	opt-in	✗	✗	✗	auto
Imminent unarranged overdraft (near limit) †	opt-in	opt-in	opt-in	✗	✗	✗	✗	✗	✗	opt-in	✗	opt-in	✗	✗	✗	✗
Actual unarranged overdraft†	opt-in	opt-in	opt-in	opt-in	opt-in	✗	opt-in	auto	auto	opt-in	✗	opt-in	✗	✗	✗	✗
<i>Mentions unarranged charges</i>	✓	✗	✓	✓	✓	N/A	✓	✓	✓	✓	N/A	✓	N/A	N/A	N/A	N/A
<i>Includes level of unarranged charge(s)</i>	✗	✗	✗	✗	✗	N/A	✓	✓	✓	✗	N/A	✗	N/A	N/A	N/A	N/A
<i>Specifies grace period</i>	✓	✗	✓	✓	✓	N/A	✓	✓	✓	✗	N/A	✓	N/A	N/A	N/A	N/A

Source: Parties' responses.

* Regarding Barclays, references to 'unarranged overdraft' alerts should be taken to mean alerts offered for its Emergency Borrowing facility. See footnote 399.

† To be considered as offering each of these alerts a PCA provider must send these alerts in all circumstances (eg regardless of the transaction that triggered it).

Notes:

1. We consider that a bank auto-enrols its customers to an alert service only when all customers (existing and new) are enrolled where feasible.
2. BoI and AIB currently do not offer any alerts and are therefore not included in the table.
3. It is possible for a combination of types of alerts to have broadly the same effect as another type of alert.
4. N/A = not applicable.

Remedy design considerations

- 5.30 We set out below our consideration of the issues relating to the design of these remedies, covering:
- (a) the importance of further research and testing in designing an effective set of remedies and the role of the FCA;
 - (b) the design of our initial measure to enrol customers automatically into an unarranged overdraft usage alert; and
 - (c) variants to our remedies proposed by parties.

Research, testing and the role of the FCA

- 5.31 The aim of these measures is to increase overdraft customers' engagement with their overdraft usage. As this involves behavioural change, we consider it important that research and testing are used to inform the design of the measures implemented. This will help increase their effectiveness and to avoid any unintended consequences. Respondents to our [Supplemental Remedies Notice](#) generally agreed that the design of the alerts should be subject to behavioural research and testing.
- 5.32 In the case of overdraft usage alerts, research and testing can inform what range of alerts it would be best to enrol customers automatically into. More generally (beyond alerts alone), research and testing can inform the type, medium and content of PCA providers' communications relating to customers' overdraft usage and charges. For example, how the available funds are articulated to customers may affect how actively they manage their account.⁴²¹ The precise programme of research would be for the FCA to determine.
- 5.33 We consider that the FCA is best placed to undertake this research and testing for the same reasons set out in relation to its proposed role in our prompts remedy in Section 3. In particular, it has experience of conducting RCTs, which could be an effective way of testing the impact of different types and design of overdraft alert.
- 5.34 In doing this further research and testing, we recommend that the FCA seeks to identify alerts which result in:

⁴²¹ One possible research question is whether making the available funds negative when a customer is in an arranged overdraft may lead to increased engagement with their overdraft usage.

- (a) increased awareness and understanding of overdraft usage and charges;
- (b) increased willingness of customers to manage their overdraft use with a view to reducing charges; and
- (c) behavioural change: for example, changes to overdraft usage and charges incurred by customers (such as charges avoided as a result of the alerts).

5.35 We set out below measures for the FCA to consider as part of this remedy, reflecting on the responses we received to our [Supplemental Remedies Notice](#).

- *Overdraft alerts*

5.36 For the reasons set out above in paragraphs 5.13 to 5.18, we consider that there is a case for the FCA to pursue overdraft alerts as a way to increase the engagement of customers with their overdraft usage. This includes the FCA considering the type, medium and content of the alerts, what set of alerts customers should be automatically enrolled into by PCA providers, and which PCA providers are to be subject to its measures.

5.37 In response to our [Supplemental Remedies Notice](#), there was broad support for our proposal to use overdraft alerts to increase the engagement of customers with their overdraft usage. This included support for automatically enrolling customers into a core set of overdraft alerts, although some responses raised the issue that if customers received too many alerts it could reduce engagement. In relation to the possibility of including charge information in the alerts, others noted alternative obligations addressing such information. These are areas the FCA could explore as part of its research and testing.

- *Available funds*

5.38 In our [provisional findings](#) we noted that qualitative consumer research commissioned by the FCA found that there was a widespread perception that, as long as customers remained within the agreed limit, then the overdraft was free, with little or no understanding of interest being charged on any balance.⁴²² This research also found that overdrafts were rarely seen as debt

⁴²² FCA (7 April 2014), [Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts](#), p20.

among consumers and found that this was driven in part by the way providers often included the overdraft in 'available funds'.⁴²³

- 5.39 Responses to our [Supplemental Remedies Notice](#) generally noted that it could be useful to clarify further whether an overdraft is included in available funds.
- 5.40 We consider that it would be useful for the FCA to assess how to articulate the available funds to customers, in particular whether this is inclusive or exclusive of an arranged overdraft. This is due to the risk that the effectiveness of overdraft alerts could be undermined if customers do not have sufficient clarity about what funds are available to use without incurring charges and due to the scope for the articulation of available funds to influence customer behaviour.

Automatically enrolling customers in an unarranged overdraft alert

- 5.41 While we have provisionally decided to recommend to the FCA to identify, research, test and, as appropriate, implement measures to increase overdraft customers' engagement, we have also provisionally decided to require all PCA providers in the UK (subject to a possible de minimis threshold) to automatically enrol their customers into an unarranged overdraft alert. This would inform customers when they have incurred or are at significant risk of incurring charges that day as a result of exceeding or attempting to exceed⁴²⁴ an arranged borrowing limit.
- 5.42 As noted in paragraph 5.14(c), there is evidence that overdraft alerts are effective at helping customers engage with their overdraft usage. An unarranged overdraft alert can specifically increase awareness of and engagement with unarranged overdraft usage. This is particularly important given that unarranged borrowing is outside a borrowing limit agreed in advance between PCA providers and their customers, and is a product typically intended only for short-term, emergency borrowing.⁴²⁵ This gives a strong case for ensuring that customers are quickly notified when this borrowing limit has been or is likely to be exceeded.
- 5.43 This case is strengthened further given that unarranged overdraft charges are higher than arranged overdraft charges and our finding that 63% of

⁴²³ *ibid*, p11.

⁴²⁴ This would include the risk of unpaid item fees in cases where a PCA provider prevents the customer from exceeding an arranged borrowing limit.

⁴²⁵ All these features apply to Barclays' emergency borrowing facility, which is outside an initial borrowing limit. See footnote 399.

unarranged overdraft users did not realise or remember that they had gone into unarranged overdraft.⁴²⁶ The low awareness of unarranged overdraft usage may mean that some customers are incurring costs inadvertently. Unarranged overdrafts being used for a smaller number of consecutive months than arranged overdrafts could also suggest that unarranged overdraft usage is inadvertent or unplanned (as set out in paragraphs 49 to 52 in Appendix 1).

- 5.44 Given the customer benefits (set out in Appendix 1) and the evidence that overdraft alerts can engage customers, we consider it important that an unarranged overdraft alert is implemented in a timely manner. Therefore we are proposing that PCA providers be subject to an initial minimum obligation to provide an unarranged overdraft alert while the FCA undertakes further work to design and implement a full set of overdraft engagement measures.
- 5.45 Further alerts (for example, balance or arranged overdraft alerts) could lead to increased engagement. However, we do not include these in our proposed minimum obligation as it is important to assess further what the overall impact of adding them would be. For example, it is conceivable that multiple types of alert might have the effect of reducing overall engagement as, rather than increasing it, customers might become less responsive to the alerts if there are too many. This can be explored as part of the FCA's research.
- 5.46 Below we set out the specific design considerations for this initial measure, including:
- (a) the content of the alert;
 - (b) the medium of the alert;
 - (c) when the alert should be triggered and sent; and
 - (d) how automatic enrolment in the alert would work.
- *Content of the alert*
- 5.47 We are not proposing to take a prescriptive approach to the content of the alert. This is to permit PCA providers to tailor the alerts to their specific PCA offer. Moreover, this approach provides the FCA flexibility to test different content of alerts, to assess what content is more effective and subsequently take a more prescriptive approach, if this is shown to be appropriate.

⁴²⁶ See provisional findings, [Appendix 7.4](#), Annex C, Figure 2.

- 5.48 While our Order would therefore not stipulate the precise wording of the default alert, it would set out the following principles regarding the minimum information that an alert must communicate:
- (a) the customer has exceeded or is at risk that day of exceeding an arranged limit and/or using an unarranged overdraft facility;⁴²⁷ and
 - (b) the customer has a grace period (if applicable) during which the customer has an opportunity to take action to avoid charges.^{428,429}
- *Medium of the alert*
- 5.49 We have provisionally decided to specify two media that could be used in the alert that we are proposing banks be required to provide to customers: text messages and mobile application push notifications.
- 5.50 In our [Supplemental Remedies Notice](#), we proposed taking a technology-neutral approach to the medium of alerts. However, some PCA providers suggested that some media may be more appropriate than others.
- 5.51 Barclays provided customer research that found that text messages were the most appropriate channel for sharing urgent and personalised account information or when prompt action was required. This research also found that mobile application push notifications were perceived as less likely to be urgent than texts but that mobile banking users almost universally switched to push alerts if these could be actioned easily by swiping through to log into mobile banking. It found email to be the least effective of the channels and for most customers it was checked less frequently (daily rather than hourly).
- 5.52 Different media have different reach across the UK: 93% of adults in the UK personally own/use a mobile phone whereas 66% of UK adults own/use a smartphone.⁴³⁰
- 5.53 Given the differences in reach of different media across the UK and the potential impact the medium could have on customers' response to the alerts, we are proposing to take a more prescriptive approach than the one we suggested in our [Supplemental Remedies Notice](#).

⁴²⁷ Based on the term proposed by the FCA for standardising terms under PAD or the equivalent final term that is implemented under PAD.

⁴²⁸ Including specific charges would be compatible with this measure but would not be a specific requirement.

⁴²⁹ The minimum requirements for this grace period are summarised in Figure 5.2 under our grace period remedy.

⁴³⁰ Ofcom [CMR facts & figures 2015](#).

- 5.54 We have included text messages as a medium to ensure that as many customers as possible can receive the alerts specified. We have also included mobile application push notifications as an alternative default medium to text alerts, but only where the customer is using a mobile banking application. Doing so can allow customers to benefit from the increased functionality of push notifications (eg swiping through to mobile banking) and potential future developments in this area. Our proposed recommendation to the FCA will mitigate the risk that our initial required approach will become outdated.
- 5.55 We have excluded email from being a required medium for providing the unarranged overdraft alert. This is because there is less scope for customers to receive these in time for them to take action, with a lower proportion of customers having smartphones and with some checking their email less frequently than other media. Emails may also be seen as less urgent. However, our formulation of the remedy would not prevent PCA providers from allowing customers to switch to email notifications if this was the customer's preferred channel of communication. Further, if customers had already signed up and indicated a preference for an unarranged overdraft alert by email that otherwise met the minimum content and trigger requirements specified, PCA providers would not be required to enrol them automatically into another alert as well.
- 5.56 This measure has scope to benefit directly most customers, ie those with a mobile phone. The small number of customers without a mobile phone may also benefit indirectly if increased engagement of other customers with their overdraft puts greater pressure on overdraft charges for all customers.
- *When the alert should be triggered and sent*
- 5.57 The most effective alerts are those that are received with sufficient time for the recipient to take action, if they wish to do so. The subsection on grace periods (specifically paragraphs 5.96 to 5.129) sets out our approach to the communication of the cut-off time by which customers are asked to act to avoid unarranged overdraft charges. Our proposed approach is to give PCA providers flexibility as to the precise timing of the alert, subject to giving customers a reasonable opportunity to add funds.
- 5.58 An alert should be triggered at or shortly before the commencement of each episode of unarranged overdraft use⁴³¹ or attempted unarranged overdraft use. However, so long as at least one alert is sent, we do not propose to

⁴³¹ This is defined as the period from the time a customer starts using an unarranged overdraft to the time they return within their arranged overdraft limit or into credit if they do not have an arranged overdraft limit.

mandate further alerts being sent, for example where an episode lasts for multiple days.

- 5.59 The alert should be triggered when the PCA provider has information from which it:
- (a) would know that a customer had, at a specific point in time, exceeded an arranged borrowing limit; or
 - (b) is reasonably able to determine that such limits are at significant risk of being exceeded during the day, taking into account information it knows or receives on transactions to be settled for that day (eg scheduled payments such as direct debits).
- 5.60 The two scenarios above should cover all types of transactions, including scheduled transactions (direct debits, standing orders and future dated payments), offline authorised debit card transactions, and all other transactions occurring during the day (including online authorised debit card transactions, CPAs, cheques, ATM withdrawals and other customer-initiated payments).
- 5.61 There are many variants of these alerts that could qualify as satisfying (some of) these requirements. For example, retry alerts, alerts when entering a buffer zone, and alerts when exceeding an arranged limit.
- 5.62 As regards the timing and frequency of when the alerts are sent (ie how soon after the PCA provider has the necessary information it should initiate an alert within its IT systems), we recognise there are various practical and cost considerations to take into account, including whether the provider's IT systems are configured to communicate with customers on a real-time basis or only as part of batch processes that run periodically.
- 5.63 Bearing in mind differences in providers' processes, and considering the initial nature of this measure, we are minded not to be unduly prescriptive in immediately mandating the timing and frequency of such alerts – noting that these parameters could be further explored by the FCA as part of its wider programme of work on overdraft alerts. Instead, we have provisionally decided to require that any unarranged overdraft alerts for the purposes of this remedy be set up to achieve, as a minimum, the following outcomes after an alert has been triggered (as set out in paragraph 5.59):
- (a) For scheduled payments (direct debits, standing orders and future dated payments), that an alert should be sent as early in the morning of the day of scheduled payment as reasonably possible. This is intended to fit with the current retry scheme voluntarily adopted by a number of providers.

(b) For all other payments, that an alert should be sent as soon as reasonably possible, but no later than the day after the alert has been triggered (or some shorter time period to be specified following this consultation). An alternative approach we are considering for these other payments would be to require an arrangement whereby a provider does not charge for the use of an unarranged overdraft facility in any day where it has not sent at least one unarranged overdraft alert.

5.64 We welcome views on our approaches as set out above.

- *How automatic enrolment in the alert would work*

5.65 PCA providers would be required to automatically enrol existing and new customers into our proposed alert. The only exception would be existing customers that had already opted out of an alert that met the minimum requirements of our proposed alert. In line with our provisional decision regarding the medium of the alert, customers should be automatically enrolled either for text alerts or (where the customer is known to have installed and be using a mobile banking app) mobile banking push alerts.

5.66 For new customers, the default position as part of the account application and opening process would be to receive our proposed alert, although customers could opt out of the alert during this process. More generally, this remedy would allow customers to opt out of the alerts at any time.

5.67 To support the automatic enrolment of alerts, PCA providers will need to ensure that they have their customers' mobile phone numbers. We would generally expect PCA providers to have customers' mobile phone numbers, for example, in order to report fraudulent activity.

5.68 Nonetheless, we propose to place some requirements on PCA providers to collect mobile phone numbers. This is to reduce the risk that the remedy will be less effective as a result of fewer customers receiving the alerts. Specifically, we propose that PCA providers are required to collect an account holder's mobile phone number during the account application process and in instances when an account holder updates their contact details. The only exception to this would be when account holders expressly inform the PCA provider that they do not have a mobile phone.

Variants to our remedies proposed by parties

5.69 LBG proposed variants to our overdraft engagement measures:

- (a) That we require PCA providers to enrol automatically their customers into their existing alerts and then use behavioural research to guide what further measures to introduce.
- (b) That ATM alerts for customers without mobiles or email and the presentation of balances on ATMs should be considered as other measures to engage overdraft users.

- 5.70 Regarding LBG's proposal to enrol automatically customers into PCA providers' existing alerts, we consider that the preferred option is to require all PCA providers initially to enrol automatically customers into an unarranged overdraft alert and then for the FCA to research what measures to introduce. This shares the benefits of LBG's proposal but also ensures that there are benefits from at least one overdraft alert as soon as possible.
- 5.71 As for alerts and account balances on ATMs, these are proposals that would be best considered by the FCA.

Implementation issues

- 5.72 We consider in this subsection how to support our recommendation to the FCA, specifically the approach to involving PCA providers in the FCA's testing and how to implement our initial measure. We also discuss the relevant laws and regulations, and set out our intended approach to monitoring and enforcement.

Approach to involving PCA providers in the FCA's testing

- 5.73 We have provisionally decided to follow the same approach to facilitating RCTs as the prompts remedy in Section 3. This would involve an Order requiring PCA providers in the UK to cooperate with the FCA in RCTs to support its work on the overdraft engagement measures.
- 5.74 We consider that this is the most appropriate method of implementation for the same reasons as set out in the prompts remedy in Section 3.

Unarranged overdraft alert

- 5.75 With regards to our unarranged overdraft alert, we consider that an Order is the most appropriate method of implementation. A recommendation to providers, or requesting undertakings from them, could result in the risk that PCA providers do not fully implement the remedy and reduce its effectiveness. In addition, given that the remedy is intended to apply to multiple PCA providers it is less practicable to seek undertakings.

5.76 We intend to make the Order during the six months following the publication of our final report and would intend to review the Order when the FCA is at the stage of implementing its broader set of overdraft engagement measures. We are considering giving PCA providers a further six months to comply with this Order. Given that many PCA providers offer some form of alert already, albeit in most cases not on an automatically enrolled basis, we consider it feasible for compliance to be achieved within this time frame and welcome further views on this.

Laws and regulations

5.77 The following laws and regulations are particularly relevant to the design and implementation of the remedy:

(a) data protection legislation; and

(b) the Consumer Credit Directive (CCD) alongside the Payment Services Directive (PSD).⁴³²

- *Data protection legislation*

5.78 A number of parties have raised the possibility that alerts might constitute direct marketing, and therefore, the remedy would need to comply with the regulation of direct marketing provided for in the [Data Protection Act 1998 \(DPA\)](#)⁴³³ and [Privacy and Electronic Communications \(EC Directive\) Regulations 2003 \(PECR\)](#). In particular, Regulation 22(2) of PECR prohibits the sending of direct marketing by electronic mail, which includes text messages, unless the recipient has provided opt-in consent or the requirements of Regulation 22(3) are met.⁴³⁴ A requirement to provide opt-in consent would conflict with our provisional decision to require banks to automatically enrol customers into alerts.

5.79 The alerts we have provisionally decided to require do not, however, fall into the definition of direct marketing. Alerting customers that they are at a significant risk of incurring an overdraft charge is not the communication of

⁴³² As set out in the prompts remedy in Section 3, PSD will be replaced by PSD2 once it has been implemented, the deadline for which is January 2018. None of the legal analysis turns on whether PSD or PSD2 applies and so for convenience references are only made to PSD.

⁴³³ Section 11 of the [DPA](#) defines direct marketing as 'the communication (by whatever means) of any advertising or marketing material which is directed to particular individuals'. The ICO has also published [guidance on direct marketing](#) in which it sets out its application to not-for-profit organisations, which explains that the definition of direct marketing extends beyond commercial marketing and includes 'the promotion of an organisation's aims and ideals'.

⁴³⁴ This allows for opt-out consent at the time of providing the details and at each subsequent communication if contact details are obtained in the course of the sale or negotiations for the sale of a product or service and the direct marketing is in respect of the provider's similar products and services.

advertising or marketing material. PCA providers would not be able to include a marketing message within the alert.

5.80 The FCA will need to consider the implications of the [DPA](#) and [PECR](#) when implementing our proposed recommendation. Such considerations will depend on the detail of any mandated alert. As with our prompts remedy (see Section 3), we envisage that the FCA will work with the ICO and the CMA in resolving such issues. PCA providers will also need to consider when introducing alerts how to ensure that they comply with data protection legislation. This may involve amendments to their terms and conditions in relation to data protection and avoiding use of personal identifiers in text alerts. We do not consider that these considerations will act as a significant obstacle to the effective implementation of this remedy.

- *CCD and PSD*

5.81 The CCD is a European directive that harmonises certain aspects of the provision of consumer credit in the European Union. Where the CCD contains harmonised provisions member states are prohibited from maintaining or introducing provisions diverging from those laid down in the directive. However, where no harmonised provisions exist member states are free to maintain or introduce national legislation.⁴³⁵

5.82 Article 18 of the CCD is the material provision applying to ‘overrunning’ which we consider to include unarranged overdrafts.⁴³⁶ This specifies information that needs to be provided at the time of account opening (Article 18(1)) and information to be provided following a significant overrunning exceeding a period of one month (Article 18(2)). Such information includes the amount of borrowing, the borrowing rate and any penalties, charges or interest.⁴³⁷

5.83 We do not think the alerts we have provisionally decided to require fall within the scope of CCD. It is materially different in nature to the informational requirements of Article 18 or any other provision of CCD.

5.84 The application of PSD is discussed in relation to the prompts remedy in Section 3. We do not consider the alerts we have provisionally decided to require come within the scope of PSD. Specifically Article 47 of PSD concerns the information to be provided after the execution of individual payment

⁴³⁵ This is set out in Article 22(1) and recital 9 of CCD.

⁴³⁶ Our analysis is not materially affected where banks’ provision of unarranged overdrafts falls outside the definition of ‘overrunning’ and fall to be an overdraft facility regulated principally by Article 12 of CCD. See Articles 2 and 3 of CCD.

⁴³⁷ This provision has been implemented into UK law through FCA rules set out in CONC 4.7.

transactions. This is not so broad as to capture a requirement for an alert which does not provide information as to the nature of the individual payment transaction but rather the impending or actual use of an unarranged overdraft.

- 5.85 Danske⁴³⁸ raised concerns about whether an alert would be a ‘payment instrument’ for the purposes of PSD. A PCA provider is prohibited from sending an unsolicited payment instrument under Article 57 of PSD. We believe that the alerts proposed in this remedy are not ‘payment instruments’ as defined in Article 4(23) PSD as they are not ‘used by the payment service user in order to initiate a payment order’.
- 5.86 The FCA will need to take into account the scope of CCD and PSD when carrying out the programme of work we have provisionally decided to recommend. This is particularly the case when considering use of its rule-making powers to mandate additional information, such as previous overdraft usage and actual charges, to be included in alerts. The FCA may therefore need to adopt a variety of approaches to implementation including seeking voluntary agreement from PCA providers.

Monitoring and enforcement

- 5.87 We intend to monitor compliance with our Order under this remedy. For any broader measures subsequently introduced by the FCA, it is best placed to monitor compliance.
- 5.88 We consider that compliance reporting will be the most cost-effective method of ensuring enforcement with our Order with PCA providers presenting to us annual reports confirming that they are automatically enrolling customers into and delivering the type of alert specified. This would include a description of what triggered the alerts, their medium and content. It would also include the number and percentage of new and existing accounts registered for the alert, the number of PCA accounts that had opted out of the alert, and the number and timings of successful and failed deliveries of these alerts.

Cost of remedies

- 5.89 The costs of the remedy will be related to:
- (a) the FCA developing the overdraft engagement measures including participation by PCA providers in RCTs;

⁴³⁸ [Danske response to Supplemental Remedies Notice](#), p4.

- (b) the FCA implementing the overdraft engagement measures;
- (c) implementation of our initial measure; and
- (d) monitoring and enforcement of the initial measure and the FCA's overdraft engagement measures.

5.90 We consider these potential costs to be small relative to the potential benefits to customers. The costs relating to the FCA developing and implementing its measures will depend on the scope of the FCA's work and some of these costs will be shared with the prompts remedy in Section 3. The FCA will assess these costs against the benefits that its measures, as part of our overall package of remedies, will be expected to deliver.

5.91 Regarding our initial unarranged overdraft alert measure, we expect the incremental costs for PCA providers to be low. Most PCA providers already offer some form of alert so there would typically only be incremental costs involved in changing their alerts to comply with our Order and automatically enrolling their customers into our proposed unarranged overdraft alert. Moreover, PCA providers periodically update their customer communications, including alerts, so many of the costs could be incorporated into any such periodic updates.

5.92 Specific costs of automatic enrolment would include IT changes, changing customers' terms and conditions if required, collecting relevant customer contact details (for example, where they are missing) and the bulk upload of these contact details. There would also be costs associated with sending more alerts as a result of the increase in the number of customers registered for them.

5.93 Only RBSG provided an estimate of the potential costs of it developing a full suite of overdraft alerts including automatically enrolling all its customers into a set of these alerts. [X]

5.94 HSBCG estimated that the cost of auto-enrolling customers into unarranged overdraft alerts was between £[X] and £[X].

5.95 Given that the associated costs are likely to be low overall, and the customer benefits significant, we consider that our proposed measures do not produce disadvantages which are disproportionate to their aim.

Supplemental measures to help customers engage with and manage their overdraft usage

Summary of the measures we are proposing to take forward

5.96 In this subsection we set out our proposal to require grace periods during which customers can take action to avoid or mitigate the charges resulting from unarranged overdraft use.

5.97 This remedy (summarised in Figure 5.2 below) is supplemental to the alerts set out in the previous subsection. It seeks to engage customers more actively with their unarranged overdraft use by empowering them (where funds allow) to manage their account use.

Figure 5.2: Summary of the grace period remedy

We have provisionally decided to make an Order requiring all PCA providers (subject to a possible de minimis threshold) in the UK that offer unarranged overdraft facilities or additional lending over an arranged limit, to implement a grace period during which their PCA customers, by adding sufficient funds to their account, can reduce or avoid charges relating to the use of an unarranged overdraft:

- (a) Such charges would include paid item, debit interest, daily, monthly and/or any other charges relating to the use of an unarranged overdraft.⁴³⁹
- (b) The grace period must operate as a minimum on a daily basis and, if on a daily basis, must end (ie the actual cut-off time for calculating unarranged overdraft charges must be) no earlier than 17:00 each day.
- (c) In addition, PCA providers must communicate to customers as part of the unarranged overdraft alerts initial measure (in Figure 5.1) a grace period cut off-time that allows customers some reasonable opportunity to take action (such as adding funds to their account) to reduce or avoid unarranged overdraft charges, and in any event no earlier than a specific time on the day of the alert (14:00 or later).

⁴³⁹ For the avoidance of doubt, this does not include charges incurred when a provider declines to offer an unarranged overdraft (such as unpaid item fees, which can separately be avoided via existing retry periods).

How this remedy addresses the AECs and/or the resulting customer detriment

5.98 As with the overdraft engagement measures in the previous subsection, the grace period remedy addresses the AECs by increasing engagement with overdraft usage and charges, as well as addressing directly the detriment resulting from these AECs (see paragraphs 5.13 to 5.14 and 5.42 to 5.43 for further details). The grace period remedy specifically increases effectiveness of the unarranged overdraft alert we proposed in Figure 5.1 by giving customers more opportunities to engage with and manage their overdraft usage. It does this by alerting them that they have the opportunity to take action to avoid or reduce unarranged overdraft charges during this grace period. In turn, this can reduce the detriment associated with the payment of high unarranged overdraft charges.

Background to development of this remedy

5.99 In developing our remedy proposals, we have sought to build on existing industry initiatives relating to suspension periods, in particular the voluntary retry scheme initially established by the FCA in 2013 and, further to the November 2011 BIS/HMT review of consumer credit and personal insolvency, the voluntary agreement by the major UK PCA providers (including Barclays, HSBC, LBG, RBS and Santander) to make grace periods available by March 2013.⁴⁴⁰

5.100 A 'suspension period' describes a short period of time during which charging and/or pay/no-pay decisions⁴⁴¹ are suspended. This enables the customer, once made aware of a risk of unarranged overdraft use, to take action (during this period) to avoid or mitigate the resulting charges or possible adverse consequences such as declined payments. At the end of the suspension period, customers will become liable for any charges associated with their overdraft balance, or arising from any pay/no pay decisions that remain necessary, at that time.

5.101 Suspension periods can take various forms, but for convenience in the remainder of this subsection we propose to define two possible types of suspension periods as follows:⁴⁴²

⁴⁴⁰ BIS/HMT Consumer Credit and Personal Insolvency Review: Formal Response on Consumer Credit, paragraphs 6 & 7.

⁴⁴¹ This is when a PCA provider makes a decision on whether or not to process a transaction.

⁴⁴² These terms are used somewhat interchangeably by industry, so that what some PCA providers refer to as a grace period may be a retry period according to our definitions. Furthermore, a grace period and retry period overlap where a transaction that is retried would be paid despite insufficient funds.

- (a) 'Retry periods', which we define as periods during which customers may take action to avoid regular payments being declined and incurring unpaid item charges in this event.
- (b) 'Grace periods', which for the purposes of this discussion will refer to periods during which customers may take action to avoid paid item charges and daily, monthly and/or interest charges.

5.102 At present, PCA providers⁴⁴³ covering almost all of the PCA market are signed up to an industry agreement with Payments UK (formerly the Payments Council) and the FCA to a 'retry' system⁴⁴⁴ for direct debits, standing orders and future bill payments (ie regular payments) where, if a customer does not have sufficient funds for the payment, the payment will be held in the system and retried later in the day before being declined.⁴⁴⁵ Many, but not all, providers currently also include cheques in their retry period.

5.103 Customers may be alerted to this situation⁴⁴⁶ and given the opportunity to transfer funds into their account to avoid the payment being declined (see Table 5.1 above). This system therefore reduces the risk of unpaid item fees. It also reduces unarranged overdraft charges insofar as additional funds are paid into the account by the customer during the retry period.

5.104 The industry agreement sets a minimum 14:00 deadline for the receipt of funds and the payment will be retried after this deadline. This 14:00 deadline allows for PCA providers and other third parties to manage effectively their own internal clearing and settlement processes enabling timely payments to third parties so that customers are protected from defaulting on third party agreements. PCA providers can also compete by providing a later cut-off time (which some providers do).

5.105 PCA providers also operate 'grace periods' (as defined in paragraph 5.101) for transactions that are paid despite insufficient funds. The extent to which customers are alerted to the opportunity to use the grace period also varies by provider and customers' stated communication preferences (see Table 5.1 above). A customer's ability to take advantage of any available grace period, while influenced by the communications received, will also depend on the

⁴⁴³ AIB, Barclays, BoI, Co-op Bank, Coventry Building Society, Clydesdale (Yorkshire Bank), Cumberland Building Society, Danske, Handelsbanken, HSBCG (including HSBC, First Direct and M&S Bank), LBG (including Lloyds, Halifax, TSB, Bank of Scotland), Nationwide, RBSG (including RBS, NatWest, Ulster, Coutts, Adam and Company and Isle of Man Bank), Santander, Tesco Bank and Virgin Money.

⁴⁴⁴ FCA press release (7 June 2013): '[FCA secures commitment from high street banks to use a 'retry system' when processing payments to stop unnecessary penalty charges](#)'.

⁴⁴⁵ If a decision was made to send the payment, despite there being insufficient funds, and charge a paid item fee, the customer may also have until the cut-off time to pay in sufficient funds to avoid the paid item fee.

⁴⁴⁶ To varying extents depending on the communications policies of the PCA provider and customers' stated communications preferences.

channels they can access to deposit funds during the grace period. For example, a customer who does not use online or mobile banking will only be able to benefit from a grace period up to the end of branch opening hours even if the actual grace period extends beyond this time.

- *Focus of this remedy*

5.106 In our [Supplemental Remedies Notice](#) we proposed a measure, focused on grace periods, which would require providers to:

(a) offer customers an opportunity to avoid charges for using an unarranged overdraft; and

(b) alert customers to this opportunity.

5.107 Responses to our [Supplemental Remedies Notice](#) were generally supportive of proceeding with this remedy, considering that it was likely to have a positive impact for customers.

5.108 We consulted on whether the focus on grace periods was appropriate, noting that the retry system currently has a good level of participation and covers nearly all payments that PCA providers have the discretion to retry. The majority of respondents agreed that the focus should be on grace periods, although Barclays suggested that it would be beneficial to extend the retry period across the industry.⁴⁴⁷

5.109 After further consideration, we have provisionally decided to proceed with a remedy focusing solely on grace periods, as detailed further in this subsection. The FCA, having set up the retry scheme, is best placed to continue to monitor and work with providers as regards that scheme, any future developments to it and how it interacts with grace periods. Providers can continue to compete on buffer zones, waivers and other charging structures.

5.110 The provision of a grace period (which relates only to how charges are applied) is not dependent on the provision of a retry period (which relates to the timing of the pay/no pay decision and hence affects charges to the extent that charges flow from this decision). It is therefore valid to require a grace period independent of any voluntary participation in a retry system. We do, however, recognise that there are overlaps between the grace and retry period which means that decisions affecting a grace period might affect a retry period (for example, multiple similar messages might be sent out under these

⁴⁴⁷ [Barclays response to Supplemental Remedies Notice](#), paragraph 5.2.

schemes and customers may find messages regarding the retry and the grace period to be confusing, especially if different cut-off times are adopted for these purposes). We also consider that the grace period would work best alongside a retry period and would not wish to see any change to the voluntary participation in the retry scheme.

5.111 In designing the communication of grace periods, we have sought to allow sufficient flexibility to enable providers to manage customer communication so that the schemes can co-exist effectively. Furthermore, the FCA, in undertaking research on overdraft alerts as recommended in Figure 5.1, can consider whether changes in the content of the alert referring to grace and/or retry periods would be necessary to maximise the effectiveness of this grace period remedy.

Remedy design considerations

5.112 The main remedy design considerations for a grace period relate to:

- (a) the time until which charges are suspended (the ‘actual cut-off time’,⁴⁴⁸ as set up in the providers’ systems);
- (b) customer communication, including the deadline for action (the time by when providers encourage customers to take action to avoid charges, or the ‘customer cut-off time’); and
- (c) the types of transactions and charges covered.

‘Actual’ cut off times

5.113 In our [Supplemental Remedies Notice](#) we consulted on the length of time of the grace period providers would be required to offer, ie the ‘actual cut-off time’ until which charges are suspended.

5.114 Regarding grace periods relative to when an unarranged overdraft is used (‘floating’ grace periods), or set at a fixed cut-off time beyond one calendar day (‘inter-day’ grace periods), parties noted concerns regarding feasibility and costs, and the risk of confusing customers. Additional concerns were raised that longer grace periods could incentivise less desirable customer behaviour. For example, some respondents submitted that:

⁴⁴⁸ The discussion of the appropriateness and calibration of a cut-off time in this subsection is for the purpose of developing this grace period remedy. It is not intended to describe the length of a ‘business day’ for the purposes of the Payment Services Regulations. Providers would also of course need to comply with their obligations under the Payment Services Regulations, including Regulation 73 (Value date and availability of funds) and consider the overall effect of the two.

- (a) customers may feel less urgency to act on grace period alerts, which could result in fewer taking the opportunity to do so; and
- (b) customers may also become increasingly willing to use (or to take greater risks of using) unarranged overdrafts due to perceptions that they are 'free' short-term loans or that their use has little financial consequence.

5.115 Providers who commented on the possible time frame of a grace period were, however, broadly accepting of a possible requirement for a fixed cut-off time within one calendar day ('intra-day' grace periods). Responses to information requests showed that:

- (a) Providers already effectively operate intra-day grace periods. Their systems typically do not calculate the daily and interest charges for an account until certain end-of-day processes are run. If an overdrawn position is corrected within a day it will not therefore be charged for. Any charges that could arise due to an overdrawn position arising between the end-of-day and midnight (if the provider's end-of-day is earlier than midnight) are carried over to the next day's grace period.
- (b) Some providers notify this to their customers, for example by way of alerts informing them that they should correct their overdrawn positions by a certain time to avoid charges. Others do not send such alerts to their customers (see Table 5.1 above).

5.116 We have therefore provisionally decided that PCA providers should be required to offer customers intra-day grace periods and notify them of this in the unarranged overdraft alert we proposed in Figure 5.1.

5.117 The opportunity for customers to act on these alerts will be more limited for real-time transactions and cheques depending on when during the day they are processed. However, this could not be addressed except by requiring floating grace periods, which we do not consider proportionate due to their complexity and cost. We consider that an intra-day grace period will still be effective even if, for some proportion of transactions, customers may only have a short time period in which to act to avoid the initial charges. Providing such an opportunity to act will help to address the AECs by promoting customers' awareness of and engagement with their overdraft use and addressing a part of the detriment arising.

5.118 A key design decision concerns the minimum intra-day cut-off time to be required for the calculation of unarranged overdraft charges. As illustrated in Table 5.2, current cut-off timings vary considerably across providers, ranging from 17:00 onwards.

Table 5.2: PCA providers' grace period cut-off times

<i>PCA provider</i>	<i>Indicative actual cut-off times</i>	<i>Customer cut-off times communicated in alerts</i>
AIB	[X]	N/A
Barclays	[X]	18:30
Bol	[X]	N/A
BoS	[X]	15:30
Clydesdale	[X]	N/A
Co-op Bank	[X]	N/A
Danske*	[X]	N/A
Halifax	[X]	'As soon as possible'
HSBC	[X]	23:45
Lloyds	[X]	15:30
Nationwide	[X]	14:30
RBSG	[X]	15:30
Santander	[X]	16:00
Tesco Bank	[X]	17:00
TSB	[X]	15:30

Source: PCA providers.

* Due to operational reasons, this estimate is given on a best endeavours basis.

Notes:

1. Information for Barclays relates to charges for Emergency Borrowing usage.
2. Where multiple actual cut-off times may apply, we have used the earliest actual cut-off time.
3. N/A means that the provider does not offer alerts or does not communicate a time by which customers should take action in alerts.

5.119 Providers indicated that implementing changes to their end-of-day timings could be disproportionately costly and complex. We recognise the potential for such changes to be disruptive and our provisional decision regarding the mandatory actual cut-off time for this remedy has aimed to minimise any requirement on providers to change their existing system cut-off times.

5.120 Based on the data we have collected from providers, 17:00 appears to be an actual cut-off time that PCA providers could readily comply with. Hence, for this grace period remedy, we have provisionally decided to require an actual cut-off time of no earlier than 17:00.

5.121 While PCA providers already comply with this grace period cut-off time (as far as we are aware), we consider it important to mandate this. This is to mitigate the risk that PCA providers reduce their current grace period cut-off times in response to increased customer awareness of when they can take advantage of the grace period as a result of our proposed enhanced overdraft alert measures.

Communications, including communicated 'customer' cut-off times

- 5.122 Communicating a time by when a customer should act to benefit from a grace period is part of the unarranged overdraft alert 'call to action'. We refer to this as the 'customer cut-off time', as opposed to the provider's internal systems cut-off time or 'actual cut-off time'. This call to action embodied by the grace period offer is important – it can be expected to significantly strengthen the impact of the overdraft alert, as it creates a tangible incentive for the customer to engage promptly with the alert.
- 5.123 The customer cut-off time is bounded, in practice, at the earliest by the actual retry cut-off time⁴⁴⁹ (as a customer might already be able to avoid unpaid item fees during the retry process and it may confuse them if a grace period cut-off is set earlier than the retry period cut-off), and at the latest by the actual grace period cut-off time.
- 5.124 Providers can take different approaches in selecting a customer cut-off time.
- (a) Some use the time by which additional funds can be guaranteed to reach a customer's account that day, across the range of platforms through which the customer can sufficiently quickly deposit funds for same-day use, for example in-branch or via Faster Payments. These times will vary by provider depending on their operational processes and IT capabilities.
 - (b) Some select customer cut-off times that are consistent with those they give as part of their retry schemes.
 - (c) Others communicate an earlier cut-off time than the actual system cut-off time. This could be beneficial in driving a higher incidence of avoided fees as it allows contingency in case of processing delays/issues and for attempted 'last-minute' transfers.
 - (d) Some providers may communicate different times for more immediate alerting purposes compared to their terms and conditions.
- 5.125 All of these decisions may be affected by the complexity of the range of alerts offered by a provider as well as the frequency of such alerts.
- 5.126 Given the various considerations above, we have provisionally decided to require PCA providers to set a customer cut-off time:

⁴⁴⁹ Retry period timings are constrained by the need to ensure that counterparties receive funds on a timely basis – ie the policies and IT constraints of third parties receiving payments and payment schemes enabling these payments, which are outside a provider's control, must also be taken into account.

- (a) aimed at allowing customers some reasonable opportunity to add funds to their account to reduce or avoid unarranged overdraft charges; and
- (b) no earlier than a specific time (the minimum retry scheme period of 14:00 or later).

5.127 This approach allows providers flexibility to tailor their communications as they see fit given individual operational considerations, and to continue to differentiate their offerings. It also helps to ensure that PCA providers can send unarranged overdraft alerts that support and fit well with their retry schemes. The FCA, in the longer term pursuant to our provisional recommendation on further research on overdraft alerts, could require improvements to such communications, including more precise limitations on the customer cut-off time, if appropriate.

5.128 We welcome views on this approach, or whether immediately implementing a more prescriptive approach (such as requiring a customer cut-off time of no less than one hour before the provider's actual cut-off time) would be more appropriate either in all or specific circumstances (for example in cases where unarranged overdraft use is expected to be authorised, so that any overlaps with a retry period are minimised).⁴⁵⁰

5.129 Finally, respondents to our [Supplemental Remedies Notice](#) generally supported a review of terminology relating to retry and grace periods. We consider that the FCA would be best suited to undertake this as part of any testing it carries out in relation to overdraft alerts, and in monitoring the retry scheme; however, we do not consider this warrants a formal recommendation to the FCA.

Types of transactions and charges covered

5.130 We have considered the types of transactions to which a grace period would apply and how the grace period should affect the application of charges to an account. For example, we have considered whether arranged and/or unarranged overdraft charges should be affected, and the implications for paid item fees.

5.131 As defined in our [Supplemental Remedies Notice](#), the grace period covered all transaction types and charges associated with the use of an unarranged

⁴⁵⁰ Or in circumstances as outlined in paragraph 5.63(b), where the alternative we are considering could potentially be implemented by way of an inter-day grace period.

overdraft. We did not receive any responses opposed to this. Accordingly, we propose to require that a grace period would cover:

- (a) All transactions not declined by the PCA provider, of any type, that took a PCA into unarranged overdraft. This would include standing orders, direct debit, future dated payments, debit card transactions including CPAs, ATM withdrawals, cheques, and other payments originated through branch, telephone, online or mobile banking.
- (b) All charges relating to the use of an unarranged overdraft or using an arranged overdraft beyond the initial agreed limit. This would include (where applied by a provider) paid item fees, daily or monthly fees, debit interest and/or any other charges relating to the above circumstances.

5.132 Charges relating to a provider declining to offer an unarranged overdraft (ie unpaid item fees) are covered by existing voluntary retry periods and will therefore not be covered by this grace period remedy.⁴⁵¹

5.133 Finally, we note that providers' systems currently operate in such a way as to effectively offer a grace period for arranged as well as unarranged overdraft charges. We do not propose to mandate that the grace period remedy also extends to arranged overdraft charges. While we welcome PCA providers offering a grace period for arranged overdraft charges, there are fewer reasons to mandate this as part of our remedies package.⁴⁵²

Implementation issues

5.134 We considered whether to implement this remedy via an Order, or, as the FCA has successfully done with the retry scheme, to seek voluntary cooperation from providers to set it up.

5.135 We think that this remedy should be applied as widely as reasonable to address the AEC and customer detriment as fully as possible. As such, a

⁴⁵¹ There are, potentially, some additional technical complexities in relation to how this remedy would affect the charges applied. In particular, providers may take different approaches to customers who only partially re-credit their account (ie only reduce, and hence still remain in, unarranged overdraft). For example, providers may differ in terms of the order in which they process the topped-up funds, or stipulate that customers would only benefit from the grace period if the account is fully re-credited by the end of the grace period. This may affect the extent to which charges can be avoided. However, we do not propose to seek to prescribe any of the above. For the remedy to be effective, it is sufficient that customers have a clear and simple opportunity to avoid charges. The most effective outcome would be for customers to be able to avoid charges altogether by bringing the account fully out of unarranged overdraft. The above assumes that such variations are not symptomatic of PCA providers systematically misusing transaction processing policies to treat customers unfairly. We have not seen evidence of this. However, if there were such evidence it would clearly be a matter that falls within the FCA's supervisory remit.

⁴⁵² See, for example, paragraph 5.3.

voluntary approach (or seeking undertakings) would be less practicable and in addition it would not stop PCA providers from withdrawing grace periods.

- 5.136 We are therefore proposing to make an Order requiring all PCA providers in the UK (subject to a possible de minimis threshold) to comply with the measures set out in this subsection.
- 5.137 Typically, PCA providers already effectively operate a grace period but several do not actively inform their customers of this. We are proposing to require a conservative minimum actual cut-off time that most or all providers should be able to meet without necessitating substantial changes to their IT systems. Hence we anticipate that the implementation work necessary for this remedy will be relatively limited, relating to the set-up of alerts that we propose to require for the overdraft alerts remedy. Accordingly, we therefore propose to require the same implementation time frame as the time frame specified in paragraph 5.76 relating to our overdraft alert remedy of six months from the date of the Order.

Laws and regulations

- 5.138 We have set out in paragraphs 5.83 to 5.86 our conclusions on how certain European Directives apply to overdraft prompts. We similarly believe that inclusion of information about grace periods in alerts falls outside the scope of PSD and is therefore compatible with it.
- 5.139 We specifically considered whether Article 46 of PSD might apply in relation to this remedy. This article concerns the provision of advance information at a payer's request for information on the maximum execution time and charges payable by the payer for a specific payment transaction. We believe that notification of the amount of time that an individual has to avoid fees is different from the execution time of a transaction and therefore Article 46 does not apply. Overall the implementation of a grace period is of sufficiently qualitative difference to the matters falling within the terms of PSD as to fall outside its scope.

Monitoring and enforcement

- 5.140 We anticipate monitoring this remedy via annual compliance reports confirming the initial set-up of the grace period and details of the alerts provided for this purpose, as well as the customer cut-off time communicated in these alerts and through other means such as terms and conditions and on providers' websites.

5.141 We would also seek information on the volumes of customers receiving these alerts who take action to avoid unarranged overdraft charges, how quickly they do so and which channels they typically use.

Cost of remedies

5.142 As is the case with the overdraft alert remedy, we have designed this remedy so that the incremental costs of implementing this remedy can be minimised, hence we expect them to be modest.

5.143 PCA providers' systems currently already operate in a way compatible with grace periods and we have set the actual grace period cut-off at a time that should be compatible with most PCA providers' end-of-day processes. Therefore, incremental IT costs should be limited and would be expected to relate primarily to the implementation of alerts when a customer can benefit from a grace period.

5.144 The other main type of cost we foresee relates to the development of general communication material about the grace period, and corresponding staff training, as necessary. While not to be disregarded, this seems likely to be low and can be incorporated with careful planning into PCA providers' ongoing updates of materials and training programmes.

5.145 A range of views were expressed relevant to costs. HSBCG, for example, said 'we consider that same day grace periods are relatively straightforward and inexpensive to implement, and can be put in place in a matter of months'.⁴⁵³ While none of the smaller banks, with the exception of Virgin Money,⁴⁵⁴ made proportionality arguments specifically against this remedy proposal, a number commented in general on the fixed cost of remedy implementation weighing more heavily on smaller banks.

5.146 Some responses suggested this remedy could be substituted by or was unnecessary given the rapid innovation occurring in payment services and the increasing control customers have over their account use. While such future innovations (which the PSR has an important role in fostering) may help and are welcome, their development is currently unclear. The promotion of grace periods and related calls to action has already been shown to be effective and can readily be deployed at relatively low cost. We consider it preferable to secure in a timely manner the expected benefits for overdraft users (and indeed wider benefits of increased engagement) via this remedy. The FCA

⁴⁵³ [HSBCG response to Supplemental Remedies Notice](#), paragraph 21.

⁴⁵⁴ [Virgin Money response to Supplemental Remedies Notice](#) explained its views that the remedy would be technically complex and costly while offering limited benefit.

review of overdraft alerts can include a review of innovations and their impact on these remedies to the extent that is appropriate at the time. Likewise the CMA can note such developments as part of its own monitoring of the remedy.

5.147 Some responses raised the risk of unintended consequences, as this remedy could reduce competitive differentiation in the market. While we have considered this, and the possibility that it could reduce the gains from switching and hence dampen incentives to switch that could in the long run be detrimental to competition, we note that:

- (a) this concern can only be realised if customers are engaging more actively with their accounts by noting their overdraft use and making use of the grace period. In our view, the potential long-run benefits to competition from such greater awareness and engagement are likely to outweigh any such risk of unintended consequences;
- (b) this remedy has the additional benefit of addressing detriment even where customers do not switch;
- (c) providers retain a degree of flexibility in setting their actual and customer cut-off times beyond the minimum required; and
- (d) setting the expected limited incremental cost of the remedy and limited risk of unintended consequences against the demonstrated efficacy of such 'calls to action', it is proportionate to require this remedy.

5.148 We consider that the costs are proportionate to the benefits foreseen from this remedy.

Measures to limit the cumulative effect of unarranged overdraft charges

Summary of the measures we are proposing to take forward

5.149 In this subsection we set out our proposed remedy for the introduction of a monthly maximum charge which will limit the cumulative effect of unarranged overdraft charges, particularly for those customers that are heavier users of unarranged overdrafts.

Figure 5.3: Summary of measures

We have provisionally decided to make an Order to require all PCA providers in the UK⁴⁵⁵ to specify the maximum total charge that a customer could incur in any given month as a result of exceeding or attempting to exceed an arranged borrowing limit. We refer to this as a monthly maximum charge (MMC).⁴⁵⁶

PCA providers will be required to make the presentation of the MMC no less prominent than other overdraft charges.

We have also provisionally decided to recommend to the FCA that it undertakes work to assess the ongoing effectiveness of the MMC and consider whether measures (such as the introduction of rules if appropriate) could be taken to further enhance its effectiveness. Should the FCA introduce relevant rules, we would expect to consider removing our Order requiring all PCA providers in the UK to specify a MMC. In doing so we recognise the need to minimise regulatory duplication.

How this remedy addresses the AECs and/or the resulting customer detriment

5.150 We provisionally found that PCA customers in GB and NI are not sufficiently engaged with their overdraft use and that overdraft charges are complex. Remedying these issues raises a particular challenge for the most frequent users of unarranged overdrafts, who may incur significant charges over time associated with using an unarranged borrowing facility and for whom the level of such charges is likely to be a source of significant customer detriment.

5.151 As noted in our provisional findings, despite having higher potential gains from switching,⁴⁵⁷ heavier overdraft users are generally less likely to switch.⁴⁵⁸ This suggests that heavier overdraft users are relatively disengaged, or that they face high barriers to searching and switching, or both.⁴⁵⁹

5.152 Heavier unarranged overdraft users, whose credit scores may be becoming impaired, face higher search costs due to difficulties in finding PCA providers that are willing to offer them sufficient credit. There remains scope for competition to benefit such customers in cases where they have not reached a level of unsustainable debt. However, such customers may face uncertainty

⁴⁵⁵ We provisionally believe it is not appropriate to apply a de minimis threshold for this remedy.

⁴⁵⁶ The MMC would apply to the use of an unarranged overdraft facility but it would also apply to other cases such as where a PCA provider does not extend an unarranged overdraft facility but charges for refusing a payment due to insufficient funds. The maximum total charge would include interest, monthly charges, daily charges, paid and unpaid item fees and all other fees incurred in exceeding any arranged overdraft.

⁴⁵⁷ [Provisional findings](#), paragraphs 51(c) & 7.35.

⁴⁵⁸ [Provisional findings](#), paragraph 7.124. See also Appendix 1, paragraphs 11–12.

⁴⁵⁹ This is further supported by our analysis in Appendix 1, paragraph 27.

about how much PCA providers will lend to them. They may also have fewer options either for switching PCAs, or switching to other forms of credit. The uncertainty they face and their restricted options may result in higher barriers to searching. This in turn reduces the competitive pressure on unarranged overdraft pricing.

5.153 In this context we note that, in 2014, customers incurred high unarranged overdraft fees on a sizeable number of accounts.⁴⁶⁰ Our analysis of the largest providers' data in GB and NI shows that in at least 1% of accounts,⁴⁶¹ the account holder incurred more than £100 in total monthly unarranged overdraft fees (excluding interest).⁴⁶²

5.154 Under this remedy, each PCA provider would be required to set and publicise an MMC for each of its PCAs at a level of its choosing. This would address the AECs and resulting customer detriment by limiting the charges to heavier unarranged users, including by increasing engagement through greater transparency and by stimulating competition.

5.155 Moreover, our proposed MMC remedy will limit the total charges that PCA providers could levy for the use of an unarranged overdraft facility during a particular month. This will enable customers to have access to a single measure which sets out the cumulative effect of charges, thus increasing awareness and understanding of the cumulative charges. While this information will be most relevant to heavy overdraft users (who are at risk of incurring unarranged overdraft charges), it will be accessible more generally and thereby better engage all customers in considering, rather than possibly overlooking, for example due to behavioural biases, their potential overdraft use and the attendant risks of unarranged overdraft charges.

5.156 Further, by providing a single, comparable MMC figure for a given PCA, intermediaries (such as PCWs and consumer groups) could help customers understand the total charges each month that they are at risk of incurring if they use an unarranged overdraft facility. Customers could use MMCs as a factor when deciding whether to have an unarranged overdraft facility and in making comparisons between providers, either when opening a PCA or having experienced overdraft charges with an existing provider.

⁴⁶⁰ Appendix 1, paragraphs 31 & 32.

⁴⁶¹ This analysis relates to the most popular on-sale PCA products offered by those providers. More detail is included in Appendix 1, paragraph 31.

⁴⁶² We note that initiatives to reduce unarranged fees (such as, for example, the introduction of MMCs that exclude overdraft interest by HSBC, First Direct and Santander) are likely to have reduced the frequency of customers incurring high unarranged fees.

- 5.157 A requirement on PCA providers to specify an MMC therefore has potential to both directly limit unarranged overdraft charges on customers and to put PCA providers under greater competitive and reputational pressure to reduce these charges.
- 5.158 This remedy would complement other transparency measures – for example, those based on enabling customer-specific comparisons using customers’ transaction data. It could also extend the scope for effective comparison of these charges to customers who have not previously incurred high unarranged overdraft fees or who are reluctant to share their transaction data to make price comparisons. In this respect, we expect the introduction of MMCs to reinforce the impact on charges of other measures aimed at encouraging searching and switching, as well as measures to incentivise providers to engage more effectively with their customers through greater prominence of service quality metrics for overdraft users.
- 5.159 Our measures are aimed at addressing adverse effects on competition and resulting customer detriment. However, competition may not help heavy unarranged overdraft users that have reached or are likely to reach a level of unsustainable debt. There therefore remains a role for regulatory intervention to ensure that PCA providers and other credit providers appropriately support customers in such circumstances. In this respect, we welcome the FCA’s and industry’s work to promote responsible lending (as set out in paragraph 5.10). As part of the FCA’s work, there is scope for it to monitor the levels of unarranged borrowing and charges and for it to intervene where it deems appropriate.
- 5.160 For reasons that we explain in paragraphs 5.173 to 5.185, we do not consider it necessary or proportionate to introduce, as a competition measure, a regulated upper limit on the MMCs that PCA providers set (what we referred to as capped MMCs in our [Supplemental Remedies Notice](#)) or any other form of price control.

Remedy design considerations

- 5.161 In this subsection we consider the following:
- (a) Designing the remedy to reduce the scope for potential unintended consequences.
 - (b) Whether the MMC should have an upper limit set by a regulator, and/or whether to introduce other forms of price control on overdraft charges.
 - (c) Giving PCA providers the flexibility to set different MMCs for different types of PCA.

- (d) The period over which the total maximum charge should apply.
- (e) The charges to be included within the MMC.
- (f) The communication and prominence of the MMC.

Designing the remedy to reduce the scope for potential unintended consequences

5.162 In designing the remedy we sought to ensure that in remedying one aspect of the AEC we did not cause additional detriment or distortions, which we refer to as ‘unintended consequences’.

5.163 The risks that we and parties identified primarily relate to the potential to distort the supply of overdraft facilities and the potential to distort customer behaviour.⁴⁶³ Having taken into account the responses to our [Supplemental Remedies Notice](#), and the scale of the detriment we have identified, we think that the risk of unintended consequences of requiring PCA providers to set MMCs is low and unlikely to outweigh the potential benefits.

- *PCA providers’ willingness to lend*

5.164 We considered the potential concerns that an MMC might reduce PCA providers’ willingness to offer unarranged overdraft facilities to customers and/or affect the amount and type of lending offered. We do not consider these to be significant concerns, due to the flexibility that PCA providers will retain over their overdraft offers. PCA providers will be able to offer higher arranged limits and select an MMC to balance the benefits of being able to communicate a more attractive MMC, against the unarranged lending they provide. As explained in paragraphs 5.186 and 5.187, we are also proposing that PCA providers are able to set different MMCs for different types of PCA to reflect different customer preferences. The MMCs can also form part of a PCA provider’s responsible lending policy. Providers could consider whether it is responsible to extend further unarranged lending to customers that reach the MMC limit.

5.165 To explore the risk that an MMC may distort the unarranged lending offered, we asked seven PCA providers⁴⁶⁴ to describe whether their existing caps on

⁴⁶³ For example, RBSG questioned whether mandating the publication of an MMC addressed the AEC and expressed some concerns that overdraft customers may focus too much on MMCs, relative to other potentially more relevant charges, when comparing different account providers. We consider this in our discussion of distorting customer behaviour in paragraphs 5.168 & 5.169.

⁴⁶⁴ The six largest providers of PCAs in GB (LBG, RBSG, Barclays, HSBCG, Santander and Nationwide) and Danske.

some or all unarranged overdraft charges changed the unarranged lending they offered. None of them said that the caps had changed what unarranged lending they offered either at all or in any material way.

5.166 The evidence provided by the seven PCA providers is consistent with our view that the risk of an MMC distorting the lending on offer is low.

5.167 Further, to the extent that unarranged lending is intended to be on a short-term emergency basis, some constraint on the amount of unarranged lending offered by PCA providers is not necessarily of concern. This is particularly the case where the balance of overdraft lending is shifted to arranged overdrafts and is in line with responsible lending requirements.⁴⁶⁵

- *Distorting customer choice*

5.168 Requiring PCA providers to set MMCs has the potential risk that if there is undue focus on MMCs, some customers may choose a PCA that is less suitable for their overdraft needs. For example, lighter overdraft users may choose a PCA with a low MMC but which is actually more expensive for them based on their lighter usage. This may be exacerbated if PCA providers design overdraft tariffs that exploit this type of customer behaviour (such as high daily charges relative to the MMC). Alternatively, providers might offer low MMCs but in return provide very limited unarranged lending.

5.169 We consider that these types of risk are low. The other elements of our remedies package will mitigate the risk that customers make poor choices. In particular, our measures to facilitate comparison services that draw on a customer's previous account usage can help customers, such as lighter overdraft users, choose an account based on their usage. Our provisional decision to recommend to the FCA to review the ongoing effectiveness of the MMC and consider whether measures could be taken to further enhance its effectiveness will further mitigate the risk that MMCs are given undue attention in the medium to long term.⁴⁶⁶

- *Potential rebalancing of charges*

5.170 The introduction of an MMC might have the effect of reducing the revenues to PCA providers, and corresponding contribution to their overall profits, from unarranged overdrafts. To the extent this occurs, this could result in pressure

⁴⁶⁵ For example, assisting customers in financial difficulties to consider the credit options most suitable for their circumstances.

⁴⁶⁶ We identified the risk that encouraging customers to focus on the MMC over other information could distort customer PCA choices and overdraft use, or that customers fail to understand that unarranged lending is not guaranteed.

on providers to increase charges on other aspects of their PCA proposition to compensate. While this may occur, we would expect any such rebalancing of charges to be limited and incomplete:

- (a) Our analysis in our [provisional findings](#) indicates that competitive pressure is weakest for the heaviest users of unarranged overdrafts. The implication of this is that other customers will be more price sensitive. Given this, PCA providers will be less able to pass on any fully compensating increase in charges to these customers without risking losing business.
- (b) Our other proposed measures will increase the price sensitivity of these other customers, as comparing PCAs and switching will be easier. This will further reduce the ability of providers to increase charges.

5.171 Therefore, to the extent there is a rebalancing of charges between customer groups, we would expect this to be, at most, partial, such that the overall impact of the MMC on PCA customers will be beneficial.

- *Increased customer usage of unarranged overdrafts*

5.172 It is possible that some customers may feel protected by an MMC, which could lead to increased unarranged overdraft usage and higher charges on average. We consider that this risk is mitigated by the other, complementary elements of the remedies package targeted at overdraft users:

- (a) Measures to increase customer engagement with their overdraft usage, including our overdraft alerts and grace period remedies, will raise customer awareness of their unarranged overdraft use and assist customers to avoid unarranged overdraft charges.
- (b) Measures to facilitate greater transparency on the service quality experienced by overdraft users, thus incentivising providers to engage with overdraft customers and placing pressure on overdraft charges, including the MMC, will also further limit the detriment that could arise from unarranged overdraft charges in general.

Whether the MMC should have an upper limit set by a regulator, and/or whether to introduce other forms of price control on overdraft charges

5.173 In our [Supplemental Remedies Notice](#), we also consulted on introducing a regulated upper limit (cap) on the charges that PCA providers are allowed to levy in any month. We stated that this capped variant of the MMC was not our

preferred option given the risks we had identified arising from a regulatory price cap.

- 5.174 The two principal risks that we identified with the capped variant were that (a) any universal upper limit might normalise or validate a particular level, reducing incentives to compete on the level of the cap; and (b) if the level was set too low this might constrain the availability of unarranged overdrafts to some customers.
- 5.175 We further outlined: our view that uncapped MMCs can reinforce other switching and usage remedies; the greater flexibility there is with this approach and consequently the lower risk of unintended consequences; the fact that some PCA providers have started to make this form of commitment demonstrating the workability of this type of measure; and the way in which this approach would increase, rather than reduce, PCA providers' accountability for their own charges.
- 5.176 In response to our [Supplemental Remedies Notice](#), six parties⁴⁶⁷ generally supported our preference for uncapped MMCs. However, Which? and Virgin Money told us that they did not believe that uncapped MMCs would be effective in addressing the detriment arising from the AECs.
- 5.177 Virgin Money supported the introduction of a capped MMC and nine⁴⁶⁸ parties told us that they did not support the introduction of a capped MMC.
- (a) HSBCG and Nationwide told us that under capped MMCs providers might be disincentivised to compete on the level of monthly unarranged overdraft charges as providers would prefer to stay at the regulated upper limit.
 - (b) Danske told us that a capped MMC would be costly because the regulated upper limit would need to be reviewed regularly to ensure that it was set at a fair level.
 - (c) TSB had concerns that a capped MMC would not take into account each bank's different risk appetites and credit risk management strategies nor all of the different benefits/charges that a customer receives or pays for the other services they use via their PCA.
 - (d) HSBCG also told us that a capped MMC might potentially discourage customers from staying within their arranged overdraft limit and that

⁴⁶⁷ LBG, HSBCG, Nationwide, TSB, Santander and Yorkshire Building Society.

⁴⁶⁸ Barclays, HSBCG, LBG, RBSG, Nationwide, Santander, TSB, Danske and Yorkshire Building Society.

allowing a customer to opt in to an MMC beyond the cap would not be effective in practice.

5.178 Having reviewed the responses to our [Supplemental Remedies Notice](#) we recognised that a capped MMC would allow us to more directly address detriment, but disagreed that an uncapped MMC would be ineffective.

- *Other forms of price control*

5.179 In reaching a provisional decision on the introduction of MMCs we have provisionally concluded that alternative measures that more directly constrain overdraft charges would increase the risk of unintended consequences. Alternative measures that we have considered include requiring PCA providers to set the same charges for arranged and unarranged overdrafts (proposed by Which?), applying the FCA's price cap on high-cost short-term credit to unarranged overdraft charges (proposed by the FSCP), and regulating or prohibiting specific types of charges (eg for paid and unpaid items).⁴⁶⁹

5.180 Unlike MMCs, which target heavier unarranged users, other price control measures suggested to us generally involve imposing lower unarranged overdraft charges across all customers. While improving the short-term outcomes for unarranged overdraft users, this could undermine the potentially greater longer-term effectiveness of our switching remedies at increasing competition for lighter overdraft users. Moreover, less closely targeted price control measures are more likely to reduce the credit risk that PCA providers are willing to take on and the amount of unarranged credit that they offer to all customers. This could result in reduced credit availability to light overdraft users who value the flexibility to make emergency payments which PCA providers currently offer through their unarranged overdrafts.

5.181 Alternative forms of price control also pose a greater risk of distorting competition as they would restrict how PCA providers could compete with one another, including on diversity of pricing structures. In contrast, PCA providers have a variety of responses available to them to stay within an uncapped MMC. For example, PCA providers could limit the fees and interest they charge for unarranged overdrafts; they could offer higher arranged limits; and

⁴⁶⁹ We also considered the FSCP's proposal for setting out charges by number of days in unarranged overdraft and Yorkshire Building Society's proposal to require PCA providers to charge interest or show the annual percentage rate (APR) of charges for overdrafts. The OFT's 2009 unarranged overdraft charging scenarios are similar to FSCP's proposal and are already in place (see [provisional findings](#), paragraph 7.8). We do not consider Yorkshire Building Society's proposals to be necessary given our remedies package. There may also be unintended consequences from restricting a range of overdraft charging structures, and comparing these charges through APRs would be difficult as the APR would depend on the pattern of overdraft usage.

conversely, they could limit the credit available in specific circumstances (eg where it would not be responsible to extend this credit further).

- *Effectiveness of different approaches*

5.182 In summary, the overall package of remedies including uncapped MMCs will effectively address the AECs and/or resulting detriment incurred by heavier overdraft users as we have outlined above. It will do so at a lower cost and with less risk of unintended consequences than a price control would involve.

5.183 In terms of effectiveness, we expect uncapped MMCs to reinforce other switching and usage remedies for heavier unarranged overdraft users; a few PCA providers have started to make this form of commitment demonstrating the workability of this type of measure; and this approach would increase, rather than reduce, PCA providers' accountability for their own charges.

5.184 In terms of proportionality, the greater flexibility of an uncapped MMC reduces the risk of unintended consequences and this approach benefits from a lower implementation, monitoring and enforcement cost compared with more intrusive price controls.

5.185 We therefore found uncapped MMCs to be preferable to any other form of price control in terms of effectiveness and proportionality.

Giving PCA providers the flexibility to set different MMCs for different types of PCA

5.186 We have provisionally decided to give PCA providers the discretion to set different MMCs for different PCAs. This approach was generally supported by respondents to our [Supplemental Remedies Notice](#).

5.187 This approach allows PCA providers to satisfy a range of different customer preferences and reduces the risk of unintended consequences, such as distorting the amount of lending a provider would be willing to supply for any given PCA where the MMC was not well matched to the needs of that PCA's target customer base. Moreover, such flexibility in setting the level of an MMC can facilitate greater competition and customer choice, as customers can compare MMCs alongside other product features across the range of PCAs offered by a range of PCA providers.

The period over which the total maximum charge would apply

5.188 We have provisionally decided that the total maximum charge would apply over a monthly period, as we are aware of research showing that consumers

are comfortable with prices being expressed on a monthly basis, and many other products and services are organised on this basis.⁴⁷⁰ Further, this proposal received broad support from respondents to our [Supplemental Remedies Notice](#).

5.189 A monthly period could refer either to a calendar month or to a PCA provider's monthly charging period. We would give PCA providers flexibility over the specific monthly period to use so that the MMC can readily be integrated into different providers' billing cycles.

The charges to be included within the MMC

5.190 We have provisionally decided to make all charges that a customer could incur as a result of exceeding or attempting to exceed an arranged borrowing limit subject to the maximum total charge. This would include interest for the amount borrowed beyond the arranged limit, as well as monthly charges, daily charges, paid and unpaid item fees and all other fees applying in the above circumstances.

5.191 Responses to our [Supplemental Remedies Notice](#) included a range of views as to the charges appropriate to include in the MMC. RBSG considered that all unarranged charges should be subject to the MMC.⁴⁷¹ However, Barclays argued that unpaid item fees should be excluded from MMCs on the basis that they did not relate to the extension of a lending facility.⁴⁷² First Trust Bank considered that interest should be excluded.⁴⁷³ HSBCG also considered that interest should be excluded but only where it was the same interest as that applied to arranged overdrafts.⁴⁷⁴ Santander considered that arranged overdraft charges should also be included in the MMC.⁴⁷⁵

5.192 In order for an MMC to be effective, it needs to be simple and therefore include all charges associated with exceeding or attempting to exceed an arranged borrowing limit. This includes interest on any unarranged lending and unpaid item charges as well as any daily or other periodic charges for unarranged borrowing. This approach also reduces the risk of unintended consequences as it does not favour one type of charging structure over others. Further, it avoids the circumvention risk of PCA providers setting higher unarranged interest charges or unpaid item charges, or replacing

⁴⁷⁰ See, for example, the Competition Commission's market investigation into payment protection insurance, [final report](#) (29 January 2009), paragraphs 10.205–10.208.

⁴⁷¹ [RBSG response to Supplemental Remedies Notice](#), p9.

⁴⁷² [Barclays response to Supplemental Remedies Notice](#), paragraph 6.1.

⁴⁷³ [First Trust Bank response to Supplemental Remedies Notice](#).

⁴⁷⁴ [HSBCG response to Supplemental Remedies Notice](#), paragraph 49.

⁴⁷⁵ [Santander response to Supplemental Remedies Notice](#), paragraph 5.5.

unarranged overdraft facilities with alternative charged-for lending facilities that are not unarranged overdrafts but fulfil a similar purpose to them.

5.193 While excluding interest from the MMC could give PCA providers more flexibility to offer more unarranged lending, we consider that letting a PCA provider set an MMC on different types of PCA gives it sufficient flexibility to ensure it can lend an appropriate amount on an unarranged basis. To the extent that customers seek more credit, PCA providers can take this into account when considering how much they offer customers as part of an arranged overdraft.

5.194 Conversely, including arranged overdraft charges in the MMC is not necessary to target the concerns identified relating to significant detriment from unarranged overdraft use. Moreover, widening the scope of the remedy could also unduly increase the risk of adverse unintended consequences, including wider distortions to overdraft supply.

The communication and prominence of the MMC

5.195 In order for the MMC to be effective, it needs to be visible and understood by customers. We are aware that existing legislation, including consumer law and the CCD, safeguards a minimum level of information provision to customers such that providers would already be expected to ensure that customers receive appropriate information, with an appropriate level of prominence, on the overdraft facilities and charges of their PCAs. This would also include MMCs once introduced.

5.196 PCWs will be able to choose to communicate and display the MMC in the way they consider most useful to customers and we would not seek to constrain this ability.

5.197 In light of the above, we consider there is limited need for us to specify the content or prominence of MMC disclosures, save that they should be no less prominent than other overdraft charges.

Implementation issues

5.198 We have set out above our assessment of the relevant design issues. Having identified the role of existing regulation with respect to information on overdrafts and the limited information that needs to be specified and subsequently monitored, we have provisionally decided to make an Order to require all PCA providers to set and publish an MMC. Given the issues discussed in paragraphs 5.150 to 5.153 for heavy unarranged overdraft users,

we consider it appropriate to ensure this remedy applies as widely as possible.

- 5.199 This approach allows for the detriment to heavier unarranged overdraft users to be addressed in a timely manner.
- 5.200 We would expect the requirement for PCA providers to introduce and publish details of an MMC to be effective six months after an Order is made.
- 5.201 Additionally, we have provisionally decided to recommend to the FCA that it undertakes work to assess the ongoing effectiveness of the MMC and consider whether measures (including the introduction of rules if appropriate) could be taken to further enhance its effectiveness. If the FCA considers it beneficial to include MMCs (or a variant) in its rules the CMA expects to consider removing the Order. It would be for the FCA to decide on the appropriate timing for any additional research.

Monitoring and enforcement

- 5.202 We propose that an Order would require annual reporting to the CMA for the purposes of monitoring and enforcement, for example confirming the introduction of the MMC; the level at which it is set for each PCA; and that it is being communicated in a way that is no less prominent than other overdraft charges.

Cost of remedies

- 5.203 The costs of imposing an uncapped MMC remedy would be limited, being comprised primarily of changes to IT systems (to cap charges at the level each provider individually sets for each of its PCAs), and communication costs including the costs of modifying and circulating charges and overdraft information and terms and conditions, staff training costs to communicate these changes internally, and staff time to manage these changes (eg additional resources to respond to customer queries). There will also be some limited costs associated with work by the FCA to assess the ongoing effectiveness of the MMC and its consideration of whether measures (including the introduction of rules if appropriate) could be taken to further enhance its effectiveness.
- 5.204 We consider that these are limited costs proportionate to the benefits foreseen from this remedy and welcome further views and evidence on the likely costs and benefits of this remedy.

Measures to encourage PCA customers to engage more with overdraft features

Summary of the measures we are proposing to take forward

Figure 5.4: Summary of measures

We have provisionally decided to recommend that the FCA looks at ways for PCA providers to engage customers more in considering overdraft features and their potential relevance and impact, during the PCA opening process.

Relevant matters that the FCA may wish to consider in seeking to improve PCA providers' engagement and effective communication with their customers include:

- (a) the availability of arranged and unarranged overdraft facilities and the distinction between these;
- (b) the principal features of any overdraft facility which might include:
 - fees and charges and the basis on which they would be incurred;
 - the relevant credit limit; and
 - interaction with different payment methods;
- (c) the risks of exceeding an arranged overdraft limit or opting out of an unarranged overdraft facility (eg the potential consequences of payments being declined);
- (d) the ability to either subsequently relinquish access to or apply for an overdraft facility;
- (e) the alerts available to inform customers of their imminent or actual use of arranged and unarranged overdraft facilities; and
- (f) the appropriateness of requiring customers to make a positive acknowledgement of the overdraft features included as part of an application for any new PCA.

5.205 In Appendix 2, we explain why we have developed the proposals in our [Supplemental Remedies Notice](#) on customer engagement with their overdraft options in this way.

How this remedy addresses the AECs and/or the resulting customer detriment

5.206 In our provisional findings we noted that overdraft users have limited awareness of and engagement with their overdraft usage, and that overdraft

charging structures are particularly complex.⁴⁷⁶ We noted that this contributed to the weak customer response to differences in prices or service quality, and that this resulted in PCA providers' incentives to compete on prices, service quality and/or innovation being reduced.⁴⁷⁷

5.207 Increasing understanding of the impact of having access to an overdraft facility (be that arranged or unarranged) would lead to greater engagement over customers' choices of PCAs and use of overdrafts, and increase competition over overdraft charges. However, the presentation and the content of any information provided to customers would be a key determinant of its effectiveness.

Existing information and choices

5.208 Most PCA providers allow customers to opt out of an unarranged overdraft (either by removing the unarranged overdraft facility from a PCA or by choosing a PCA product without an unarranged overdraft).⁴⁷⁸ We asked PCA providers to provide details of the information on overdrafts provided on opening an account. We reviewed this information and found that there was a considerable amount of variation in the nature and presentation of this information.⁴⁷⁹ In part this was determined by whether an account was opened online, in branch or over the telephone (which also affected whether information was conveyed orally or in writing).

5.209 For example, TSB asked customers whether they wished to have an arranged overdraft and set out the charges for using the unarranged overdraft and the function of unarranged overdrafts and the charges of the unarranged overdraft. As part of the application, the customer was required to make a combined declaration that they had agreed to the terms and conditions and that they understood the arranged overdraft and unarranged overdraft fees and charges.⁴⁸⁰ Other examples include PCA providers making information on overdrafts available in writing or through videos, though these were not necessarily embedded in the main part of the application form.⁴⁸¹

⁴⁷⁶ [Provisional findings](#), paragraph 12.13(c).

⁴⁷⁷ [Provisional findings](#), paragraph 12.12.

⁴⁷⁸ [Provisional findings](#), paragraph 7.58 and footnote 245.

⁴⁷⁹ Due to the nature of the information provided and different platforms for opening PCAs (in branch, online or telephone) it was not necessarily clear how information was presented in practice.

⁴⁸⁰ A second tick box was also included relating solely to the privacy notice.

⁴⁸¹ In one case, an applicant would need to actively click into the 'important information' tab to display the information.

Remedy design considerations

5.210 In considering the design of the remedy we were conscious of the risks of any disclosure requirement being overly prescriptive or ill defined. We identified three principal consequences:⁴⁸²

- (a) First, there is a danger of PCA providers providing customers with an excessive amount of information, which could disengage or confuse customers.
- (b) Second, an overly prescriptive remedy could become outmoded as a result of technological or other developments.
- (c) Third, in seeking to increase engagement with the choices available to customers in respect of overdrafts, that there might be some 'crowding-out' of other declarations as part of the account opening process.

5.211 We also considered whether customers should be required to make an acknowledgement of any information provided with respect to that customer's overdraft choice. This would be one way of ensuring customer interaction but not necessarily engagement. It could be seen as an ineffective 'tick box exercise'.⁴⁸³

5.212 Behavioural research and testing is therefore essential to inform the design of any measure to ensure that it genuinely does increase engagement and avoids unintended consequences.

5.213 We consider that the FCA is well placed to undertake this research (given, for example, its work on smarter consumer communications)⁴⁸⁴ and testing for the same reasons set out in relation to its proposed role in our prompts remedy in Section 3 and our overdraft alerts remedies (paragraph 5.33). In particular, it has existing expertise in conducting RCTs, which would be an effective way of testing the impact of different types and designs of disclosures.

5.214 We therefore have provisionally decided to recommend to the FCA that it examine how, during the PCA opening process, PCA providers may be able to engage customers more in considering overdraft features and their potential relevance and impact, as set out in Figure 5.4.

⁴⁸² This reflects [responses to our Supplemental Remedies Notice](#) (set out in Appendix 2).

⁴⁸³ This has been identified as a barrier to effective communication in the FCA's [Smarter Consumer Communications Discussion Paper](#).

⁴⁸⁴ See the FCA's [Smarter Consumer Communications Discussion Paper](#) as above.

Implementation issues

- 5.215 As discussed in relation to prompts (in Section 3) and overdraft alerts (in paragraphs 5.81 to 5.86), the provision of information to PCA customers is in part determined by regulation transposed from three European Directives: the CCD, PSD and PAD. The first two of these are ‘maximum harmonising’, which means that member states may not introduce less or more restrictive or prescriptive regulations within the scope of the Directive.
- 5.216 Articles 41 and 42 of PSD and Articles 6 and 18 of CCD set out the information required to be provided at or before account opening. This includes information on account charges such as arranged and unarranged overdraft fees, credit limits, communication between bank and customer etc. The FCA will therefore need to consider where it can use its rule-making powers to implement this proposed recommendation, ie where doing so would be consistent with these directives or would fall outside their scope. As demonstrated by the work the FCA has already undertaken on smarter consumer communications and the voluntary agreement on retries, there are a range of measures and initiatives that can be taken in the absence of rule-making that can be effective at increasing customer engagement. We do not therefore consider these directives to be a barrier to the FCA taking action in response to our recommendation.

Cost of remedies

- 5.217 We consider that the costs directly associated with our recommendation will not be significant. Depending on any actions that arise, this could involve PCA providers incurring costs, although any decision to propose further action would itself be subject to an evaluation of the costs versus the wider benefits that would be delivered.

Measures to facilitate account searching and switching

Summary of the measures we are proposing to take forward

- 5.218 We have provisionally decided to implement the following measures, summarised in Figure 5.5, to address the additional switching barriers faced by overdraft customers we identified in our [provisional findings](#): the uncertainty surrounding acceptance and timing of an overdraft approval and the uncertainty around the overdraft amount they would be offered if they were to switch to a new PCA provider.

Figure 5.5: Summary of measures

We have provisionally decided to make a recommendation that, following the introduction of open APIs, the FCA considers requiring PCA providers to offer online tools that indicate whether a prospective customer may be eligible for an overdraft.

We have also provisionally decided to seek undertakings from Bacs to work with CASS participants to review the account switching process to ensure that PCA providers offer a firm decision on the overdraft offered after a customer has completed the PCA provider's application process but before they switch accounts.

How this remedy addresses the AECs and/or the resulting customer detriment

5.219 In our provisional findings we noted that there were additional barriers to switching for overdraft customers because of uncertainty surrounding the acceptance and timing of an overdraft approval. Some overdraft customers had concerns that they would not be offered the same overdraft limit by their new provider and some wanted to know in advance of an application if other providers offered the same or improved overdraft terms and conditions as their current provider.⁴⁸⁵

5.220 We also noted that in some circumstances, a customer who had applied to a new provider would not know whether they would be granted an overdraft facility until the late stages of the switching process, by which time their old account may have been closed.⁴⁸⁶

5.221 To help address these issues we have considered whether to:

- (a) require providers to make available online overdraft eligibility tools to help potential customers assess whether they were likely to be granted an overdraft facility of a particular size/for a particular period; and
- (b) require providers to arrange their application process in such a way that customers were given a firm decision on overdraft facilities before closing their old account.

⁴⁸⁵ [Provisional findings](#), paragraph 7.112.

⁴⁸⁶ [Provisional findings](#), paragraph 7.116.

Indication on overdraft eligibility

5.222 If providers were to offer tools⁴⁸⁷ giving an indication of overdraft eligibility to potential PCA customers on their websites or through PCWs, this would help address the issues that overdraft customers:

- (a) may either falsely perceive that they would not be offered the same amount if they decided to switch to a new provider; or
- (b) would like to know, in advance of any application to switch, if other providers offered the same or improved overdraft conditions as their current provider.

5.223 In response to our [Remedies Notice](#), [Supplemental Remedies Notice](#) and our overdraft information requests, three PCA providers⁴⁸⁸ supported the introduction of online overdraft eligibility tools.

5.224 Other parties raised concerns around implementing an online overdraft eligibility tool. Some PCA providers told us that an online tool would not be useful for overdraft users because overdraft users should already be aware of the overdraft they were offered⁴⁸⁹ before they completed the account opening process.⁴⁹⁰ Some PCA providers told us that a tool might put too great a data collection burden on customers when comparing providers or might require greater amounts of underwriting at an early stage in the application process. Some PCA providers were concerned that any indication provided by a tool would lack sufficient accuracy.⁴⁹¹ BIT and RBSG told us that the implementation of tools might give rise to several behavioural biases and could result in some account providers initially making attractive indicative offers within the tool to attract switching customers, but that sometime after a customer had switched to their new bank, the customer's new PCA provider might increase fees or customers more generally might become over-reliant on indicative overdraft offers.

5.225 To help assess the potential impact of requiring PCA providers to offer an online overdraft eligibility tool, we considered the results of our PCA omnibus

⁴⁸⁷ Such a tool could be based on a quotation search (ie a 'soft' credit search) so as not to impair a customer's credit history.

⁴⁸⁸ HSBCG, RBSG and LBG.

⁴⁸⁹ Where Santander told us that overdraft users were already aware.

⁴⁹⁰ Where Barclays told us that customers could already be given certainty of the size and availability of an arranged overdraft prior to deciding to switch and close their old account.

⁴⁹¹ Barclays told us that it was concerned that any indicative view provided by a tool would lack sufficient accuracy where size and availability of an overdraft was the primary concern of the customer.

survey, our qualitative research commissioned from Optimisa and LBG's RCTs:

- (a) Our PCA omnibus survey results suggested that having information on overdraft availability before deciding to switch could make a significant proportion of PCA overdraft users more likely to consider switching their current account.⁴⁹²
- (b) Our qualitative research suggested that the availability of the overdraft facility was seen as something important to check prior to application by overdraft customers, although they were more in favour of a tool if it provided a firm confirmation rather than an indication of eligibility.⁴⁹³
- (c) By contrast, the results of an LBG trial, which tested a specific implementation of an online overdraft tool, showed that the tool did not increase the rate of account opening for customers visiting the PCA application pages on the Lloyds or Halifax websites.⁴⁹⁴

5.226 While the evidence on the potential impact of this remedy is mixed, overall we believe that the introduction of an online overdraft eligibility tool would increase overdraft users' propensity to switch their PCA provider. While the results of LBG's trial imply that the introduction of an overdraft eligibility tool would not encourage overdraft customers to switch, those results are dependent on the specific implementation trialled by LBG. In particular, a PCW that shows indicative overdraft offers from a number of PCA providers is likely to be more effective.⁴⁹⁵ LBG considered that further enhancements to the tool might be possible, which could improve its usefulness.

5.227 We note that none of the research cited above takes account of the potential benefits of open APIs which are yet to be implemented. In particular, open APIs are expected to have the potential to improve the accuracy of overdraft eligibility indications by removing informational asymmetries between account

⁴⁹² 35% of PCA overdraft users said that being able to check what overdraft they were likely to be granted by the new bank before they decided to change bank would make them more likely to consider switching and 6% said they would be less likely to switch. See [PCA survey](#), p310.

⁴⁹³ See [Optimisa Research report](#), p104.

⁴⁹⁴ In fact, the results suggest that the tool and process used in the trial discouraged some customers who would be eligible for an overdraft from applying for an account. Halifax customers seeing the overdraft checker (the treatment group) were less likely to successfully open an account than the control group. (This is because fewer customers in the treatment group completed the application process.) No significant results were found for Lloyds customers. [LBG Trials Report](#), slide 9. Note that these findings are based on a one-off trial which tested a specific implementation of the tool. As LBG has told us, refinements can be made to the treatments used in this trial to identify more effective ways to implement the tool, such as making it easier to verify contact details.

⁴⁹⁵ Also, if the tool trialled had provided greater accuracy in indicating the overdraft offered this may have been more useful to customers.

providers and also to result in a reduced data collection burden for customers.^{496,497}

5.228 Further, neither LBG's trial⁴⁹⁸ nor our omnibus survey results take into account that an overdraft eligibility tool may be implemented in such a way that it is incorporated with comparison websites which, according to our Optimisa research,⁴⁹⁹ would make it more appealing for customers.

5.229 Overall, our analysis suggests that requiring PCA providers to offer an indication on overdraft eligibility is likely to be an effective measure for overdraft customers, provided that the tool is implemented appropriately.

5.230 In considering whether to require implementation ourselves or by means of a recommendation, we were mindful of the interaction between the measure and open APIs. Open APIs may lead to significant improvements in the accuracy of overdraft eligibility tools and a reduced burden on users,⁵⁰⁰ and may also facilitate the development of market-driven initiatives that would solve many of the issues the proposed eligibility tools address.

5.231 Open APIs are expected to increase the choice of credit products readily available to customers as a substitute for their current overdraft facility (effectively 'unbundling' credit from the PCA offering)⁵⁰¹ and increase the scope for innovative money management services. For example, open APIs will facilitate the sweeping of funds between accounts to avoid overdraft charges or deliver new mechanisms by which customers can be made better aware of and engage with their overdraft use.⁵⁰² Furthermore, by providing secure access to customers' transaction data⁵⁰³ they will reduce the information asymmetry providers face in offering competitive arranged overdraft limits, within a reasonable degree of certainty, to new customers, and hence reduce overdraft customers' searching costs.

5.232 Because the effectiveness of the tool will be significantly higher when implemented with open APIs and we expect that a potential market-driven solution may well arise after open APIs have been implemented, we have provisionally decided that our overdraft eligibility tool measure should take the form of a

⁴⁹⁶ HSBCG and TSB.

⁴⁹⁷ TSB also mentioned that a credit passport could also improve the accuracy of overdraft eligibility indications and reduce the data collection burden.

⁴⁹⁸ LBG's trial did not test placing the overdraft eligibility tool on the specific switching and product comparison pages of both brands, or making it available on third party comparison websites.

⁴⁹⁹ [Optimisa Research report](#), p104.

⁵⁰⁰ In terms of the reduced data they were required to provide to use the tool.

⁵⁰¹ The Open Banking Standard, 6.1.3 Proposition 3: access to credit.

⁵⁰² The Open Banking Standard, 6.1.2 Proposition 2: personal financial management and [HSBCG supplemental paper on PCWs](#).

⁵⁰³ The Open Banking Standard, 6.1.3 Proposition 3: access to credit.

recommendation to the FCA. We are recommending that the FCA should consider, after open APIs have been developed and embedded in the market, whether it should require or take other measures to encourage PCA providers to implement an overdraft eligibility, or similar, tool. The FCA, as the sector regulator, would be best placed to take account of market developments. In doing so it will need to consider the implications (if any) of CCD and PSD at the design and implementation stage of any tool.

A firm decision before switching

- 5.233 If providers were to arrange their application process in such a way that customers were given a firm decision on the overdraft offered before a customer had closed their old account, it would address the issue that some customers may be deterred from switching because they may be unexpectedly left with a less favourable overdraft facility at their new provider.
- 5.234 Seven PCA providers⁵⁰⁴ told us that they already provided new customers with a firm decision on the overdraft offered during the account opening process. However, Clydesdale told us that although it was its policy only to switch a customer after they had agreed their overdraft limit, it was technically possible for PCA customers to switch accounts without them agreeing to the overdraft limit.⁵⁰⁵ LBG told us that when it had attempted an online application with some providers, it found that in some cases a firm decision on the overdraft offered was not provided before a customer makes a commitment to open an account and switch.
- 5.235 The Institute of Directors raised a note of caution related to the implementation of a firm decision on overdraft eligibility before switching, and that this would create unwelcome demands on smaller account providers which would inhibit their ability to compete with larger providers.
- 5.236 Since many providers have told us that they already provide a firm decision, and no provider has explicitly told us that they do not, we do not intend to require PCA providers to offer such a firm decision. However, we note the issues related to the perception of getting a firm decision or other process gaps that LBG's research suggests, which may prevent customers from accessing or effectively using a firm decision on the overdraft offered.
- 5.237 Because Bacs have extensive knowledge of the switching process and are already intending to do work in this area, we consider that Bacs are best placed to examine this matter. To this end, we have provisionally decided to

⁵⁰⁴ Santander, HSBCG, RBSG, LBG, Nationwide, Co-op Bank and Danske.

⁵⁰⁵ But they did not verify that this occurred amongst any specific banks in practice.

seek undertakings from Bacs (or failing that to issue an appropriate Order) to undertake further research related to introducing common processes that improve transparency in relation to the opening and closing of accounts.

5.238 Any changes arising from Bacs' work, with CASS participants, to review the account switching process will help to address concerns that in some circumstances an overdraft customer who had applied to and switched to a new provider may not know the overdraft offered until after closing their old account. Such enhancements may include new processes to ensure that account providers arrange their application and switching process in such a way that new overdraft customers are given a firm decision on overdraft facilities before closing their original account.

5.239 We expect that Bacs will undertake this work within six months of the CMA accepting undertakings from it.

Cost of remedies

5.240 We consider that the costs directly associated with these measures will not be significant. Depending on the actions that arise from each of the recommendation and review, these could involve PCA providers incurring costs, although any decision to propose further action would itself be subject to an evaluation of the costs versus the wider benefits that would be delivered.

6. The additional SME remedies

Overview

- 6.1 In Sections 3 and 4 we describe the three foundation remedies and the current account switching measures which will in themselves make a significant contribution to addressing the AECs that we have provisionally identified in SME banking.
- 6.2 In this section, we set out additional remedies which aim to address some specific market features giving rise to the AECs in the supply of SME banking services. Taken together, our proposed remedies represent a coherent and effective package to address the AECs that we have provisionally found in SME banking.
- 6.3 The additional measures aim to:
- (a) improve transparency of the cost of and eligibility for SME lending;
 - (b) facilitate comparisons of SME banking products; and
 - (c) make business account opening easier and improve the switching process.
- 6.4 In addition, we are proposing to make recommendations to the government to take action to promote greater competition in SME banking services; to enable 'soft' or quotation searches for SME lending products; to review the efficacy and impact of the commercial, technological and regulatory initiatives intended to facilitate the sharing of SME information; and to explore ways in which professional associations can channel advice on choice of providers and sources of finance to SMEs.

How these remedies address the AECs and/or the resulting customer detriment

- 6.5 We provisionally found that there are barriers to searching for and comparing BCAs as well as switching BCA providers, and that this gave rise to an AEC in both GB and NI. BCAs have complex tariff structures and a multiplicity of charges, and there is variability in usage between SMEs, which adds to the difficulty of comparing BCAs because pricing models for BCAs are typically based on usage. There is also a lack of effective comparison tools available for SMEs.
- 6.6 Further, we found that there were strong linkages between BCAs and lending products, with nearly all SMEs seeking finance from their BCA provider and most doing so without shopping around. Publicly available loan information on

both prices and eligibility is scarce and there are information asymmetries between an SME's BCA provider and alternative lending providers. In combination, these features of the market give rise to an AEC in both GB and NI.

6.7 The three foundation remedies in Section 3 and the measures to improve the current account switching process in Section 4 are likely to have a widespread and positive impact on competition in SME banking and will address a number of features giving rise to the AECs, which we provisionally found. However, we have identified features of the SME banking market requiring the adoption of additional remedies. These features are:

- (a) the lack of publicly available information on the charges of SME banking products and the criteria for assessing loan eligibility;
- (b) the absence of effective comparison tools serving the banking needs of diverse SMEs; and
- (c) the difficulties SMEs face in opening new current accounts, which in turn can discourage them from considering switching.

6.8 We therefore propose to adopt additional measures to make it easier for SMEs to:

- (a) access and assess information on providers' charges, the quality of their services and their lending criteria; and
- (b) take action and switch to a new provider.

Access and assess information

6.9 We propose to improve SMEs' access to information by requiring all lenders which provide unsecured loans and overdrafts to disclose on their websites, and make available to comparison sites, including the eventual Nesta⁵⁰⁶ challenge prize winner, information on the cost of borrowing. We also propose to require eight banking groups – comprising the main providers in GB and NI – to provide prospective borrowers with loan price and eligibility indicator tools. Such tools will enable SMEs to ascertain whether the provider would be likely to grant them a loan of the size and term requested, and will provide an indication of the rate at which they may be likely to do so.

⁵⁰⁶ Nesta is an independent charity and is considering a challenge prize to identify innovative and sustainable solutions to the problem we have identified as regards SMEs' access to information on banking products. Further details are provided in the section on measures to facilitate comparisons of SME banking products below.

- 6.10 These two requirements will apply to unsecured loans and overdrafts of up to £25,000, with the requirement to provide loan price and eligibility tools also covering secured lending with a possible extension of the threshold to a higher value such as £50,000 to achieve a greater coverage of SME lending (we are seeking views on this extension).
- 6.11 We have provisionally concluded that the best way of achieving greater transparency is to draw upon the existing (personal) consumer credit regime in determining the required disclosure rules. We took this principle into account when setting the proposed format in which prices should be published, and indicative quotes from price and eligibility tools should be provided.
- 6.12 To make it easier for SMEs to assess providers' offers and to reduce the adverse effects of strong product linkages between BCAs and lending, we are proposing to bring about the creation of one or more comparison tools where SMEs could compare providers' services. We also propose to require banks to make available as open data the terms they offer, including their charges and eligibility criteria for SME banking services.
- 6.13 We have considered a number of ways in which such a tool could be created. We have provisionally decided that supporting the challenge prize to be undertaken by Nesta, accompanied by certain transitional, ancillary and safeguard measures, would offer the best prospect for achieving an innovative, commercially viable and sustainable solution.
- 6.14 In addition, to support the use of the loan price and eligibility tool and comparison tools, we intend to recommend to HMT that it works with credit reference agencies (CRAs) and SME lenders to implement a mechanism for 'soft' searching to enable SMEs to obtain indicative price quotations and indications of eligibility without adversely affecting their credit rating.
- 6.15 We have also considered measures designed to make it easier for SMEs, banks and CRAs to share information between themselves through commercial networks, for example the business plans or credit ratings of potential borrowers. We provisionally concluded that recent regulatory changes, in particular the [SBEE Act](#), and proposals for the creation of new commercial platforms and networks, could obviate the need for this intervention but that it was too early to draw a firm conclusion on the extent to which they fully address our concerns. We therefore propose to recommend to HMT that it reviews the effect that these developments have had two years after the publication of our final report (ie in summer 2018).

6.16 To further facilitate the sharing of information, in our [Remedies Notice](#) we asked whether HMT should use the powers it has under the [SBEE Act](#) to require banks to pass to CRAs additional information on SMEs such as transaction data. We have provisionally decided not to adopt this remedy for two main reasons. First, since we published our [Remedies Notice](#) the relevant [SBEE Act](#) regulations have come into force, requiring providers to share SME data, through CRAs, with alternative providers. Second, our foundation measure to adopt an open API standard would enable SMEs to share their transaction information with intermediaries.

Switching provider

6.17 We provisionally found that the account opening process was a barrier to switching for some SMEs. To address this, we propose to require all BCA providers to agree and adopt a standard form and common evidence requirements for BCA applicants (to be approved by the CMA). This may be achieved through an industry working group coordinated by the BBA and we would expect the FCA to be invited to this group as an observer. We have provisionally decided to make a recommendation to the FCA that it does so.

6.18 We also envisage that our proposals on open banking will facilitate the secure transmission of information and associated evidence provided at the time of account opening in support of an application from an SME's existing bank to a new bank, which should further facilitate switching.

Conclusion on overview

6.19 These measures will, in combination, empower SMEs to make more informed choices and enable them to more easily identify a provider which meets their current account and lending needs and, if they so wish, switch their BCA to, or apply for a loan from that provider. This in turn should incentivise banks to more vigorously compete on the BCA and loan prices, and on loan availability, delivering better value for SMEs.

6.20 The beneficial impact of our remedy package on SMEs is likely to be enhanced by steps to raise awareness among SMEs of the potential benefits to them of switching BCA providers. In this context, professional advisers, particularly accountants, play an important role in providing decision-making support to SMEs, including in respect of their choice of bank.⁵⁰⁷ We therefore propose to recommend to BIS that it works with the [British Business Bank \(BBB\)](#) and professional associations such as the Institute of Chartered

⁵⁰⁷ [SME Research](#), Research Works.

Accountants in England and Wales ([ICAEW](#)) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs.

6.21 The remainder of this section sets out our additional SME remedies in detail.

Measures to increase transparency of the cost of and eligibility for SME lending

Introduction

6.22 We provisionally found that a combination of features in the provision of SME lending in each of GB and NI respectively give rise to AECs. These features include low levels of customer engagement in SME lending, with the great majority of SME customers going straight to their main bank when seeking finance.⁵⁰⁸ We also identified barriers to comparing lending products. Prices and terms are complex and opaque, and there is a lack of effective comparison tools for SME products and services.

6.23 In our Remedies Notice we proposed the creation of a PCW for SMEs covering BCAs and lending and this is discussed in paragraphs 6.119 to 6.211. We also proposed that loan providers should be required to make available on their websites a tool that would permit SMEs to enter a small amount of information and to receive an indication of price and eligibility regarding lending products.⁵⁰⁹

6.24 In addition, we invited views on which other measures could be implemented more quickly to promote greater engagement and make it easier to compare the cost of lending.

6.25 This subsection explains how we have developed our measures to increase transparency of the cost of lending and to promote greater SME customer engagement.

Summary of the measures we are proposing to take forward

6.26 In Figure 6.1, we summarise the proposed measures in regard to SME lending.

⁵⁰⁸ Our surveys of SMEs found that around 90% of SMEs go to their main bank for each of overdrafts, general-purpose business loans and credit cards; 69% went to their main BCA bank for invoice discounting and factoring and 76% for commercial mortgages. See [provisional findings](#), pp31–32.

⁵⁰⁹ [Remedies Notice](#), paragraph 164.

Figure 6.1: Proposed measures to increase transparency of the cost of and eligibility for SME lending

We have provisionally decided to make an order requiring all lenders that provide unsecured loans and overdrafts to SMEs to display on their websites rates showing the cost of these products up to the value of £25,000. These rates must be displayed in a form used under the existing (personal) consumer credit regime. This includes:

- (a) showing a representative annual percentage rate (APR) for unsecured loans; and
- (b) an equivalent annual rate (EAR) for overdrafts to enable SMEs to make comparisons on the total cost of credit.

The rates that these lenders publish must be made available to at least 51% of SME customers applying for these products. In addition, lenders must make available these charges, terms and conditions, and how APR/EARs vary with loan size and length, as open data to third parties, such as comparison sites and finance platforms, including the eventual Nesta challenge prize winner or winners. This measure must be implemented within three months of the order coming into effect. We further require that all lenders who advertise prices for SME lending in marketing materials should always do so using an APR/EAR format from the existing (personal) consumer credit regime.

We have also provisionally decided to make an Order requiring RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG to offer a tool on their websites to enable SMEs to obtain an indicative price quote and indication of their eligibility. This would cover all unsecured and secured loans and overdrafts up to £25,000. This measure must be implemented within six months of the order coming into effect. Access to these tools must be made available to any two finance platforms designated under the [SBEE Act](#) for a period of three years and any two comparison sites, including the eventual winner or winners of the Nesta challenge prize, for a period of three years after the prize winners have launched their products in the market.

How the remedy addresses the AEC and/or the resulting customer detriment

6.27 We provisionally found that SMEs typically sourced external finance from their main bank (ie their BCA provider) for three main reasons:

- (a) Their BCA provider had more information (eg transaction history) to enable it to assess risk and price credit more accurately, and potentially make lending decisions more quickly.

- (b) Applying for finance from other providers required time and effort⁵¹⁰ and was not appropriate when finance was needed at short notice.⁵¹¹ We provisionally found that time spent searching and completing applications, including gathering the necessary documentation, varied significantly between lender and types of lending. For example, 46% of applications took less than one hour to complete but 9% took over 20 hours.⁵¹²
- (c) It was difficult for SMEs to compare prices and other terms across banks, as prices were opaque and lending products were complex.

6.28 The two measures proposed as part of this remedy will address the AEC we have provisionally identified in SME lending in the following ways:

- (a) Requiring lenders to publish rates for unsecured loans and overdraft products will reduce the time and effort involved when SMEs search for loans and overdrafts, reducing search costs and promoting greater customer engagement.
- (b) Requiring lenders to publish these rates in a standard format through APRs/EARs will allow SMEs to more easily compare between different lenders and to better identify those products and lenders that offer the best value.
- (c) The loan price and eligibility indicators developed by the main providers of SME banking services in GB and NI will provide further clarity and certainty on the cost of lending, and the likelihood of being accepted in advance of an SME making a loan or overdraft application. This will provide greater confidence to SMEs when applying for a loan, particularly when applying to new providers, thereby helping to reduce the strong product linkages between BCAs and SME lending.^{513,514}
- (d) The greater transparency on pricing and availability will provide strong incentives for lenders to compete on these factors, driving greater efficiency and innovation and delivering better value for SMEs.

⁵¹⁰ Our survey of SMEs found that 25% of SMEs did not consider other providers because of the ‘hassle’ or time associated with applying for finance (see [provisional findings](#), p32).

⁵¹¹ 24% of SMEs applied for finance at the time it was needed and a further 12% within two weeks of needing finance (see [provisional findings](#), p32).

⁵¹² See [provisional findings](#), p32.

⁵¹³ This should also reduce the costs for SMEs of obtaining quotes from several providers, which we mentioned was an aspect of the AEC related to the nature of demand for SME lending products.

⁵¹⁴ We have also provisionally decided to retain the bundling undertaking, provided by a number of banks in 2002, to mitigate the effects of the strong product linkages between BCAs and SME lending. See our [provisional decision on the review of the 2002 SME banking undertakings](#).

Publishing rates for SME lending products

- 6.29 Our provisional findings concluded that prices for loans for SMEs were not transparent. Unlike in personal lending or mortgages, where customers can look at published tables with the best offers or rates for these products, there were no such tables for SME lending products.⁵¹⁵
- 6.30 In order to design this remedy, we asked banks about whether they publish rates for SME lending products and what prevents them from doing so if they do not. We found that where banks do publish rates, this is not done on a consistent basis, making it difficult for SMEs to compare across banks. For example, some lenders provide typical percentages or ranges, others provide a minimum ('from') rate.⁵¹⁶ Banks' views on feasibility of publishing rates are discussed below in paragraphs 6.32 to 6.40.
- 6.31 As part of this remedy, and to complement other measures in ensuring the terms for products are made available in a meaningful way, we considered whether it would be feasible to require banks to publish rates for some SME lending products in broadly the same way they do for personal lending. This would increase price transparency and enable SMEs to make better comparisons between loan providers.

Parties' views

- 6.32 There was a broad range of views among parties on the feasibility and benefits of publishing rates on SME lending.
- 6.33 Some parties felt that greater transparency could be beneficial. For example, HSBCG told us that it was currently not standard market practice for SME lenders to publish annual interest rates/annual percentage rates or headline rates which made it difficult for SMEs to shop around for loans quickly and easily. HSBCG felt that there was scope for increasing transparency and comparability for unsecured lending products (below £25,000 including business loans and overdrafts that were Consumer Credit Act regulated) by publishing prices.
- 6.34 LBG told us that there were three approaches that could be used in markets where prices were bespoke, for example insurance products, overdrafts or loans. These were: setting and advertising a single standard rate for all customers; publicising representative rates that were applicable to at least half of customers; or enabling customers to get personalised quotes via a tool.

⁵¹⁵ See [provisional findings](#), p282.

⁵¹⁶ See [provisional findings](#), footnote, 273, p282.

With regard to publishing representative rates, LBG told us that it allowed the lender some flexibility over eligibility, compared with using a single standard rate, and allowed lenders to offer higher prices to riskier customers. The downside was that customers might be attracted by the representative rate, but might then either be offered a higher rate or declined to ensure that no more than 49% of applications were above the representative rate. LBG told us that this meant representative rates were less meaningful for customers where there was a wider distribution of prices which depended more on factors such as risks which were specific to each loan application.

- 6.35 Barclays also mentioned potential negative consequences from publishing representative rates. It told us that introducing a representative rate could have an adverse effect due to lenders being less inclined to lend to riskier segments in order to maintain a lower representative rate to obtain customers.
- 6.36 LBG also told us that for its personal customers, where it published representative rates, it monitored this on a forward-looking basis and if it identified that it might potentially not meet the 51% target, it raised its advertised rates to reflect the changing risk profile of applicants.
- 6.37 We consider that there would be strong incentives for banks to look ahead and to advertise rates which they expect to be realistic, as pricing unrealistically low and then rejecting customers would be a less commercially optimal approach. We also consider that banks could offer higher rates than the representative rate to up to 49% of customers and that the measure should therefore not have a significant detrimental impact on higher-risk customers.
- 6.38 In addition, LBG told us that a representative price would reflect the relative distribution of customer risk profiles, rather than the relative competitiveness of prices for specific types of risk and would therefore be meaningless for most customers. LBG therefore considered that it would be more effective to develop and improve the ability of SME customers to make personalised comparisons across providers using online tools.
- 6.39 We agree with LBG that online tools have the potential to help SMEs make personalised comparisons across providers; this is discussed in our section below on a measure to implement these tools. However, we do not agree with LBG that a representative price would be meaningless for most customers. Even if a representative price will be somewhat affected by relative risk profiles, lenders' distribution of customer risk profiles would have to vary considerably for this to be the case. Furthermore, it is likely that SME customers will have some information about the lenders which are most suitable to them, for example if certain lenders operate in a particularly high-

risk sector, which the SME also operates in, they may be able to take this into account when comparing representative prices.

- 6.40 There is a broad agreement among parties that despite the heterogeneity of SMEs, it is possible to distinguish between those that have much smaller and simpler borrowing requirements (eg unsecured loans below £25,000 and overdrafts) and those with more complex lending needs. Santander and HSBCG, for example, already publish rates for unsecured loans and overdrafts up to £25,000. Co-op believe the industry should be striving towards more transparent pricing structures for loans up to £25,000 and for overdrafts up to £10,000. Barclays told us that its position on the publication of rates for unsecured loans up to £25,000 could alter in future.

Remedy design considerations

- 6.41 We considered the following remedy design considerations:
- (a) what products should lenders be required to publish price information on and up to what value;
 - (b) what pricing information should lenders provide and in what format; and
 - (c) which lenders should be required to publish prices.
- *What products should lenders be required to publish price information on and up to what value*

- 6.42 We are proposing that prices should be published for unsecured lending and overdrafts up to £25,000. We consider that it would be beneficial for prices to be published for as wide a range of products as possible, so that price transparency would benefit a large number of SMEs. However, we want to avoid requiring banks to publish representative prices for larger, or complex, products where this could be misleading or impractical, and therefore ineffective in addressing the relevant AEC. We thought this could occur because large loans are frequently negotiated and because prices for complex products vary significantly depending on the nature of assets or agreements involved.⁵¹⁷

- 6.43 Our analysis shows that some lenders already publish prices for unsecured SME loans and overdrafts up to the value of £25,000, demonstrating proof of concept. Of those large banks that do not publish rates, many suggested that

⁵¹⁷ We understand that for invoice and asset finance, terms and prices vary considerably, for example for invoice finance these can vary based upon factors such as the nature of the SME's agreements with its customers and the SME's invoicing processes.

doing so could be feasible for overdrafts and unsecured products up to £25,000, but not beyond this. We are not aware of banks publishing prices for values above £25,000 for SME lending products.

- 6.44 A number of parties told us that it would be misleading or impractical to publish representative prices for larger amounts, such as for above £25,000. This was because there was a wider spread of prices for larger lending than for smaller lending, and because individually tailored and negotiated prices were more common for larger lending than for smaller lending.
- 6.45 We consider that this scope would give a considerable degree of coverage of SME lending:
- (a) A number of banks told us this would cover a high proportion of SME lending, in particular for simple products demanded by small SMEs.^{518,519}
 - (b) Of all loans taken out for less than £25,000, approximately 65% were unsecured.⁵²⁰ Analysis of SME Finance Monitor data found that 78% of SMEs' unsecured borrowing was for amounts less than £25,000. We found that increasing this to £50,000 would only increase coverage to 87% (Table 6.1).
 - (c) The SME Finance Monitor shows that approximately 80% of overdrafts that were granted to SMEs in 2015 were less than £25,000.⁵²¹ This is similar to data from the Charterhouse UK Business Banking Survey, which shows that of SMEs who regularly use overdrafts 88% tend to be overdrawn by £25,000 or less.⁵²² Increasing this threshold to £50,000 would only increase the proportion of SMEs covered by this measure by five percentage points for overdrafts, to 93% (Table 6.1).

⁵¹⁸ Barclays told us that applications in the size range of unsecured term loans and overdraft limits with a value up to £25,000 represented more than half of the total volume of new term loans and overdraft limits seen by typical providers. In an earlier comment, Barclays told us that aligning tools with the Consumer Credit Act threshold of £25,000 would cover the simpler borrowing needs of 80 to 90% of SMEs at the smaller end of the market. [Transcript of roundtable hearing with Barclays, HSBCG, Nationwide and Santander](#), p88.

⁵¹⁹ HSBCG told us that 'based on recent data in respect of HSBC's lending activity for borrowing under £300,000, HSBCG estimates that [X]% of the applications (by volume) were for borrowing amounts below £30,000.'

⁵²⁰ [SME Finance Monitor, An independent report by BDRG Continental, March 2016](#), p192.

⁵²¹ [SME Finance Monitor, An independent report by BDRG Continental, March 2016](#), p179.

⁵²² We note that this measure of overdrafts is restricted to the proportion of the number of businesses whose main account is usually in debit at the end of each month.

Table 6.1: Product coverage by size of lending – unsecured loans and overdrafts

Size of lending (up to)	Product		%
	Unsecured loans*	Overdrafts†	
£25,000	78	88	
£50,000	87	93	
£100,000	95	96	

Sources: *SME Finance Monitor Q2 2012 to Q3 2014; † Charterhouse BBS 2014.

Base:

1. SME Finance Monitor: 923 SMEs who successfully applied for a new or renewed secured loan facility in the 12 months prior to the interview, 587 SMEs who successfully applied for a new or renewed unsecured loan facility in the 12 months prior to the interview.

2. Charterhouse survey: 1,227 SMEs who had held a business loan/commercial mortgage in the 12 months prior to the interview, 667 SMEs whose main account was usually in debit at the end of each month, 2014.

Note: All figures exclude businesses who did not provide information on loan/mortgage or overdraft size when asked.

6.46 Our proposed scope also aligns with the approach taken under the UK consumer credit regime for personal customers, where most banks publish rates for personal unsecured loans and overdrafts up to £25,000. We have not undertaken additional analysis to suggest that £25,000 would be a better threshold than other similar potential thresholds such as, say, £20,000 or £30,000. The alignment with the existing personal consumer credit regime, the evidence we have reviewed above, and the fact that a number of parties have suggested this value to us, lead us to provisionally conclude that this is an appropriate value.

6.47 We also noted in our provisional findings that smaller SME customers are less able to negotiate terms and are most likely to be adversely affected by the reduced competitive constraints on banks in SME lending.⁵²³ These SMEs are most likely to borrow smaller amounts, and hence targeting this measure at small loans will be likely to be beneficial for these SMEs in particular.

6.48 We also considered whether lenders should be required to publish rates for more complex SME lending products such as secured loans, invoice finance and asset finance. While this would provide greater coverage of SME lending, we provisionally decided against this for the following reasons:

(a) The nature of the assets involved in secured lending and asset finance can vary significantly between SMEs. Including these products would mean that the rates which were published varied even more widely than for the unsecured lending already in scope, and could vary to such an extent that they could be misleading.

(b) The valuation of assets and receivables in the case of asset finance and invoice discounting is frequently not a straightforward process. Multiple

⁵²³ [Provisional findings](#), paragraph 12.14.

parties told us that this often meant obtaining greater information from SMEs.

(c) We are not aware of any banks publishing representative prices for secured lending, other than for mortgages.

- *What pricing information lenders should provide and in what format*

6.49 We are proposing to order that relevant lenders⁵²⁴ should be required to publish certain information on the cost of credit for unsecured loans and overdrafts up to £25,000, and to do so in the form of APRs/EARs, which are used under the UK consumer credit regime for personal customers.⁵²⁵ Furthermore, we are proposing that banks should be required to always use the same format when publishing SME lending prices in marketing and advertising materials. This would be in line with the provisions of the personal consumer credit regime which state that a particular format should be used whenever marketing or advertising materials quote a price or cost.

6.50 We recognise that there are a number of factors which determine loan prices, and that this can lead to a significant price variation.⁵²⁶ To make price information useful rather than overwhelming to SME customers, we would not order lenders to publish full matrices of prices derived from the interaction of these variables. Instead we are proposing to:

- (a) require lenders to publish a representative APR/EAR (although we welcome views on whether this is the most appropriate information to publish) for unsecured loans and overdrafts offered to SMEs of value up to £25,000, and to use this format when publishing SME lending prices in marketing and advertising material for these products;⁵²⁷
- (b) require lenders to make available to comparison sites and finance platforms data on how these representative rates change with loan and

⁵²⁴ Meaning those that provide unsecured loans and overdrafts to SMEs, for values under £25,000.

⁵²⁵ We note that this framework does apply to SMEs which are sole traders and to partnerships with three or fewer partners. However, we also note, first, that analysis by the FCA found that over half of all overdrafts and loans (55%) to SMEs fell outside the perimeter of the consumer credit regulation, having no protection at all (FCA discussion paper '[Our approach to SMEs as financial users](#)', Annex 4, paragraph 40). Second, the FCA noted that with respect to financial promotions and communications, including the information that lenders are required to provide consumers, none of these are applicable to SMEs (including sole traders and partnerships with fewer than three partners). 'CONC 3 rules on financial promotions and communications do not apply to financial promotions and communications which indicate clearly that they are solely promoting credit/hire for the purposes of a customer's business.' (FCA discussion paper '[Our approach to SMEs as financial users](#)' Annex 4, paragraph 41.)

⁵²⁶ In our [provisional findings](#), paragraph 8.164, p281, we noted: size of the loan; security; term; SME business sector; risk band of SME.

⁵²⁷ Paragraph 6.53 notes that a representative APR is one of the key pieces of information involved in a representative example, as used under the existing personal consumer credit regime.

overdraft size (up to £25,000) and with loan term.⁵²⁸ We note that this is the data behind simple calculators such as are offered for many personal lending products. These would allow customers (through comparison sites and finance platforms) to adjust the size of the loan or overdraft, and the term for loans, to see the representative rates relevant for the borrowing they require; and

(c) encourage these lenders to publish simple calculators, as described immediately above, on their websites.

- 6.51 The proposed order requiring banks to offer a loan price and eligibility indicator tool, described below in paragraphs 6.62 to 66.109, would complement this information by allowing SME customers to understand how the remaining factors, such as SME business sector, risk band of SME and nature of security, affect loan prices relevant to them and based on their characteristics.
- 6.52 In terms of the format in which these prices should be published, we note that under the UK consumer credit regime, lenders offering credit to personal customers are subject to certain obligations on the calculation and disclosure of the total charge for credit and the APR in advertising and financial promotions,⁵²⁹ as well as in pre-contractual information⁵³⁰ and quotations.⁵³¹
- 6.53 One feature of this regime is that lenders must include a representative example when an advertisement indicates a rate of interest or an amount relating to the cost of credit whether expressed as a sum of money or a proportion of a specified amount. This is to enable customers to have a full understanding of the total cost of credit and to compare products. This representative example must include the following information:⁵³²
- (a) the rate of interest, and whether it is fixed or variable or both, expressed as a fixed or variable percentage applied on an annual basis to the amount of credit drawn down;
 - (b) the nature and amount of any other charge included in the total charge for credit;

⁵²⁸ Of the factors which determine loan prices, the size of the loan and the term are the key factors which are relevant to all customers and for the products within scope. Each SME's business sector and risk band would mean that an advertised price would be relevant only to a subset of customers.

⁵²⁹ See CONC 3, [Consumer Credit sourcebook](#), FCA, 2014.

⁵³⁰ See section 55 of the Consumer Credit Act 1974, the Consumer Credit (Disclosure of Information) Regulations 2004, the Consumer Credit (Disclosure of Information) Regulations 2010 and CONC 4. As noted in footnote 525, the framework does apply to a subset of SMEs.

⁵³¹ See CONC 4, [Consumer Credit sourcebook](#), FCA, 2014.

⁵³² See CONC 3.3.4 and 3.3.5, [Consumer Credit sourcebook](#), FCA, 2014.

- (c) the total amount of credit;
- (d) the representative APR;
- (e) in the case of credit in the form of a deferred payment for specific goods, services, land or other things, the cash price and the amount of any advance payment;
- (f) the duration of the agreement;
- (g) the total amount payable; and
- (h) the amount of each repayment of credit.

6.54 For the rate to be considered representative it must reflect at least 51% of business expected to result from the advertisement.⁵³³ The 51% test is meant to prevent lenders from displaying unrealistically low rates to attract more customers.

6.55 Given that there is already an existing framework in place that both lenders and SMEs as personal customers are familiar with, we are proposing to require lenders to adopt some key features of this framework when displaying prices to SMEs. As such we are proposing to order lenders to publish prices as a representative APR/EAR, which is applicable to at least 51% of SME customers. We would welcome views on whether this is the correct information we should require lenders to publish, or whether a different choice of information, for example a full representative example, as outlined in paragraph 6.53, above, would be more suitable.

6.56 This approach of using a representative APR which would be offered to at least 51% of customers has the advantage of increasing transparency to enable customers to compare prices across banks, while still allowing banks to set higher prices for higher-risk SMEs, rather than rejecting them as might occur if they were obliged to publish prices applicable to all SMEs.

6.57 However, we recognise that ordering relevant lenders to publish key information such as representative APRs/EARs goes beyond the scope of the equivalent personal consumer credit regime, which specifies only the form in which lenders should publish prices if they choose to do so. We consider that requiring lenders to publish prices for SME lending products is necessary to address the AEC we have identified, because so few banks currently do so.

⁵³³ See CONC 3. [Consumer Credit sourcebook](#), FCA, 2014.

- *Which lenders should be required to publish prices for SME lending*

6.58 We propose that all lenders that provide unsecured lending and overdrafts under £25,000 to SMEs should be required to publish prices for lending.

6.59 In reaching this provisional decision, we considered whether publishing prices and setting a representative rate, as we have described above, could be potentially more difficult for smaller, newer lenders that might have less historical and pooled data. However, we concluded that including all relevant lenders within the measure should not be disproportionately onerous for them, and that requiring all lenders to publish prices would allow widespread comparisons to be made. We would welcome views on this issue.

Implementation issues

6.60 We consider that this measure can be implemented relatively quickly and therefore propose that relevant lenders should publish pricing information within three months of the order coming into effect. This has the advantage that it would begin to address our AEC, by allowing SMEs to compare lending prices, in the near future.

6.61 We are also proposing that product and pricing data for overdrafts and unsecured loans should be made available as open data to intermediaries – such as comparison sites and finance platforms – within three months of the order coming into effect. This should include the representative APR/EARs, and data on how the lender’s representative APR varies with loan and overdraft size (up to £25,000) and with term length for loans, as discussed in paragraph 6.50 above.

Loan price and eligibility indicator

6.62 The requirement for lenders to publish rates for SME lending products will increase the transparency and comparability of prices in the market, increasing SME customers’ ability to compare prices across lenders. This in turn will enable SMEs to get a better deal, either from a provider other than their BCA provider or from their BCA provider, as a result of the increased competitive pressure.

6.63 There are likely to be two benefits of an online loan price and eligibility indicator tool over and above this:

- (a) Not all SMEs will be eligible for the advertised price. In particular, up to 49% of SMEs may receive a higher price. The price and eligibility tool

may provide SMEs with greater certainty on the final price that they are likely to receive.

(b) In our provisional findings we noted that another reason why SMEs go to their main BCA bank is that they believe their main banks will be most likely to provide them with finance, contributing to these banks' incumbency advantage.⁵³⁴ If SMEs were able to find out easily whether banks other than their BCA provider were willing to give them a loan, it could reduce their main bank's incumbency advantage and increase SMEs' confidence in approaching lenders other than their main BCA provider for lending.

6.64 Under this remedy we are proposing to order specified banking groups to offer a tool on their website to enable SMEs to obtain a tailored 'price quote' and indication of eligibility. SMEs would enter some key information into the tool (discussed below in paragraphs 6.84 to 6.88), which would then allow them to obtain a tailored price quotation, along with information on the product, as well as an indication of whether they are eligible for particular lending products. We are also proposing to order that banks make access to this tool available to intermediaries such as finance platforms and comparison sites, as well as the eventual Nesta prize winner or winners.

Parties' views

6.65 The majority of parties who responded to this proposal were broadly positive. Barclays, HSBCG, RBSG, Santander,⁵³⁵ the Institute of Directors and Business Finance Compared were broadly supportive of the aims of the remedy at a general level. This was primarily due to the role loan price and eligibility indicator tools could play in increasing price transparency and helping SME customers to understand which products they might be eligible for.

6.66 LBG supported the development of comparison services and loan price eligibility checkers, and considered that this could be most effectively achieved through the proposed challenge prize approach.

⁵³⁴ See [provisional findings](#), p32.

⁵³⁵ However, Santander considered that indicative pricing and eligibility tools were unlikely to be used by larger businesses. In Santander's experience, larger businesses did not purchase or compare loans simply on the basis of price. Moreover, pricing would reflect a number of variables, such as the purpose of the funding, the type of funding, term over which financing is sought, whether the rate was fixed or variable, security, arrangement fees and any applicable covenants. Even for smaller businesses, an eligibility/pricing tool was mainly helpful where an applicant had decided that a term loan was an appropriate source of funding (rather than, for example, invoice or asset finance) or was seeking to understand roughly what a loan would cost. Santander considered that, while indicative pricing tools were helpful, their design and content should be left to individual banks' discretion. We discuss this latter point in paragraphs 6.84–6.88.

- 6.67 A number of parties made the point that simple lending products, of limited size, would be best suited to inclusion within the scope of the tool, and were supportive of a tool on this basis. The scope of products we provisionally decided should be included in the tool is discussed below.
- 6.68 We note that RBSG already has an online tool which provides tailored price and eligibility indications for personal credit cards using CRA data. A number of banks have facilities for their existing SME customers to see what lending products and limits they may be eligible for, and to apply instantly online.⁵³⁶
- 6.69 Similarly, in March 2016 HSBCG launched an online tool which gives SME customers who do not currently bank with HSBC an indication of their eligibility for SME lending products (although it does not give indicative price quotes), and [redacted].⁵³⁷ This tool requires a small number of input fields to be filled in by an SME customer, and incorporates CRA data from Equifax.⁵³⁸
- 6.70 Some respondents did not view the remedy positively. Some of these were banks that placed a particular emphasis on the role of the relationship manager and a personal, judgement-based approach to SME banking. For example, Danske and First Trust Bank considered that the use of tools could remove the existing benefits of customers negotiating a bespoke loan price/product. Secure Trust also said that greater transparency could provoke an ‘online price comparison war’ which would unfairly favour incumbents due to capital and funding differentials in their favour.⁵³⁹
- 6.71 We consider that SMEs should have access to the tools they need to effectively compare different providers’ loans, including their prices, and that this will stimulate competition between lenders. If SMEs are able to more readily switch providers, this will reduce the advantages enjoyed by incumbent BCA providers and facilitate expansion by smaller providers. The

⁵³⁶ Barclays told us that a customer that had a pre-existing risk profile seeking unsecured term or overdraft lending of £25,000 or less could apply instantly online. LBG’s ‘straight through processing’, described above, allowed existing customers with estimated turnover less than £1 million, borrowing less than £50,000, and ‘straightforward banking needs’, to obtain finance through an automated process up to £10,000 via a digital channel (increasing to £[redacted] for overdrafts during H1 2016).

⁵³⁷ HSBCG told us that in March 2016 it launched a business lending eligibility checker tool for new-to-bank customers seeking to borrow up to £30,000 via unsecured loans, overdrafts and commercial credit cards. The tool enabled HSBCG to provide an indication of the likelihood that an SME would be able to borrow their requested amount (‘likely’, ‘maybe’ or ‘unlikely’) based on a minimum amount of information it requested from SMEs. It did not provide an indicative price quote.

⁵³⁸ Although one bank already has a tool similar to what we are proposing to order specified banks to develop, we think that our proposed remedy would nevertheless be effective in leading to greater transparency within the market. This is because the existing tool still does not have the full functionality we envisage, and so it requires further development. In addition, through our remedy multiple banks providing a significant proportion of SME lending would be required to have these tools available so that customers could make meaningful comparisons between lenders’ personalised quotes and therefore be inclined to consider other lenders, not just their own BCA provider.

⁵³⁹ Our assessment of the existence of barriers to entry and expansion due to funding differentials and capital requirements is set out in our [Addendum to provisional findings](#).

availability of such tools would not prevent lenders continuing to provide bespoke services. It is possible that SME customers may first look at lenders using online tools, and then enter into bespoke pricing discussions with a selection of lenders.

- 6.72 Some parties told us that it would be more suitable for the tool to be developed for small SMEs with simple lending requirements, given the often more complex requirements of larger, more complex SMEs. However, it was not clear to us whether or not this differentiation between the sizes of SMEs meant in fact a requirement to distinguish between the lending products which vary in terms of complexity.
- 6.73 Some parties expressed concerns that banks' underwriting systems would not be sufficiently automated to allow indicative offers to be assessed. However, we found that many major providers (eg HSBCG, LBG) already have automated credit underwriting systems which are capable of making decisions for lending products of the kind included within the scope of our remedy. Moreover, it should not be necessary for banks to make use of their full underwriting processes to provide indicative offers. This is because banks should be able to make these offers based upon analysis of their past lending decisions and how these relate to the characteristics of the SME's application. This is, for example, the approach taken by HSBCG's tool.

Remedy design considerations

- 6.74 We have identified a number of remedy design considerations with regard to the loan price and eligibility indicator:
- (a) Which lending products the tool should apply to, and up to what value of lending.
 - (b) The format of the tool and whether information required of SMEs should be standardised.
 - (c) What minimum information the tool should provide to the SME and how quickly it should do so.
 - (d) How to ensure the price and eligibility indicators give meaningful quotes.
 - (e) Which banking groups should be required to implement this remedy.
 - (f) Who should be provided access to the tools' outputs.

- *Which lending products the tool should apply to, and up to what value of lending*

6.75 For the publishing prices for SME lending products measure, we consider that only unsecured lending and overdrafts up to £25,000 should be included within its scope.

6.76 However, with the ability of banks to receive more bespoke information about applicants through an online tool it may be feasible and desirable to raise the threshold in terms of value to a higher level, such as £50,000 (this is discussed in paragraphs 6.82 and 6.83). For this reason, we also consider that it would be feasible to expand the scope of the tool to include secured loans (this is discussed in paragraphs 6.78 and 6.81).

6.77 Including secured lending would increase the amount of SME lending covered by this measure. Indeed, the SME Finance Monitor shows that 40% of business loans were secured.⁵⁴⁰ Moreover, secured lending is generally higher value than unsecured loans: SME Finance Monitor data shows that only 27% of secured loans were under £25,000 (compared with 78% of unsecured loans). Increasing the scope of the tool to include secured loans up to a higher value would therefore increase coverage more significantly than for unsecured loans. Increasing the threshold to £50,000 would increase the coverage 15 percentage points, to 42% (Table 6.2).

Table 6.2: Product coverage by size of lending – unsecured loans, secured loans and overdrafts

Size (up to)	Product			%
	Unsecured loans*	Secured loans*	Overdrafts†	
£25,000	78	27	88	
£50,000	87	42	93	
£100,000	95	57	96	

Sources: * SME Finance Monitor; †Charterhouse BBS 2014.

Base:

1. SME Finance Monitor: 923 SMEs who successfully applied for a new or renewed secured loan facility in the 12 months prior to the interview, 587 SMEs who successfully applied for a new or renewed unsecured loan.

2. Charterhouse survey: 1,227 SMEs who have held a business loan/commercial mortgage in the 12 months prior to the interview, 667 SMEs whose main account was usually in debit at the end of each month, 2014.

Note: All figures exclude businesses who did not provide information on loan/mortgage or overdraft size when asked.

- *Secured lending*

6.78 A number of parties told us that it would be challenging to include secured lending in a price and eligibility indicator tool. The primary reasons for this were that the nature of assets involved in secured lending varied considerably

⁵⁴⁰ SME Finance Monitor, An independent report by BDRC Continental, March 2016, p192.

and that valuation was frequently not straightforward. Multiple parties told us that this meant that greater information requirements and frequently an element of judgement were involved in valuing assets for secured lending. Another concern was that valuations would not be done in a consistent way, which would lead to incorrect comparisons between providers.

- 6.79 Although parties were generally not in favour of including secured lending within the scope of the tool, a number of parties did make reference to how this might be achieved. For example, RBSG mentioned that a tool should enable customers to enter ‘details of any security available to enable us to calculate a loss given default’.⁵⁴¹ Barclays considered that eligibility tools covering secured lending might be placed on banks’ websites, but would not be suitable for comparison through comparison sites.⁵⁴² Barclays further told us that ‘many of the items funded by asset finance offer the prospect of a standardised approach for at least a proportion of applications, while there are similar factors for term loans secured on land/property and certain fixed assets.’
- 6.80 Some assets which SMEs may wish to secure their borrowing against are difficult to value through automated processes.⁵⁴³ However, there are some assets for which valuation can be automated to some level for personal lending, in particular cars and houses.⁵⁴⁴ One party told us that there might be the potential to apply standardised approaches to many of the items funded by asset finance and loans secured on land or property. We consider that a substantial proportion of SME assets are likely to be potentially open to standardised approaches compatible with automated online tools, for example properties and vehicles.
- 6.81 It may be possible for tools to include a small number of fields that would allow customers to enter details of security, for example type (eg land, property, vehicles and other relevant types of security) and value, and for banks to provide indicative responses based upon this. We therefore propose to include secured loans, in addition to unsecured loans and overdrafts, within the scope of our Order. We would welcome views on this proposal.
- *A higher threshold, for example £50,000*
- 6.82 Including a higher threshold would achieve a greater coverage of SME lending, in particular for secured lending. We did not consider it appropriate to

⁵⁴¹ [RBSG response to Remedies Notice](#), p59.

⁵⁴² [Barclays response to Remedies Notice](#), section 16.

⁵⁴³ For example inventories, IT systems or bespoke equipment.

⁵⁴⁴ [Experian's response to the role of comparison sites for SMEs in addressing the AEC working paper](#) noted this fact, at the same time as raising concerns about the suitability of much of secured SME lending for automation.

have a value higher than £25,000 for our provisional decision to order banks to publish prices for SME lending products, see paragraphs 6.42 to 6.47 above. This was primarily because for higher values, prices vary more considerably and because they are more frequently negotiated.

6.83 While we recognise that including a higher value threshold of £50,000 may be more challenging, we note that one party, Business Finance Compared, suggested £50,000 as a potential ceiling.⁵⁴⁵ With the degree of information about SME customers submitted to banks through the online tools, they should be able to provide meaningful indications of eligibility and price for loans up to a higher value than £25,000, for example to £50,000. We also note that these indicative offers may not have to be correct for at least 51% of customers, as would be the case for our proposed order requiring the publication of representative prices. However, in paragraphs 6.92 to 6.98 below, we discuss how we propose to ensure the price and eligibility indicators give meaningful quotes. We would welcome comments on whether it would be feasible for the specified banks to provide online tools for values up to £50,000, for unsecured loans, secured loans and overdrafts.

- *The format of the tool and whether information required of SMEs should be standardised*

6.84 Parties provided a range of views on whether tools should be standardised either fully or through certain minimum requirements. Some were in favour of standardisation: this would make tools easy for use by SMEs, because results would be comparable, and this would also mean that they could be easily connected to comparison sites. Others saw it as limiting competition through differentiation. Some parties suggested a degree of standardisation of inputs, through an industry guide or an independent body.

6.85 We provisionally decided that the information input requirements for loan price and eligibility indicator tools should primarily be determined by banks themselves, but that they should work with comparison sites to develop certain minimum standards in this regard. However, we would welcome further input regarding whether an independent body or third party should be involved in coordinating the development of the tools' inputs and outputs.

6.86 Lenders and comparison sites should also consider carefully the degree of information they require customers to input to the price and eligibility tool. This should strike a balance between requesting enough information to enable

⁵⁴⁵ [Business Finance Compared response to Remedies Notice](#), p35.

accurate quotes to be provided, and avoiding over-burdening users such that they would be discouraged from using the tools.⁵⁴⁶

6.87 We note that the most advanced eligibility tool of which we are aware, developed by HSBCG in partnership with Equifax, uses the following information:

- (a) information about the business and the lending request – the amount of borrowing (up to £30,000), the business activity and legal structure;
- (b) information about the people involved in the business (up to two proprietors) – name, addresses and date of birth; and
- (c) Equifax Credit Report.

6.88 We consider that this may provide a reasonable approach to the number and range of fields which relevant banks should include in their tools.

- *What minimum information the tool should provide to the SME and how quickly it should do so*

6.89 We propose that the minimum information which should be returned to the SME customer should be:

- (a) an indication of eligibility in a clearly understandable format, for example a percentage indicating the likelihood of being eligible for a given product at a given rate. This is in line with our understanding of the format in which at least one existing lending platform displays eligibility information; and
- (b) an indicative rate including information in the same format as required in our proposed order regarding the publishing of prices, paragraph 6.50(a) above.⁵⁴⁷ This is also used in the format the existing indicative offers are provided to customers by lenders who currently do so.

⁵⁴⁶ This concern regarding the optimal amount of information which should be asked of the tools' users is in accordance with the issues highlighted in the [Behavioural Insights Team response to the Remedies Notice](#). BIT considered first that the data input process should be as easy as possible or else customers were less likely to use the tool due to the time costs of doing so. Second, customers would have lower search costs if they were required to enter information as few times as possible.

⁵⁴⁷ We note that this may differ from our order regarding the publishing of prices if the representative rate did not need to apply to at least 51% of customers. See paragraphs 6.92 to 6.98 for further discussion regarding how to ensure the price and loans eligibility indicators give meaningful quotes.

- 6.90 With regard to how quickly such tools should provide indicative price and eligibility quotes, it is clearly desirable that this should be done as quickly as possible.⁵⁴⁸ We note that:
- (a) many banks which give indicative quotes to SMEs are able to do so almost instantaneously for relatively simple SME lending products;⁵⁴⁹ and
 - (b) HSBCG's tool is able to provide users with an indication of eligibility 'within minutes'.
- 6.91 We therefore propose to require that relevant banks design loan price and eligibility tools such that SMEs can receive indicative quotes within 24 hours.
- *How to ensure the price and eligibility indicators give meaningful quotes*
- 6.92 There was widespread agreement among parties that indicative quotes which were the same or very similar to the final quote offered to SME customers were of more use than ones where there was a significant degree of variation between the indicative and final offers provided.
- 6.93 At the same time, most parties' views were that quotes should not be entirely binding. This was for a number of reasons: for example, that it would be unfair to bind lenders to offers based on incomplete information and that SME customers' creditworthiness might change between the indicative and final offer and so lenders would be bound into irresponsible lending.
- 6.94 We largely agree with this assessment. Fully binding lenders into offers on the basis of limited information could reduce their incentive to provide tools that help SMEs identify the best products for them. On the other hand, the absence of any obligation on lenders to offer realistic indications of rates could weaken the credibility of these tools.
- 6.95 We considered whether banks would have an incentive to provide offers that are lower than they realistically expected to make when making a final decision, therefore impacting on the credibility of the tools. We thought that, in doing so, banks may be able to attract customers who may be unlikely to back out of completing a loan application once they have gone through a full

⁵⁴⁸ In our [provisional findings](#) (paragraph 12.11) we identified that the nature of demand for SME lending products was a contributing factor to an AEC in the provision of SME lending. One feature mentioned in this regard is that SMEs quite often require finance on short lead times, and that waiting for the lender's decision can increase the costs for SMEs to obtain quotes from several providers.

⁵⁴⁹ Banks provided us with a range of responses regarding the indicative offers they currently give to SME customers (which are frequently existing customers), and whether they do so at all. Some provide responses instantly, while some take up to 72 hours or longer.

application process with the lender they choose based on indicative offers.⁵⁵⁰ Equally though, banks may not wish to do so as they could develop a bad reputation with customers. It is not clear which of these effects would dominate.

- 6.96 We have identified four possible options for ensuring that price and eligibility estimates are realistic. This would involve requiring:⁵⁵¹
- (a) That each bank's final offers in terms of price should be required to be the same or better than the indicative offer they provide at least 51% of the time. This would be similar to the rule for publishing prices, outlined above. This would have the benefit of incentivising banks to provide most customers with realistic quotes, and ensuring that the majority of SMEs receive these. It would not, however, prevent banks from offering a minority of customers higher final prices, or limit how much higher these could be.
 - (b) That there should be a rule limiting the difference between each indicative and final offer made to an SME. This could be a given percentage, for example 10%. This would give SMEs understanding of how similar the final offer they receive is likely to be to their indicative offer. However, it may encourage banks to price offers conservatively, or to consistently price down towards the limit of how much their final offer is allowed to differ from the indicative offer, for example by up to 10% if that were the limit.
 - (c) A second variation of the rule (b), above, could be that banks' **average** variation between indicative and final offers should be no more than a given amount, for example 10%. This use of an average variation measure would mean that if one final offer turned out to be the same as the indicative offer, the bank could 'save' this variation and apply it to another customer, by varying its offer by up to 20%. The advantage of this rule would be that it incentivises banks to offer accurate indicative offers, allows them to increase final offers for customers who turn out to be higher risk, and also incentivises them to limit how much higher they price final offers on these occasions. However, banks may still have some margin in which to price indicative offers higher than they would reasonably expect (if they wished to avoid being tied in to prices which were too low) or lower (if they wished to try to draw in customers).

⁵⁵⁰ BIT highlighted a number of behavioural factors and potential risks along these lines. [BIT response to Remedies Notice](#).

⁵⁵¹ These rules would need to be conditional upon the information provided by the customer being the same for the indicative and final offers, and only a reasonably short period of time passing between these offers.

(d) Banks must give information to the SME at the time of application on the proportion of all customers using their tool who received an end quote that was the same, or within a 10% range, of the indicative quote (ie 90% of SME customers received an end quote in line with the indicative quote). This would have the advantage of allowing customers to have a very good understanding of the likely relative accuracy of the offers they were being provided, and would avoid setting any rules on prices themselves. However, it would not directly prevent banks from offering indicative prices different to their expectation of final process, if they chose to do so.

6.97 We also note that a potential disadvantage of rules that make offers more binding is that it may be that the more binding the offer or rule is, the stronger the incentive for banks to increase the amount of information required from customers in order to improve the accuracy of their quotes. A greater information burden could lead to some SMEs being discouraged from using the tools. As noted in paragraph 6.86, there is a balance to be struck between requesting enough information to enable accurate quotes to be provided, which is beneficial for SMEs, and avoiding over-burdening users.

6.98 We are minded to require banks to follow option (d), ie lenders being required to give information on the proportion of customers who have received a final quote that is the same or very similar to their indicative quote. We invite views upon this proposal.

- *Which banking groups should be required to implement this remedy*

6.99 We propose to order that RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG should be required to develop a loan price and eligibility indicator tool.

6.100 We considered that lenders required to develop the tools should provide good coverage of SME lending at the UK, GB and NI levels, and that they should be the leading lenders in these markets. We therefore looked at which lenders had a market share of 5% or higher:

- (a) Aggregated data on SME lending at the UK level from our provisional findings shows that lenders with a market share of over 5% (by number of loans) were RBSG, LBG, Barclays and HSBCG.⁵⁵²
- (b) We do not have data for market shares of SME lending disaggregated for GB and NI markets. However, looking at BCA data for GB and NI is likely

⁵⁵² Market shares calculated based on banks' data. Provisional findings, [Appendix 6](#), ppA6.1–10.

to provide a reasonable proxy for this, given our finding that 90% of SME loans are currently taken out with SMEs' BCA provider.⁵⁵³

(i) The providers at GB level with over 5% of active BCAs were RBSG, LBG, Barclays, HSBCG and Santander.⁵⁵⁴

(ii) The providers at NI level with over 5% of active BCAs were RBSG, Danske, Bol, AIB and Santander.⁵⁵⁵

6.101 Taking into account these approaches for assessing coverage, there are eight banking groups – RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG – that we propose should be included in the scope of our remedy. We provisionally decided that it would not be necessary or proportionate to include banks with smaller market shares than these eight banking groups. Smaller banks would of course be free to develop a tool if they wish to do so.

6.102 We note that we may refine the exact measure we use to determine which banks to include in the scope of this remedy, for example by using more disaggregated data regarding loan sizes, if we have this available at the time of our final report. The principle of ensuring major lenders are included and good market coverage is achieved in both GB and NI would still remain our goals.

- *Who should be provided with access to the tools' outputs*

6.103 Multiple parties told us that there were benefits for customers to be able to access a range of lending offers in one location, such as comparison sites or finance platforms.

6.104 There are three principal ways that banks could allow comparison sites access to their eligibility tools:

- (a) banks could disclose the algorithms which they use to determine price and eligibility offers to SMEs within the tool to these finance platforms and comparison sites so that these third parties could run calculations themselves;
- (b) banks could connect up their systems such that finance platforms and comparison sites could transmit information entered by SME customers on their websites to banks, which would then be required to run their

⁵⁵³ See [provisional findings](#), pp31–32.

⁵⁵⁴ Market shares calculated based on banks' data. Provisional findings, [Appendix 6](#), ppA6.1–3.

⁵⁵⁵ Market shares calculated based on banks' data. Provisional findings, [Appendix 6](#), ppA6.1–7.

algorithms and return the results to a platform or a comparison site to display; or

- (c) a third option would be for a 'black box' provider to sit between the comparison site and bank, and to run the bank's algorithms on its behalf.

6.105 Of these three approaches, the first would appear to be simpler and would align with our proposed remedy on open banking, and therefore we are minded to adopt this approach, although we invite views as to its appropriateness and practicability.

6.106 We also considered to which comparison sites relevant banks should be required to allow access to their loan price and eligibility indicator tools. Our view is similar to that regarding the provision of comparison services to SMEs, discussed below: providers should be required to provide the relevant access to any two finance platforms designated under the [SBEE Act](#) for a period of three years and any two comparison sites, including the eventual winner or winners of the Nesta challenge prize, for a period of three years after the prize winners have launched their products in the market.

Implementation issues

6.107 We propose that loan price and eligibility indicator tools should be developed, and envisage them being made available, within six months of the issuing of the Order to address the AEC in SME lending in a timely manner. This also takes broadly into account the time required for the development of the tool indicated by banks.

6.108 For example, HSBCG told us that it had developed a tool which assessed eligibility (although not indicative price quotes) in six months, and [redacted]. Other banks told us it could take between 12 months and two years.

6.109 We recognise that our provisional decision is for a faster timetable than some of the parties directly concerned have indicated they would expect to be able to meet. However, we consider that banks should be able to adhere to this proposed timeline because they may be able to take early consideration of the issues involved (eg from the time of our final report), and that there may be an element of learning by doing in banks' interactions with third parties such as CRAs.⁵⁵⁶

⁵⁵⁶ We also note that this timetable will be faster than is likely to result from our remedy regarding personal banking overdraft eligibility checker tools, described in Section 5. This is because we are provisionally recommending the FCA delay introduction of such a tool until after the implementation of APIs for sharing

Monitoring

6.110 Some parties considered that monitoring could be largely left up to market participants and incentives. Others considered that regulators such as the FCA should be made responsible. Another suggestion was for a monitoring trustee. One party suggested additional measures should be taken, 'including but not limited to business surveys and mystery shoppers'.

6.111 The proposed remedies involve outputs which are to be publicly displayed online, or reported directly to SMEs, and market participants are likely to be able to achieve a considerable degree of monitoring themselves. Monitoring of these remedies could therefore rely upon self-reporting to the CMA. We consider that SMEs, comparison sites or other providers would have incentives to report to us any lack of compliance by other parties.

6.112 In addition, we propose a number of specific measures:

- (a) For the publishing of prices, we propose to require banks to send us a report each year outlining the prices they published, the format in which they did so, and also what proportion of customers received rates which were the same or better than the published rate.
- (b) For the online tool, we are proposing to order banks to send us the online location of their tools at the appointed time for these tools to go live. As noted above, assuming our final report reaches the same conclusions in this area as are set out in this provisional decision following consultation, this should be within 6 months of the order coming into effect. In addition, we propose to order banks to provide us with information to allow us to judge whether they have followed the relevant rule to ensure the price and eligibility indicators give meaningful quotes, examples of which (and the option we are minded to require banks to follow) are set out in paragraphs 6.92 to 6.98.

6.113 We consider that the CMA, as the body making relevant orders, is the most appropriate body to undertake these monitoring steps and because regulation of SME lending falls largely outside the scope of other regulators such as the FCA.

transaction data. The availability of transaction data through APIs is likely to be less significant for loans than for overdrafts, and as loans are also a central focus for the SME lending tool, we consider there is less reason to delay implementation of this remedy until the introduction of transaction data through APIs has occurred.

Cost of remedies

- 6.114 We do not expect the cost to parties of publishing prices for SME lending products to be significant and will welcome further information in this regard.
- 6.115 We have received a range of estimates regarding the costs of developing a loan price and eligibility indicator from parties. These estimates varied quite considerably, and were provided to us with a number of different breakdowns. At least one party also mentioned that the exact scope of the tool, timeline over which it was developed, and manner in which it interfaced with third parties such as comparison sites, would affect the cost.
- 6.116 Estimates from parties which did not currently have an SME lending tool ranged between 'significantly higher than ... £75,000' to in excess of £1–£2 million.
- 6.117 HSBCG, which does currently have an online eligibility indicator tool (albeit one that does not give indicative price quotes), told us that its tool cost less than £500,000 to build. It envisaged that [X]. It also highlighted that linking the tool to HSBC's central systems (which was currently not the case) [X]. Cost estimates for linking tools to comparison sites would be £50,000 to £100,000 per comparison site.
- 6.118 We would welcome further information on the cost of implementing both measures in response to this consultation document.

Measures to facilitate comparisons of SME banking products

Introduction

- 6.119 We provisionally found that the ability of SMEs to make price comparisons between BCAs and between lending products is limited and noted, for example, the lack of comparison tools for SME banking services.
- 6.120 In our [Remedies Notice](#) we invited parties' views on how comparison tools for SME banking services could be created. We subsequently published a [working paper](#) which summarised the responses we had received to the [Remedies Notice](#) and set out our evolving thinking.
- 6.121 We set out below our provisional decision on measures to facilitate comparisons of SME banking products on the basis of the responses we received to the working paper and our further analysis and consideration.

Summary of the measures we are proposing to take forward

6.122 We are proposing to introduce the measures summarised in Figure 6.2.

Figure 6.2: Summary of the proposed measures to facilitate comparison of SME banking products

We are proposing to support the Nesta challenge prize as a way of creating one or more commercially sustainable SME comparison tools.

We have provisionally decided to make an order requiring RBSG, LBG, Barclays, HSBCG, Santander, Danske, BoI and AIBG to:

- (a) provide complete product specifications for all BCAs and SME standard tariff overdrafts and unsecured small business loan products including prices, terms and conditions together with samples of customer transaction data necessary for use by entrants to the Nesta challenge prize before, during and after the associated 'data sandbox';⁵⁵⁷
- (b) contribute, in proportion to their UK BCA share of supply, to the costs of the Nesta challenge prize process. This will include funding Nesta's reasonable administrative costs, sufficient and appropriate prizes to encourage entry to and participation and the costs arising from project delivery, including that of a data partner to project manage the 'sandbox' exercise;
- (c) do so within a time frame and in a manner agreed with Nesta and approved by the CMA;
- (d) within one month of the publication of our Order and for a period of three years:
 - (i) make available through two or more of the finance platforms designated under the [SBEE Act](#), details of their BCAs,⁵⁵⁸ standard tariff overdrafts and unsecured small business loan products including prices, fees, terms, conditions and eligibility criteria; and
 - (ii) prominently display hyperlinks on their websites to the finance platforms on which their SME banking products are listed; and
- (e) once the winner or winners of the challenge prize have launched their products in the market and for a period of three years:

⁵⁵⁷ A 'data sandbox' allows developers to experiment with potential new products using real (though anonymised) data in a controlled and safe environment.

⁵⁵⁸ Where these sites currently provide, or will provide in the future, BCA comparisons.

- (i) make available on two or more comparison tools, one of which must be a Nesta prize winner, details of their BCAs, standard tariff overdrafts and unsecured small business loan products including prices, fees, terms, conditions and eligibility criteria; and
- (ii) display prominently on their websites hyperlinks to the comparison tools on which their SME banking products are listed.

We will also require, as a transitional measure, that existing supporters of [Business Banking Insight \(BBI\)](#)⁵⁵⁹ ensure that BBI continues to collect and publish survey information which permits comparisons between providers on the basis of their service quality, by continuing its funding. This requirement would fall away once the core SME service quality indicators are available (see Section 3).

Since the Nesta process will not be completed until at least 18 months after the publication of our final report, we think it is necessary to include in our package a number of ancillary measures, eg a CMA-nominated representative on the Nesta Prize Committee, to ensure that the process works as intended and a ‘safeguard remedy’ that would only take effect in the event that one of the trigger events occurred, namely (a) the Nesta process failed to produce a winner that met the assessment criteria, or (b) the sites resulting from the Nesta process were not found to be viable at the time of review by the CMA because they were not, for example, operationally and/or commercially viable. This remedy would require the larger SME banking providers in GB and NI⁵⁶⁰ to bring about the creation of an industry-funded SME comparison tool, to a specification approved by the CMA.

In addition, to support the use of the loan and price eligibility tool and comparison tools including those emerging from the Nesta process, we are proposing to recommend to HMT that it works with CRAs and SME lenders to implement a mechanism for ‘soft’ searching to enable SMEs to obtain price quotations and indications of eligibility without the risk of adversely affecting their credit rating.

We also propose to recommend to BIS that it works with the [British Business Bank](#) and professional associations such as the Institute of Chartered Accountants in England and Wales ([ICAEW](#)) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs.

⁵⁵⁹ A quality comparison service run by the FSB and BCC with support from the major banks.

⁵⁶⁰ RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG.

How the remedy addresses the AEC and/or the resulting customer detriment

- 6.123 The AEC that we have provisionally found is that SMEs in GB and NI find it difficult to compare products and providers of banking services. As we noted in our [Remedies Notice](#), there are very few commercial price comparison tools offering information on SME banking products and regulatory initiatives aimed at facilitating comparisons between consumer products and providers have not been extended to SMEs. Midata,⁵⁶¹ for example, does not cover BCAs and nor does the PAD.
- 6.124 This remedy is designed to bring about the creation of one or more comparison sites which make it easier for SMEs to undertake comparisons of price and service quality.
- 6.125 It will ensure that new entrants and existing providers of SME banking services provide access to appropriate product information and customer data to enable intermediaries to provide bespoke comparisons using comprehensive product details and, with the adoption of our remedies on open banking, customers' transaction histories.
- 6.126 In addition, it proposes transitional measures for the period before the Nesta remedy delivers its objectives, ancillary measures to help ensure the remedy works as intended, and a safeguard remedy in the event that obstacles emerge after the publication of our final report which result in no winners emerging or none of the winners being found to be viable at the time of a CMA review.

Overcoming obstacles to entry and expansion for SME comparison websites

- 6.127 The remedy is intended to address the obstacles we identified to SME comparison websites emerging 'organically'.⁵⁶²
- 6.128 In our [working paper](#) we considered a range of options for bringing about innovative new entry and identified the Nesta process as offering the best prospect for delivering in a timely manner an effective remedy through the entry or expansion of SME comparison tools.
- 6.129 We thought that because it was driven by competition rather than regulatory design it was more likely to give rise to innovative solutions and could also provide SMEs with a one-stop shop which does more than simply offer price comparisons. These solutions could include, for example, a smoother SME

⁵⁶¹ Midata is part of the UK government's consumer empowerment strategy, a project aiming to help consumers utilise their data (eg bank data, energy bills) to search for suitable products.

⁵⁶² See [provisional findings](#), paragraph 8.102 and [Appendix 8.1](#), paragraphs 41–44.

journey from compiling a shortlist of lenders and their terms, to a loan application, and the transmission of funds on the same platform.

Provision of product and customer data

- 6.130 Comparison sites will help SMEs compare both BCAs and lending products. For such tools to function effectively banks will need to provide them with full specifications of all the BCA, SME standard tariff overdrafts and unsecured small business loan products they have available, and the terms and conditions under which they will be supplied to applicants.⁵⁶³ We propose to require banks to do so.
- 6.131 In the case of both BCAs and SME lending products the reliability of the information that the designated finance platforms⁵⁶⁴ and comparison tools are able to provide to SMEs will be greatly enhanced by their ability to access the SME's transaction history. This will enable them, for example, to estimate the costs of BCAs, which are typically charged on a per-transaction basis, and to more accurately assess the affordability of various lending products.
- 6.132 The effectiveness of this remedy will, therefore, be substantially enhanced by our open API standard remedy, discussed in Section 3, which will require banks to provide comparison tools and finance platforms with secure access to product data and customers' transaction histories.

Transitional measures

- 6.133 Because the Nesta prize winner or winners will not be launched in the market for some time after the publication of our final report, we propose to adopt transitional measures to address our competition concerns in the interim.
- 6.134 These will require the specified banks to make details of their BCAs, standard tariff overdrafts and unsecured small business loans available to two or more designated finance platforms within one month of the publication of our order and for a period of three years, and prominently display hyperlinks on their websites to the platforms on which their products are listed.
- 6.135 Once the winner or winners of the Nesta challenge prize have launched their products in the market, and for a period of three years thereafter, the specified banks will be required to provide details of their BCAs, standard tariff

⁵⁶³ The service quality data which Nesta applicants will also require will be made available under the proposed measures outlined in the service quality remedy (See Section 3).

⁵⁶⁴ In March's Budget 2016, it was announced that Bizfitech (which operates Business Finance Compared), Funding Options and Funding Xchange would be designed under the [Small and Medium Sized Enterprises \(Finance Platforms\) Regulations 2015](#).

overdrafts and unsecured small business loans to two or more comparison tools, one of which must be a Nesta prize winner, and to display prominently on their websites hyperlinks to the sites on which these products are listed.

6.136 By requiring banks to list their products on two or more websites in both cases we intend to create competitive tension between website operators over the commercial terms for their products' inclusion on the websites concerned.

6.137 We will also require as a transitional measure that existing supporters of BBI ensure through their funding that BBI continues to collect and publish survey information until the core SME service quality indicators are available (see Section 3). This will ensure that a continuous supply of quality data is available for the Nesta challenge prize entrants.⁵⁶⁵

Ancillary and safeguard measures

6.138 Although we are confident that the Nesta challenge process will bring about the creation of a new SME comparison tool or tools, its result will not be known until after we have finally reported. Accordingly we propose to put in place measures to help ensure that the process works as intended, for example requiring CMA representation on the Nesta Prize Committee. Included in these measures is a safeguard remedy which would enable the CMA to implement, in the event that no winners emerge or the winners are found not to be viable at the time of a CMA review, that the industry is obliged to create and fund an SME comparison tool approved by the CMA.

Responses to the working paper

6.139 In our [working paper](#), we compared the merits of three options for bringing about the creation of SME banking comparison services:

- (a) Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons. These would include sites such as BBI or commercially operated comparison tools;
- (b) Mandating the creation of an industry-funded comparison tool. This would entail the CMA specifying the content and functionality of a comparison tool and making arrangements for its funding and governance; or
- (c) Building on the Nesta challenge prize to deliver comparison tools. Nesta, an independent charity, is considering a challenge prize to identify

⁵⁶⁵ As part of the assessment criteria, the Nesta challenge prize winner or winners will be required to include comparisons of service quality. This is likely to include data from our remedy to enable SMEs to make comparisons between providers on the basis of their service quality (see Section 3).

innovative and sustainable solutions to the problem we have identified with SMEs' access to information on banking products.

Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons

- 6.140 There was support from several parties for building on the work of existing SME sites, both those providing comparisons of service quality and those offering price comparisons of SME banking services more generally, such as the designated finance platforms.
- 6.141 The BCC⁵⁶⁶ said we should promote existing initiatives such as BBI. HMT said that, given that its infrastructure for non-price comparison had already been developed, adapting BBI to be compatible with and complementary to price comparison tools potentially emerging from the Nesta challenge prize would be preferable to replacing the infrastructure and brand of BBI altogether.
- 6.142 Some respondents, however, suggested that we should focus on other sites which compare SME banking products.
- 6.143 Santander⁵⁶⁷ recommended that we support existing, commercial propositions in the market, in particular those designated as finance platforms as part of the [SBEE Act](#).⁵⁶⁸ It said that existing PCWs had demonstrated 'significant successes' and supporting these would be more certain, timely and less expensive than the Nesta challenge prize. It suggested that we require banks to provide data and display links to one or more of these sites on their websites.
- 6.144 Business Finance Compared⁵⁶⁹ said we should support existing sites to expand their scope. Funding Options⁵⁷⁰ said we could give more prominence to the compliant referral platforms designated as part of the [SBEE Act](#). It suggested that SMEs could be referred to these sites prior to rejection by banks. It felt that this would be more effective and faster than the Nesta challenge prize. Both Business Finance Compared and Funding Options challenged our view that [Better Business Finance](#) and [BBI](#) are the most developed sites in the market.

⁵⁶⁶ [British Chambers of Commerce response to working paper](#).

⁵⁶⁷ [Santander response to working paper](#), paragraph 1.4.

⁵⁶⁸ This requires that, subject to consent, SMEs' details are passed on to designated finance platforms when their applications for lending are rejected by a bank. Currently the designated finance platforms are: Bizfitech (which operates Business Finance Compared), Funding Xchange and Funding Options.

⁵⁶⁹ [Business Finance Compared response to working paper](#).

⁵⁷⁰ [Funding Options response to working paper](#).

Mandating the creation of an industry-funded comparison tool

- 6.145 There was very little support for an industry-funded comparison tool although LBG⁵⁷¹ said that it supported a backstop obligation to fund and establish a comparison service.
- 6.146 Barclays⁵⁷² said that there should not be a commitment for the industry to fund a comparison tool as an alternative to the Nesta challenge prize. This was in part because, if the challenge prize did not produce a commercially sustainable site, this might point to a lack of demand or need from SMEs.
- 6.147 Business Finance Compared⁵⁷³ felt that an industry-funded site would not be perceived as independent and would be unlikely to succeed.

The Nesta challenge prize

- *Overall views of the parties*

- 6.148 The majority of responding banks were positive about the Nesta challenge prize. Barclays⁵⁷⁴ said that it offered a way to create sustainable comparison tools by encouraging innovation within a broad framework. LBG⁵⁷⁵ welcomed and fully endorsed our support for the Nesta challenge prize. HSBCG⁵⁷⁶ said that the Nesta challenge prize had the potential to provide a framework for a market-led and innovative practical solution to emerge. However, it was concerned that the prize parameters might not be sufficiently aligned with our remedies.
- 6.149 Santander,⁵⁷⁷ however, was sceptical that a challenge prize was the most appropriate way forward. It was concerned that the outcome was uncertain and supporting comparison tools currently operating in the market could be more effective and proportionate. If it was pursued, it said that the design of the Nesta challenge prize should ensure fair competition between existing operators and potential new entrants. It also said that if the Nesta challenge prize resulted in a successful solution, it would be in the interests of smaller challengers to engage with the resultant solutions.

⁵⁷¹ [LBG response to working paper](#), paragraph 2.6(c).

⁵⁷² [Barclays response to working paper](#), paragraph 5.3.

⁵⁷³ [Business Finance Compared response to working paper](#), p9.

⁵⁷⁴ [Barclays response to working paper](#), paragraph 1.2.

⁵⁷⁵ [LBG response to working paper](#), paragraph 1.1.

⁵⁷⁶ [HSBCG response to working paper](#), paragraph 4.

⁵⁷⁷ [Santander response to working paper](#), paragraph 1.4.

- 6.150 The finance platforms could see some value in the Nesta challenge prize, but two had some reservations. Business Finance Compared⁵⁷⁸ was concerned that it would divert banks' attention from working with existing sites, which would delay the delivery of the remedy. It also said that, when split across several winners, the Nesta challenge prize fund was too small to create a sustainable PCW solution or robust platform. Funding Options⁵⁷⁹ said that the needs of SMEs would not be met by a basic price comparison tool. It also said that there were risks associated with the Nesta challenge prize and our comparisons remedies should not rely solely on it.
- 6.151 Business Finance Compared⁵⁸⁰ suggested that the Nesta challenge prize could run in parallel with banks supporting existing comparison tools.
- 6.152 The BCC said that it would be open to BBI entering the Nesta challenge prize and that it was, in principle, open to providing access to aggregate BBI data via the 'data sandbox'.⁵⁸¹
- 6.153 HMT noted that the Nesta challenge prize did not have a certain timescale and outcome, and noted the risk of a negative impact on the overall SME framework even if the solution itself was positive if it led to the loss, or weakening, of existing tools.
- 6.154 In addition to these general views parties raised some specific issues.
- *Dependency on and relevance to Open Banking*
- 6.155 Barclays⁵⁸² said there would be advantages to aligning the Nesta challenge prize with the OBWG timetable for the adoption of open banking standards, including open APIs, but this was not essential as banks could consider the use of direct data feeds or closed or proprietary APIs. LBG⁵⁸³ said that APIs would enable the sites to expand beyond BCAs to more individualised comparison of small unsecured lending and potentially other products. LBG⁵⁸⁴ also said that providers should supply data for the 'data sandbox' in advance of banking APIs. HSBCG⁵⁸⁵ said it would be willing to provide customer data for the 'data sandbox'. It also said that we should seek to speed up the delivery of open APIs. Santander⁵⁸⁶ recognised the importance of APIs, but

⁵⁷⁸ [Business Finance Compared response to working paper](#), p7.

⁵⁷⁹ [Funding Options response to working paper](#), p6.

⁵⁸⁰ [Business Finance Compared response to working paper](#), p10.

⁵⁸¹ [British Chambers of Commerce response to working paper](#), p2.

⁵⁸² [Barclays response to working paper](#), paragraph 2.2.

⁵⁸³ [LBG response to working paper](#), paragraph 2.2.

⁵⁸⁴ [LBG response to working paper](#), paragraph 2.2.

⁵⁸⁵ [HSBCG response to working paper](#), paragraph 25.

⁵⁸⁶ [Santander response to working paper](#), paragraphs 3.17–3.19.

felt that the Nesta challenge prize was not a prerequisite for APIs to develop and that APIs would help the development of existing sites. Business Finance Compared⁵⁸⁷ said that access to the API ‘sandbox’ data would be a good incubator for innovation and designing solutions to deliver better customer experiences.

- *Funding*

6.156 Barclays⁵⁸⁸ said the overall cost of the Nesta challenge should be allocated proportionately across funders but suggested that consideration should be given to including contributions from providers beyond the larger banking groups. It said that funders should be consulted on costs and be assured that these would not increase beyond the level agreed. LBG⁵⁸⁹ suggested an order that required financial and data contributions from the leading providers. HSBCG⁵⁹⁰ said it would expect all SME providers, including Santander and challenger banks, to participate and contribute to the Nesta challenge prize. It said that, subject to its concerns about the parameters of the prize being addressed, it would be prepared to make a ‘funding contribution’. Santander⁵⁹¹ said that funding could be substantial and potentially open-ended. It was also concerned that requiring ‘challenger banks’ to fund this would divert resources from investments that would help smaller banks grow and challenge the incumbents. Secure Trust⁵⁹² said that banks which did not offer BCAs should not be required to fund a comparison tool.

- *Governance*

6.157 Barclays⁵⁹³ and LBG⁵⁹⁴ said that the independence of the site would be addressed by Nesta (an independent charity) managing the challenge prize. Barclays⁵⁹⁵ said that banks should not be involved in judging the prize, but should provide input and guidance.

6.158 Regarding ongoing CMA involvement, Barclays⁵⁹⁶ suggested appointing a member of the CMA to the Nesta Prize Committee. LBG⁵⁹⁷ suggested a monitoring trustee and/or appointing a representative to the governance body

⁵⁸⁷ [Business Finance Compared response to working paper](#), p10.

⁵⁸⁸ [Barclays response to working paper](#), paragraph 4.2.

⁵⁸⁹ [LBG response to working paper](#), paragraph 2.6(a).

⁵⁹⁰ [HSBCG response to working paper](#), paragraph 24.

⁵⁹¹ [Santander response to working paper](#), paragraphs 2.3 & 3.2.

⁵⁹² [Secure Trust Bank response to working paper](#)

⁵⁹³ [Barclays response to working paper](#), paragraph 6.1.

⁵⁹⁴ [LBG response to working paper](#), paragraph 3.1.

⁵⁹⁵ [Barclays response to working paper](#), paragraph 6.1.

⁵⁹⁶ [Barclays response to working paper](#), paragraph 6.1.

⁵⁹⁷ [LBG response to working paper](#), paragraph 3.1.

managing the proposed challenge prize competition. HSBCG⁵⁹⁸ suggested that ‘a project management capability’ or monitoring trustee was appointed to ensure that the remedies package was delivered beyond the end of the Nesta challenge prize. HSBCG⁵⁹⁹ also said it would be supportive of a role for the CMA in the governance of the Nesta challenge prize.

6.159 LBG⁶⁰⁰ recognised data sharing, privacy and data security concerns, but felt these could be suitably dealt with.

- *Transitional measures*

6.160 There was agreement that at least some interim support should be provided for BBI, though there was disagreement about how long that support should continue.

6.161 While the BCC⁶⁰¹ welcomed our comments on BBI, it was concerned about uncertainty over our long-term support for BBI. It said we should mandate the BBI survey data as the default option for providing quality data and mandate all banks to support this initiative by working to promote the BBI website among their customers.

6.162 Barclays⁶⁰² said [redacted].

6.163 LBG⁶⁰³ agreed that support for BBI should continue for an initial period. It felt that BBI would be entitled to compete for the challenge prize itself and/or innovate further to compete or collaborate with entrants. It felt that the CMA should engage with BBI to discuss how the survey could be improved, to provide more robust results.

6.164 HSBCG⁶⁰⁴ said that it supported our proposal to continue funding for BBI for another two years. It also said it would support a recommendation from the CMA that the BBI survey be incorporated into any solutions arising from the Nesta prize challenge.

⁵⁹⁸ [HSBCG response to working paper](#), paragraph 22.

⁵⁹⁹ [HSBCG response to working paper](#), paragraph 29.

⁶⁰⁰ [LBG response to working paper](#), paragraphs 3.4–3.5.

⁶⁰¹ [British Chambers of Commerce response to working paper](#), p3.

⁶⁰² [Barclays response to working paper](#).

⁶⁰³ [LBG response to working paper](#), paragraph 2.6(d).

⁶⁰⁴ [HSBCG response to working paper](#), paragraph 33.

6.165 Santander⁶⁰⁵ said that BBI was not a PCW, and the continuation of BBI should not be dependent on the development of a comparison tool for SMEs. Instead, the CMA should look to BBI to share data with comparison tools.

6.166 Funding Options⁶⁰⁶ suggested that BBI ratings were offered across the SME comparison market via open APIs, so their positive impact was magnified.

Remedy design and implementation considerations

Scope and coverage of services

- *Products*

6.167 We considered which products should be included within the scope of the obligation to provide information to comparison websites in addition to BCAs, overdrafts and unsecured loans.

6.168 We thought it would be unnecessary to oblige providers to list on comparison websites products where they already compete with each other and with alternative lenders, for example asset finance or invoice financing. However, we thought it would be reasonable to require providers to list on comparison websites those products for which SMEs did not shop around and for which they tended to go straight to their current account provider, ie BCAs, overdrafts and unsecured loans.⁶⁰⁷

- *Providers*

6.169 We have also considered to which banks the remedy should apply, given the need to address the AEC in NI as well as in GB and also taking into account the costs of compliance to the smaller banks, including those predominantly operating in NI.

6.170 We thought that market shares of BCAs and SME lending would provide a reasonable basis for specifying this aspect of the remedy. While we were able to obtain market shares of BCAs separately for GB and NI we were not able to do so for SME loans since data was only available on a UK basis. Although we think that shares of BCAs will probably reflect quite closely shares of SME lending we propose to use both measures to specify the remedy's scope.

⁶⁰⁵ [Santander response to working paper](#), paragraph 3.20.

⁶⁰⁶ [Funding Options response to working paper](#), p6.

⁶⁰⁷ [Provisional findings](#), paragraphs 12.7 & 12.11.

6.171 To ensure good coverage of the market, we thought it reasonable to include only those banking groups with a BCA share of over 5% in GB or NI and a share of over 5% by volume of SME lending in the UK.

6.172 On this basis, the banking groups that would be included are RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG.

Creating an SME comparison website

6.173 Having considered the responses to our working paper, our view is that the Nesta challenge prize is the most promising of the three options set out in paragraph 6.138 and that it offers the best prospect of identifying an innovative, sustainable and comprehensive solution to the competition concerns that we identified in our [provisional findings](#).

6.174 This is because we believe that:

(a) It is more likely to give rise to innovative and commercially sustainable solutions than a website designed by a regulator.

(b) Although there are several comparison websites currently available on the market they each individually offer only a part of the service required to enable SMEs to compare SME banking products and providers. Websites such as [Better Business Finance](#) and [BBI](#) focus on specific aspects of SME banking, such as service quality. Finance platforms that currently operate in the market (including Bizfitech,⁶⁰⁸ Funding Options and Funding Xchange) provide information on alternative sources of finance to the large banks but offer limited comparisons of other services such as BCAs. SMEs would be better served by a 'one-stop-shop' which would enable them to quickly and reliably compare banks on price, quality of service and lending criteria across the whole range of providers.

(c) It encourages new suppliers to enter the market without precluding existing providers of comparison services, such as listed above, from continuing to offer services or, indeed, competing for the challenge prize.

6.175 In order to ensure the participation of the relevant parties for the duration of the challenge prize process we propose to take the steps set out below:

(a) In respect of providers we will make an order, requiring RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG to support the Nesta challenge process by:

⁶⁰⁸ Which operates Business Finance Compared.

- (i) providing complete product specifications for all BCA and SME standard tariff overdrafts and unsecured small business loan products including prices, terms and conditions together with samples of customer transaction data necessary for use by entrants to the Nesta challenge prize before, during and after the associated 'data sandbox';
 - (ii) contributing, in proportion to their UK BCA share of supply, to the costs of the Nesta challenge prize process. This will include funding Nesta's reasonable administrative costs, sufficient and appropriate prizes to encourage entry to and participation and the costs arising from project delivery, including that of a data partner to project manage the 'sandbox' exercise; and
 - (iii) doing so within a time frame and in a manner agreed with Nesta and approved by the CMA.
- (b) In the case of Nesta, we are considering the option of obtaining assurances to provide greater certainty that the challenge prize process will result in a winner/winners which meet our criteria within a certain timescale. Assurances could relate to, for example, CMA representation on the Prize Committee, the adequacy of resourcing to run the challenge prize and its commitment to making its best endeavours to abide by the timetable set out for the prize. We will work with Nesta to consider the best way of achieving this prior to our final report.

Transitional measures

- 6.176 In order that the remedy functions as we intend, it will be necessary to adopt a number of transitional measures to address the AEC prior to the completion of the challenge prize process.
- 6.177 The Nesta process is likely to take at least 18 months from its launch to the announcement of a winner or winners and the market introduction of prize winners at least a further six months. We therefore propose to adopt measures to address our concerns in the period between the publication of our order and the successful introduction of new websites arising from the Nesta process to the market. These measures impose requirements on providers in respect of their relationships with finance platforms and existing SME comparison websites.

- *A requirement to make products available through finance platforms*

6.178 We propose to order RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG, within one month of the publication of our order and for a period of three years, to:

- (a) make available through two or more of the finance platforms designated under the [SBEE Act](#), details of their BCAs,⁶⁰⁹ standard tariff overdrafts and unsecured small business loan products including prices, fees, terms, conditions and eligibility criteria; and
- (b) prominently display hyperlinks on their websites to the finance platforms on which their SME banking products are listed.

- *Existing SME comparison tools*

6.179 Although we are proposing to promote the development of new SME comparison services, rather than rely on existing ones, sites such as BBI do provide a valuable service. Their funding could be withdrawn before other measures that we are proposing come into effect, including those arising from our remedy on service quality information set out in Section 3.

6.180 We will therefore also require, as a transitional measure, that existing supporters of BBI ensure that BBI continues to collect and publish survey information which permits comparisons between providers on the basis of their service quality, by continuing its funding.⁶¹⁰ This requirement would fall away once the core SME service quality indicators are available as specified by our service quality remedy (see Section 3). As part of the assessment criteria, the Nesta challenge prize winner or winners will be required to include comparisons of service quality. This is likely to include data from our service quality remedy.

Ancillary measures

6.181 Because the implementation of this remedy will take place largely after we have published our final report we propose to adopt measures to help ensure that it develops in line with our expectations but, if this is not the case, then a safeguard remedy is triggered.

6.182 In this context we considered four aspects of the Nesta process:

⁶⁰⁹ Where these sites currently provide, or will provide in the future, BCA comparisons.

⁶¹⁰ Under our remedy to enable comparisons of service quality (see Section 3), we encourage continued provision of existing data initiatives, in particular BBI, until the core service quality data is available.

- (a) project governance;
- (b) project management;
- (c) project implementation; and
- (d) project review and safeguard remedy.

- *Project governance*

6.183 Assuming that we decide in our final report to adopt the Nesta challenge prize approach it will be necessary to maintain a CMA involvement with the process after the investigation has finished in order to help ensure that the remedy works as intended. We think that this could best be achieved through the presence of a CMA-nominated representative on the Nesta Prize Committee.

6.184 The purpose of the Prize Committee is to ensure appropriate governance and oversight of the Nesta challenge prize. The committee is also responsible for approving the assessment criteria and ensuring that due process is followed in judging the prize. The Prize Committee is likely to be made up of representatives from the FinTech and banking sectors, together with SME representatives.

6.185 The Nesta challenge prize also has a judging panel which will be made up of independent judges and assessors with relevant technical expertise, such as data security, user experience and SME business management. This panel would evaluate the entrants at each of the milestones in the process and would award prizes.⁶¹¹

6.186 Currently, we do not consider it necessary to have a CMA-nominated or approved representative on the judging panel, given that we can be involved in specifying the assessment criteria and will be represented on the Prize Committee, which will ensure that winning entries have been properly assessed against the criteria. However, we welcome views on whether CMA involvement on the judging panel is necessary or desirable.

6.187 If, for some reason, at the end of the Nesta challenge prize process it failed to produce a winner that met the assessment criteria, the CMA-nominated representative would notify the CMA and this would trigger the safeguard remedy.

⁶¹¹ The awarding of prizes would be subject to the approval of the Prize Committee, however, their remit is to ensure that procedures are correctly followed, rather than to look at the detail of the comparison tools being considered.

6.188 If this remedy is adopted we do not think it would be necessary to appoint a monitoring trustee to report to the CMA during the challenge prize process as we would have direct influence on it through the Prize Committee. However, we invite parties' views on the desirability of appointing a monitoring trustee to oversee the process and report to the CMA.

- *Project management*

6.189 The challenge prize process is intended to unlock creativity and stimulate innovation. However, this particular challenge is a large project, certainly compared with others that Nesta has undertaken in the past, and will need to be closely managed given the number of participants, the complexity of the products involved, the dependencies in terms of data delivery and the requirements of the regulatory environment in which it will take place.

6.190 Accordingly, Nesta will have to provide or procure suitable and sufficient project management resource and expertise in order to bring the necessary discipline to the process and ensure its successful conclusion. Such resource could be provided by Nesta from its own resources or from a third party, for example a consultancy or professional services firm.

6.191 We intend to review Nesta's project plans. In the event that it transpires that the Nesta challenge prize process requires additional resource or expertise, we will explore this issue with banks to ensure that this is provided as part of our final remedies package.

- *Project implementation*

6.192 Following the announcement of the winner or winners of the challenge prize there will be a period during which the successful entrants attempt to commercialise the concept or prototype they have developed.

6.193 In our provisional findings⁶¹² we noted that many SMEs go to their PCA provider for their BCA and nearly all of those who seek business loans turn to their BCA provider without looking at alternative lenders. This current lack of shopping around means that the potential numbers of SMEs that a comparison tool could expect to visit its site is limited. That being so, banks are currently unlikely to view comparison tools as an important sales channel.

6.194 Accordingly, we think it will be necessary to help potential entrants get their product off the ground and therefore propose to order the banks specified

⁶¹² [Provisional findings](#), paragraphs 12.7 & 12.11.

above in paragraphs 6.171, once the winner or winners of the challenge prize have launched their products in the market and for a period of three years to:

- (a) make available on two or more comparison tools, one of which must be a Nesta prize winner, details of their BCAs, standard tariff overdrafts and unsecured small business loan products including prices, fees, terms, conditions and eligibility criteria; and
- (b) display prominently on their websites hyperlinks to the comparison tools on which their SME banking products are listed.

- *Project review and safeguard remedy*

6.195 We expect the combination of measures we have described here to be sufficient to ensure that this remedy is effective and to result in commercially sustainable and innovative comparison services for SMEs. However, we recognise that the eventual outcome of the Nesta process will not be apparent for perhaps two years after the publication of our final report and will be dependent on a number of factors, such as technological developments, that are themselves currently subject to rapid change and some uncertainty.

6.196 We propose that a safeguard remedy is included in our final order, which requires the larger SME banking providers in GB and NI⁶¹³ to bring about the creation and funding of a new SME comparison tool, through a more traditional procurement process, to a specification approved by the CMA.

6.197 The safeguard remedy would be triggered in two situations:

- (a) First, the safeguard remedy would be triggered if, at the end of the Nesta challenge prize process, it failed to produce a winner that met the assessment criteria. In this situation, the CMA's nominated representative would notify the CMA which would, in turn, trigger the safeguard remedy.
- (b) Second, in the event that the Nesta process does produce one or more winners, the CMA would review the outcome of this element of our remedies package once the winner or winners have begun trading and after sufficient time has passed to enable a reliable assessment of their business prospects. We think that a period of 12 to 18 months after their commercial launch would be needed before such a review could be conducted. If this review finds that no sites resulting from the Nesta process were viable at that time (because they were not, for example,

⁶¹³ RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG.

operationally or commercially viable), the CMA's ability to implement the safeguard remedy would be triggered.

Cost of remedies

- 6.198 The Nesta challenge prize has a proposed prize fund of up to £5 million to be directed towards a combination of in-kind support for entrants and cash prizes. Nesta will also necessarily incur administrative costs and, perhaps more significantly, costs in managing the 'data sandbox' exercise which may require the procurement of external technical, project management services. We do not think that the total cost of the Nesta project to providers would exceed £10 million.
- 6.199 We do not think that the net costs to banks of listing their products on finance platforms and, subsequently, Nesta prize winners' websites would be significant. Because of the way our remedy has been specified, platform commission rates will be commercially negotiated between each bank and platform or comparison tool and could thus be expected to reflect the value to providers of listing on these sites.

Additional measures to facilitate comparisons of SME banking products

Availability of 'soft' searches

- 6.200 One potential consequence of greater transparency and shopping around is that the number of SMEs searching for lending products and undergoing credit checks from CRAs is likely to increase.
- 6.201 Currently, when credit checks are undertaken by CRAs, a record is frequently left on the SME's credit file. Without the ability for banks to conduct a 'soft search', there is a risk that SMEs might find that shopping around negatively affects their credit rating and, when actually applying, they might be offered worse terms or prevented from obtaining a loan.
- 6.202 We are therefore proposing to recommend that HMT works with CRAs and SME lenders to enable soft searches or quotation searches to take place for SME lending products. This is because:
- (a) a number of parties have told us that this is an issue and have been generally supportive of a solution in this area;
 - (b) it appears technically possible: we understand that at least one CRA, Equifax, is currently able to provide 'soft' searches for SMEs;

- (c) for personal customers, a soft credit check already enables banks to use limited information about the customer (typically name, date of birth and a short address history) to check their credit history and therefore provide an indicative quote and likelihood of acceptance; and
- (d) within SME lending, even when records are left on credit files from searches relating to indicative offers, we understand that lenders typically interpret information themselves.

6.203 Our view is that HMT is best placed to take this recommendation forward. It has been involved with similar initiatives in the area of consumer lending and is already working with CRAs under the [SBEE Act](#). We would expect HMT to start to undertake this work shortly after the publication of our final report.

Providing SMEs with expert financial advice

6.204 Our research and other evidence we have received suggests that SMEs tend not to seek external financial advice when acquiring banking services and when applying for finance but instead go straight to their bank.

6.205 Qualitative research undertaken for us by Research Works⁶¹⁴ indicated that the advice of accountants, for example, while being trusted, was not sought very frequently and our quantitative research among SMEs reinforced this conclusion. Only 1 to 2% of SMEs overall cited advice from accountants as being important in their choice of a BCA provider though this rose to 6% among start-ups.⁶¹⁵

6.206 Survey research commissioned by the [British Business Bank \(BBB\)](#)⁶¹⁶ indicated that fewer than one in five SMEs had ever sought external advice when applying for finance,⁶¹⁷ 2% talked to an accountant first when considering raising finance but 54% spoke first to their bank.⁶¹⁸ Only half of those who said they were willing to take external advice were also willing to pay for it.⁶¹⁹

6.207 The [Institute of Chartered Accountants in England and Wales \(ICAEW\)](#) referred us to the [SME Finance Monitor](#) which suggested that SMEs were somewhat more likely to seek advice when applying for larger loans. 30% of SMEs sought advice for loans in excess of £100,000 and 26% for loans of

⁶¹⁴ [SME Customer Research](#), July 2015.

⁶¹⁵ [SME follow-up survey results](#), August 2015.

⁶¹⁶ [2015 Business Finance Survey](#), British Business Bank, February 2016.

⁶¹⁷ *ibid* slide 23.

⁶¹⁸ *ibid* slide 11.

⁶¹⁹ *ibid* slide 24.

between £25,000 and £100,000, but only 9% sought advice for loans of £25,000 or less.⁶²⁰ To put this into context, the BBB survey found that 71% of SMEs who had sought finance in the previous three years had borrowed £25,000 or less.⁶²¹

- 6.208 Professional advisers could help SMEs make informed choices when acquiring financial products and in particular when applying for finance. We considered some current initiatives intended to help provide such advice to SMEs.
- 6.209 The ICAEW referred to its Business Advice Service whereby businesses can access a free advice session with member firms across the UK. It also told us that its Business Finance Guide,⁶²² produced in association with the BBB, had been extremely successful and that an interactive version of the guide was currently in preparation.
- 6.210 The BIS launched the Growth Vouchers Programme on 27 January 2014.⁶²³ The aim of the programme is to encourage small businesses to access expert, including financial,⁶²⁴ advice which could help them grow, and to get robust estimates of the impact of this advice through an RCT to provide robust estimates of its success in helping small businesses grow. The initial results of the RCT were published in February 2016. When the programme closed for applications in March 2015, over 28,000 businesses had successfully enrolled and three-quarters of these businesses received a voucher that offered up to £2,000 to cover half the costs of buying strategic business advice from private sector suppliers on the [Online Marketplace](#).⁶²⁵
- 6.211 We think that initiatives like these could complement the remedies that we have provisionally decided to adopt. We are therefore intending to recommend to BIS that it works with the BBB and professional associations such as the ICAEW to explore other ways in which their members can channel advice on choice of providers and sources of finance to SMEs. We would expect BIS to be able to start to undertake this work relatively shortly after the publication of our final report.

⁶²⁰ Advice prior to overdraft or loan application, Q3 2014-Q4 2015, SME Finance Monitor.

⁶²¹ [2015 Business Finance Survey, British Business Bank, February 2016](#), slide 10.

⁶²² This is available both on the [ICAEW's](#) and the [BBB's websites](#).

⁶²³ [Growth Vouchers Programme Evaluation, Cohort 1 – Impact at six months](#).

⁶²⁴ [ibid](#). The take up of advice on raising finance compared with other topics is shown in chapter 3.

⁶²⁵ [ibid](#), p10.

Measures to reduce incumbency advantages by increasing the sharing of SME data

Summary of the measures we are proposing to take forward

6.212 Our remedy proposals on SME lending described above in paragraphs 6.21 to 6.119 are currently limited in scope to lending products with a value of up to £25,000 (with a potential extension to £50,000 in the case of a loan price and eligibility indicator remedy), so they do not directly address the barriers to lending for SMEs seeking higher-value loans. Although we expect the market for larger loans to benefit from the increased engagement of SMEs following the implementation of our remedy package, price indicators or comparison tools in themselves would be of limited assistance for SMEs seeking larger loans.

6.213 There are, however, ongoing commercial, technological and regulatory developments, such as that arising from developing open API standards and the [SBEE Act](#), which are likely to facilitate the greater sharing of SME information in support of higher-value loan applications. These developments will allow SMEs greater choice of lender, as providers other than their BCA provider will be able to more easily assess their creditworthiness and provide an indicative lending decision. However, these developments will require time to fully meet their objectives of wider SME data sharing

6.214 We are therefore proposing to introduce the measure summarised in Figure 6.3.

Figure 6.3: Summary of the proposed measure reduce incumbency advantages by increasing the sharing of SME data

We have provisionally decided to make a recommendation to HMT to review the efficacy of the ongoing commercial, technological and regulatory developments aimed at facilitating the greater sharing of SME data in two years following the publication of our final report (ie the summer of 2018).

If HMT finds that these developments have not progressed sufficiently to enable the sharing of SME information to allow SMEs to submit multiple finance applications, we recommend that HMT establishes a working group to progress this objective.

How the remedy addresses the AECs and/or the resulting customer detriment

6.215 As noted above, our proposed remedies on SME lending do not directly address the barriers to lending for those SMEs seeking larger amounts of finance. For those SMEs, providers require more information to satisfy their

credit risk assessment, and therefore, they are unable to currently provide indicative lending decisions.

6.216 Further, we provisionally found that where those SMEs had access to a relationship manager, they were more likely to negotiate either the price or term of the loan, which although largely beneficial for SMEs, had implications on the ability of SMEs to obtain clear pricing information.⁶²⁶

6.217 In our [Remedies Notice](#), we proposed a measure to build on existing HMT commercial open data and data-sharing initiatives to establish networks through which commercial information could be shared between SMEs and financial services providers.

6.218 For those SMEs requiring higher-value finance, the sharing of the key business and financial information required by providers to provide an indicative lending decision, would be particularly beneficial:

- (a) The information will be available to and accessible by all eligible providers, thus reducing the information asymmetry between the SME's BCA provider and other prospective providers, and allowing the others to price more accurately and quickly.
- (b) SMEs will be able to submit multiple applications at once, thus saving them time and effort.
- (c) Following the provision of an indicative lending decision, SMEs will have access to pricing information across multiple providers, similar to that provided via a comparison tool for smaller finance requirements.

6.219 The sharing of information in this manner would likely be more effective than the provision of a portable credit history, as required under the 2002 SME banking undertakings,⁶²⁷ for the following reasons:

- (a) The relevant transactional information is accessible to SMEs at all times and they are not required to request it from their existing BCA provider.
- (b) The information is accessible to all prospective lenders, allowing SMEs to automatically submit multiple applications at once (as opposed to manually submitting individual applications to each provider).

⁶²⁶ See [provisional findings](#), pp281–283.

⁶²⁷ Clauses 15 and 16 of the [behavioural undertakings](#) require the providers subject to the undertakings (upon request from any of their SME customers) to provide, free of charge, an up-to-date credit history to any other bank as requested by the customer. The banks are not obliged to provide more than two such credit histories for free over a period of 12 months. We have provisionally decided to release this. See our [provisional decision on the review of the 2002 SME banking undertakings](#).

Remedy design considerations

Type of information required for an indicative lending decision

- 6.220 It is not feasible for providers to issue quick firm lending decisions for larger finance requests, as due to the inherent complexity and increased risk of such requests, providers typically require more information and time to undertake a credit risk assessment.
- 6.221 However, an indicative lending decision for those SMEs seeking higher-value finance would provide them with a measure of certainty of the availability of finance and the likely pricing of that finance. This would enable SMEs to compare the range of finance options available to them in the market.⁶²⁸
- 6.222 The type of information that providers would require to issue an indicative lending decision would be dependent on the provider's requirements, the individual circumstances of the SME and the type of finance that they required, but would likely include the following information:
- (a) background information about the SME, such as information about senior management;
 - (b) financial information, such as historical accounts and forecasts;
 - (c) the reason for the finance requirement;
 - (d) the amount of finance required;
 - (e) the type of finance required;
 - (f) the structure of the debt (ie the term and the amortisation/repayment profile); and
 - (g) details of the security being provided (if applicable).

Feasibility of a common information set across providers

- 6.223 The feasibility of sharing a common set of information that would allow all or a substantial proportion of providers to issue an indicative lending decision to SMEs will likely depend on ensuring that the information supplied by SMEs is sufficiently broad to capture the different parameters on which banks base their indicative lending decisions.

⁶²⁸ We acknowledge that even the provision of an indicative lending decision is likely to become increasingly difficult as the quantum and complexity of the finance request increases.

6.224 Although this will require consultation with providers, the type of information required by providers to issue an indicative lending decision is much narrower in scope than that required to perform a credit risk assessment for the purpose of a firm lending decision. The standardisation of credit risk assessment among providers is neither likely nor desirable.

Recent and ongoing commercial, technological and regulatory developments

6.225 There are a number of commercial, technological and regulatory developments that are likely to facilitate the sharing of SME information, which should enable SMEs to consider a wider pool of providers when seeking finance, including higher-value loans. This suggests that initiatives designed to facilitate the greater sharing of SME information, which could be used to support multiple finance applications, could emerge out of the normal competitive process.

- *Project Factern*

6.226 Factern is an initiative led by Oliver Wyman that provides a data routing platform to enable SMEs to share their public and commercial sensitive data with counterparties in a controlled and structured format. It was set up as a result of an industry-led Business Data Initiative (BDI).⁶²⁹

6.227 The purpose of this solution in the first instance is to reduce friction in the SME account opening process, but it has wider data-sharing applications for SMEs including, but not limited to, applying for credit, thereby supporting our proposed measure to standardise and simplify the BCA opening process. However, the platform could be used by SMEs to submit documentation, such as business plans, required for indicative lending applications.

- *Account aggregation services*

6.228 Account aggregation services, such as Daily IQ⁶³⁰ and Xero,⁶³¹ currently have limited presence in the UK, but their presence and use is likely to increase over time. For SMEs, these services are more focused on business accounting and enable SMEs to manage their business accounts, reconcile data from different sources, manage invoices online and obtain a real-time view of their cash flow. However, Xero can also serve as a platform for other

⁶²⁹ The BDI is a commercial initiative developed in partnership by Santander, Experian, KPMG, Oliver Wyman and AgFe.

⁶³⁰ See [CommonwealthBank website](#).

⁶³¹ See [Xero website](#).

applications.⁶³² Therefore, such tools could also be developed to allow SMEs to submit documentation for indicative lending applications.

- *Open data and APIs*

6.229 As set out in Section 3, one of our foundation measures aims to build on the OBWG work by ensuring the timely development and adoption of open API standards together with appropriate data and security standards.

6.230 Specifically, this would enable read and write access to BCA customer transactional data by early 2018, which should reduce the information asymmetry between a customer's BCA provider and other prospective finance providers.

- *SBEE Act*

6.231 [SBEE Act](#)⁶³³ requires banks (meeting certain market share thresholds) to share data on their SME customers with other prospective lenders through CRAs, and requires those CRAs to provide equal access to that data to all lenders.

6.232 Further, regulations made under the [SBEE Act](#)⁶³⁴ require designated banks to pass on information about those SMEs they have rejected for a business loan or credit application to designated finance platforms.⁶³⁵

Implementation issues

6.233 We have provisionally decided not to adopt a remedy that imposes additional data-sharing obligations on SME lending providers. Commercial, technological and regulatory initiatives discussed above are likely to facilitate the greater sharing of SME information, thus enabling SMEs to take steps to consider alternative lenders when seeking finance.

6.234 Instead, we propose to make a recommendation to HMT to undertake a review of the efficacy and impact of these developments. This should take place in the two years following the publication of our final report (ie the summer of 2018) to allow sufficient time for the development of these initiatives. If HMT finds that the developments have not progressed sufficiently

⁶³² See [Deloitte report on the impact of innovation in the UK retail banking market](#), p42.

⁶³³ The [SBEE Act](#) received royal assent on 26 March 2015 and comes into force at staggered periods over 2015 and beyond.

⁶³⁴ Small and Medium Sized Business (Finance Platforms) Regulations 2015.

⁶³⁵ Bizfitech, Funding Options and Funding Xchange have recently been designated as finance platforms to help match rejected borrowers and alternative lenders. See [Budget 2016, Section 4: Backing business and enterprise](#).

to enable the sharing of SME information to allow SMEs to submit multiple finance applications, we recommend that HMT establishes a working group to progress this objective.

Cost of remedies

- 6.235 There will be no immediate costs associated with the implementation of this remedy, as we are proposing that HMT's review takes place in two years.
- 6.236 To the extent that HMT finds that the market has not developed sufficiently, the associated cost of any subsequent initiative will depend on the extent of the intervention required to allow SMEs to share their information in a manner that enables them to consider multiple finance providers.

Other remedies considered

- 6.237 In our [Remedies Notice](#) we considered a recommendation to HMT that it uses the powers it has under the SBEE Act to require banks to pass to CRAs additional SME information such as transaction data as to enable CRAs to provide reliable credit assessment information in respect of loan applications. We noted that draft regulations to this extent were being considered by Parliament and were therefore subject to change.
- 6.238 We have provisionally decided not to adopt this remedy and our reasoning is set out below.

Parties' views

- 6.239 HSBCG submitted that the proposed remedy overlapped with work that HMT was doing in the context of the [SBEE Act](#).⁶³⁶ It said that it already voluntarily provides data to CRAs on BCAs, loans, and card products. It also said that the [SBEE Act](#) required that HSBCG provide data on asset finance products to the CRAs.
- 6.240 Barclays also referred us to the [SBEE Act](#) and the requirement to share data as set out in the Schedule to the (then) draft regulations.⁶³⁷ It said that given the content of the draft regulations thus far, there were no further data items to include as part of the Schedule that could help third party users to make more effective credit decisions. It noted that the requirements were likely to be brought into the wider developments of open data.

⁶³⁶ [HSBCG response to Remedies Notice](#), part B, paragraphs 146–154.

⁶³⁷ [Barclays response to Remedies Notice](#), paragraphs 14.1–14.3.

- 6.241 Business Finance Compared told us that data being shared by banks was at an aggregated level and that it would not be as useful or reliable as transaction-level data.⁶³⁸ The CMA should consider the issue of data sharing in the context of its remedy on open data and an open standard API.
- 6.242 Similarly, LBG suggested that the CMA consider viable alternatives such as APIs, which could enable the direct transfer of transactional data between an SME and an individual provider without the use of a third party.⁶³⁹
- 6.243 Santander told us that more could be done to allow SMEs to access their own data through the development of the BDI, an online conduit for the provision of credit, and anti-money laundering (AML)/Know Your Customer (KYC) data between UK businesses and prospective financial service providers that it was developing together with Experian, KPMG, Oliver Wyman and AgFe.⁶⁴⁰

Our provisional conclusion

- 6.244 Since we published our [Remedies Notice](#) the relevant [SBEE Act](#) regulations have come into force,⁶⁴¹ requiring providers to share SME data, through CRAs, with alternative providers of SME banking services including those who may not also supply BCAs. Thus, the [SBEE Act](#) requirements on data sharing go beyond that of the 'Principles of Reciprocity' which provided guidance on the sharing of credit data between providers and CRAs.⁶⁴²
- 6.245 In addition, our foundation remedy aimed at rapid development and implementation of open standard APIs will enable PCA and BCA holders to share information with third parties, including comparison tools and finance platforms. This would not only make any additional requirements of data sharing with the CRAs unnecessary, but also put the customer, rather than the CRAs, in control of their data. By doing so, our open API remedy will further help overcome the barriers to searching that we identified in our provisional findings.
- 6.246 For the reasons set out above we do not intend to require additional data sharing with the CRAs.

⁶³⁸ [Business Finance Compared response to Remedies Notice](#), p30.

⁶³⁹ [LBG response to Remedies Notice](#), Part A, paragraph 13.4(b).

⁶⁴⁰ [Santander response to Remedies Notice](#), Annex 2 paragraph 7.2, page 21.

⁶⁴¹ Small and Medium Sized Businesses (Credit Information) Regulations 2015 and Small and Medium Sized Businesses (Finance Platform) Regulations 2015 which came into force on 1 January 2016.

⁶⁴² The Principles of Reciprocity are described on the [SCOR website](#).

Measures to make account opening easier and improve the switching process

Summary of the measures we are proposing to take forward

- 6.247 In our provisional findings, we highlighted that for SMEs, the account opening process can be lengthy and onerous depending on the complexity of the businesses.⁶⁴³ We noted that this reflected in part, banks' processes for undertaking anti-money laundering, counter financing of terrorism (AML/CFT) and consumer due diligence (CDD) such as KYC checks.⁶⁴⁴
- 6.248 The Research Works SME qualitative research identified three barriers to BCA switching: comparing providers, making an application to a new bank and the switching process itself.⁶⁴⁵ Those who saw the application process as a barrier to switching also tended to see themselves as time-poor. Typically, this group had little appetite for the perceived complexity of the application process which, for some, was a barrier to switching in its own right.⁶⁴⁶
- 6.249 We provisionally concluded that the account opening process was a barrier to switching for some SMEs.⁶⁴⁷ To address this issue, in our [Remedies Notice](#), we proposed a remedy to standardise and simplify BCA opening procedures.
- 6.250 We have now provisionally decided to introduce such a remedy, which is summarised in Figure 6.4.

Figure 6.4: Remedy to standardise BCA opening procedures

We have provisionally decided to make an order requiring all BCA providers to agree and adopt, subject to the CMA's approval, a standard form setting out a core set of questions, and evidence requirements for opening a BCA. This may be achieved through an industry working group coordinated by the BBA, which:

- (a) develops and agrees a standard form and evidence requirements in accordance with the FCA's guidelines, relevant regulations and industry guidance;⁶⁴⁸
- (b) specifies the categories of SMEs which the standard form and the evidence requirements will apply to;

⁶⁴³ See [provisional findings](#), paragraphs 8.118–8.123.

⁶⁴⁴ *ibid.*

⁶⁴⁵ We are addressing the issue of comparing providers earlier in paragraphs 6.121–6.210 and improvements to the switching process in Section 4.

⁶⁴⁶ Research Works, [Qualitative research report](#), paragraph 4.3.2.2.

⁶⁴⁷ See [provisional findings](#), paragraph 12.7(c).

⁶⁴⁸ For example by the [Joint Money Laundering Steering Group](#) (JMLSG). JMLSG is an industry-led body that gives practical assistance in the interpretation of the Money Laundering Regulations (MLR) and defines good industry practice. It is made up of the leading UK trade associations in the financial services industry.

- (c) prescribes where the standard form and evidence requirements (including, where appropriate, proposed changes to these) will be made available (eg online) along with clear instructions as to what was required for verification, either in person at a bank branch, or online or via the telephone;
- (d) develops guidelines regarding how banks promote the standard form and evidence requirements to customers; and
- (e) devises a mechanism for regular review of the standard form and evidence requirements, for example in light of any regulatory developments.

We would expect the proposed industry group to invite the FCA to attend its meetings as an observer, and we have provisionally decided to make a recommendation to the FCA that it does so.

We would expect the proposed industry group to present its proposal to the CMA on a standard BCA opening form and evidence requirements within one month of our final report.

If the proposed industry group is unable to produce a proposal that is acceptable to the CMA within one month of our final report, we will consult with relevant stakeholders, and develop a standard BCA opening form setting out core set of questions and evidence requirements to address the AEC, and will reflect this in our final Order.

We would expect all BCA providers to implement this remedy within six months of our final Order.

How the remedy addresses the AEC and/or the resulting customer detriment

6.251 The proposed remedy will lower barriers to switching by making the account opening process simpler. It requires BCA providers to agree and adopt a standard form setting out a core set of questions, and evidence requirements for SMEs opening an account.

6.252 This will help in harmonising information and evidence required by banks to undertake essential CDD, thus simplifying the BCA opening procedures.⁶⁴⁹ Further, it will enable SMEs to know in advance what information 'refresh' is

⁶⁴⁹ We note that information that a banks seeks from a business customer at the point of account opening is for variety of reasons, including but not limited for the purpose of complying with MLR.

likely to be necessary in respect of fulfilling KYC checks while switching accounts, thus making the switching process less onerous.

- 6.253 A standard form containing a core set of questions would also facilitate sharing of the information (at an SME's request) contained in the form between banks and/or with the customer at the time of switching. In particular, the development of open APIs would help in enabling secure sharing of data provided at the time of opening a BCA between banks, which will facilitate the account opening process, and therefore switching.
- 6.254 Our proposed measures to develop and require the adoption of open API standards and data sharing set out in Section 3 will require banks, when requested to do so by a customer, to share their data with a third party. A customer opening an account with a new provider could instruct their old bank to transfer relevant information to new banks where they were seeking to open an account.
- 6.255 Several parties that responded to our [Remedies Notice](#) commented on the appropriateness of this remedy.
- 6.256 For example:
- (a) LBG told us that appropriately designed, this remedy would increase the ease of BCA account opening, while maintaining banks' AML and KYC standards and allowing providers to compete on different aspects of their offer.⁶⁵⁰
 - (b) HSBCG told us that this remedy would be effective in addressing the CMA's concerns regarding the perceived costs and hassle of switching, especially given that there were about 500,000 new SMEs every year that needed a BCA.⁶⁵¹
 - (c) RBSG stated that by facilitating the account opening process and making SME customers familiar with the form they would need to complete if they were to open another account, this remedy might help in removing a psychological barrier preventing customers from switching.⁶⁵²

⁶⁵⁰ [LBG response to Remedies Notice](#), paragraph 6.2.

⁶⁵¹ [HSBCG response to Remedies Notice](#), paragraph 108.

⁶⁵² [RBSG response to Remedies Notice](#), Section 3.6, p34.

- (d) According to Clydesdale, common BCA opening forms would help simplify the accessibility of BCAs for new and existing customers.⁶⁵³
- (e) First Trust Bank stated that standardising account opening forms or seeking common data would not necessarily introduce any efficiency into the process, and it considered the prospects of securing agreement to a common form and maintaining it to be unrealistic and disproportionate to the provisionally found AEC.⁶⁵⁴
- (f) Danske's view was that for various reasons,⁶⁵⁵ it would not be possible to standardise BCA opening procedures.

6.257 We noted our omnibus survey results which suggested that requiring all banks to use the same application form and standardise their evidence requirements may not appeal to users.⁶⁵⁶ However, this may be down to the respondents being confused by the lack of clarity in what standardising requirements would entail.

6.258 Overall, we consider that our proposed remedy that is developed and implemented by an industry-led initiative, which takes into account banks' requirements as well as obligations under [Money Laundering Regulations 2007](#) (MLR) and other regulations, will help in simplifying the BCA opening procedures and addressing the AEC.

Remedy design considerations

6.259 We identified three key design parameters:

- (a) Applicability: which parts of the BCA opening process should the remedy apply to?
- (b) Scope/coverage: to what types of SME should the remedy extend to?

⁶⁵³ Clydesdale suggested that it would be appropriate to have a degree of flexibility built into the process – ie though common forms may be used, the end to end process of how and when each of these forms are issued may vary, to reflect the different structures and business needs, within each financial institution.

⁶⁵⁴ [First Trust Bank response to Remedies Notice](#), Appendix 1, p8.

⁶⁵⁵ It mentioned that from an AML perspective, each individual firm must undertake a risk assessment to decide what AML/terrorist risks its customers would present – taking into account geographical operating environment, channel, product and customers. This drove the level of information/documentation that each firm might ask customers for, and this level might vary greatly between firms depending on their risk assessment, AML policy and risk appetite. The type of customer presenting to each firm might also differ depending on market area, location, type of financial institution etc. [Danske Bank response to Remedies Notice](#), paragraph 2.6, p17.

⁶⁵⁶ In response to the question, 'Apart from changes to the switching process, a change to the account opening procedures for businesses is also considered. It would involve requiring all banks to use the same application form and standardise their requirements. Would this change make you any more or less likely to consider switching your business account?' 9% of BCA users said that they would be more likely to switch compared with 19% who said that they would be less likely to switch. See [SME survey](#), p70.

- (c) The desirability of having an outcome measure on the length of the BCA opening process.

Applicability to BCA opening process

6.260 A stylised BCA account opening process can include the following main steps or activities:

- (a) The SME, or a third party on its behalf, accessing and completing the account opening form and providing the required supporting evidence to the bank.
- (b) Processing of the application by the bank, including carrying out necessary AML compliance activities and CDD checks (which might include seeking further information and evidence as necessary and appropriate in the circumstances of a specific application).
- (c) Other account onboarding processes, including issuing debit/credit card, cheque book, providing online access, communicating details about account features, facilities etc.

6.261 We have come to a provisional decision that only those activities which relate to the BCA opening form and providing supporting evidence (step (a) above) should be standardised at the industry level.

6.262 Standardisation of steps (b) and (c) are either not practicable or desirable due to regulatory reasons or likely effect on competition.

- *Regulatory requirements*

6.263 During the BCA opening process, UK banks must comply with [Money Laundering Regulations 2007](#) (MLR) aimed at preventing money laundering and combating terrorist financing. The MLR establishes a risk-based regime where banks are expected to apply the rules in a manner proportionate to the risk assessed, and this approach enables providers to exercise appropriate discretion in the implementation of their AML processes.

6.264 While the MLR⁶⁵⁷ allow a bank to rely on the CDD measures undertaken by another bank, the relied-upon bank needs to give its consent, and the relying bank remains liable for any AML deficiencies.

⁶⁵⁷ Regulation 17 of the MLR.

6.265 We are of the provisional view that step (b) of the BCA opening process mentioned in paragraph 6.262 would not be appropriate to be standardised across the industry. Banks should have the flexibility of asking for further information to fulfil their AML responsibilities, and undertake necessary checks and CDD based on their assessment of risk.⁶⁵⁸ Therefore, while a core set of common questions can be included in a standard BCA opening form to be adopted by all BCA providers, banks should be entitled to ask additional information and questions, as part of their AML compliance and other requirements.

- *Effect on competition*

6.266 There was some concern expressed in the responses to our [Remedies Notice](#) that standardisation of procedures could inadvertently reduce providers' incentives to innovate in relation to simplifying account opening procedures, and thereby mute competition.

6.267 It was, however, also suggested that any unintended consequences of the remedy could be mitigated by appropriately designing the remedy, so that it enabled innovation and improvements to the entire experience of the customer onboarding. For example, since banks competed with other providers on aspects related to customer servicing and relationship building, standardisation of these parts of the account opening process could stifle competition.

6.268 HSBCG told us that standardisation of account opening process could never cover every aspect of procedures and data capture, and that banks must be free to improve and compete on certain aspects of the account opening process.⁶⁵⁹

6.269 Barclays made the point that there could be unintended consequences in introducing standard common form for account opening. It stated that a substantial amount of innovation and competition in banking products had been created by those competing to offer the best customer experience and fastest processes. However, according to Barclays, this risk could be mitigated by limiting the mandatory common sections to the core KYC

⁶⁵⁸ Thus, adopting a common form and standard information requirements under this remedy will not include harmonising the way banks assess risk or use and interpret the information provided by a customer to meet their regulatory obligations (eg AML).

⁶⁵⁹ [HSBCG response to Remedies Notice](#), paragraph 114.

sections, enabling innovation and improvements to the entire experience of onboarding.⁶⁶⁰

- 6.270 Santander told us that this remedy did not reduce banks' incentives to compete, since it would be a 'minimum standard'. It also stated that this remedy would not prevent banks from offering additional innovations to make their own processes even easier, if they felt that such differentiation would give them a competitive advantage.⁶⁶¹
- 6.271 Our provisional view is that there are limitations in respect of standardising AML/CDD checks by banks as part of the BCA opening process. Further, many aspects of the customer onboarding processes can be a source of competitive differentiation for banks, and therefore should be left to the individual banks to decide.
- 6.272 However, standardisation of some aspects of the BCA opening process through implementing a standard account opening form and evidence requirements (step (a) in paragraph 6.262) are feasible, and can contribute towards simplifying the account opening and switching process for SMEs.
- 6.273 As we have noted earlier, this remedy will also facilitate sharing of the information provided by a customer at the time of opening a BCA between banks and with customers, and make the switching process simpler for SMEs. Once technical standards for open APIs in banking are developed and agreed (see our proposed measures to develop and require the use of open API standards and data sharing set out in Section 3), SMEs could, for example, give permission to a new bank or an intermediary to get access to their information held with the old bank.

Scope/coverage of the remedy

- 6.274 The general view expressed in the responses to our [Remedies Notice](#) highlighted that a standard form and evidence requirements were more likely to be practicable only for those SMEs that were likely to be 'low risk' from the point of view of AML compliance and CDD checks, since all banks are likely to ask for similar basic account opening information.
- 6.275 For example, HSBCG told us that this remedy was unlikely to suit SMEs considered a higher risk from an AML perspective with complex business structures, or businesses with multiple levels of ownership or overseas

⁶⁶⁰ [Barclays response to Remedies Notice](#), paragraph 7.11.

⁶⁶¹ [Santander response to Remedies Notice](#), Annex 2, paragraph 6.2.

ownership, as BCA providers would typically require more information and supporting evidence from these types of businesses in order to conduct more in-depth AML and KYC checks.⁶⁶²

- 6.276 RBSG stated that standardisation of account opening forms might need to be limited to 'low risk' customers, and should be viewed as ensuring a minimum standard which could be enhanced by banks to meet their AML requirements to avoid any abuse of this regime.⁶⁶³
- 6.277 Our provisional decision is that this remedy should be adapted to reflect different types of SMEs. While it may be more practicable to develop a common account opening form and data requirements for SMEs with less complex needs and ownership structures, the remedy could also be extended to other, more complex SMEs. Different standard forms containing a core set of questions, and evidence requirements could be developed for different types of SMEs, although we recognise that there are limitations in respect of implementing these to cover all categories of SMEs in this remedy.
- 6.278 An industry group convened by the BBA, and with the FCA attending in the capacity of an observer, is best placed to propose the coverage and applicability of standard BCA opening form and evidence requirements to the CMA. It should develop appropriate segmentation of SMEs in the context of this work, and make a recommendation to the CMA on segments of the SMEs that ought to be taken out of scope of the remedy.

Outcome measure related to the length of the BCA opening process

- 6.279 In our [Remedies Notice](#), we invited views as to the appropriateness of prescribing an outcome measure, such as the average or minimum time it took BCA providers to process an application, as the basis for our remedy. Several parties pointed out limitations around prescribing such an outcome measure, since they considered that the timing of the process was not typically fully under the banks' control, and also depended on the type and size of the SME.
- 6.280 For example, HSBCG noted that the time it took to open an account (or indeed any product) was dependent on factors including: (a) when all the necessary information had been received from the customer; (b) the channel (internet, branch, relationship manager) used to make the application; and (c) where the customers required confirmation of lending products such as

⁶⁶² [HSBCG response to Remedies Notice](#), paragraph 111.

⁶⁶³ [RBSG response to Remedies Notice](#), Section 3.6, p34.

loans or overdrafts before opening the account, whether a scored or judgemental credit process was utilised.⁶⁶⁴

- 6.281 RBSG stated that the wait time to open a BCA was due to customers providing information mainly because with larger customers, the person interacting with the bank did not always have the necessary information. It felt that setting average or minimum timescales might be reasonable for 'less complex' customers, but for other customers the process was too detailed and/or bespoke to be subject to time restrictions.⁶⁶⁵
- 6.282 Business Finance Compared recommended a remedy for banks to have to disclose their average processing and opening times to enable these to be easily compared by SMEs.⁶⁶⁶
- 6.283 Due to the practical difficulties in prescribing an outcome measure or a target for average time it takes a bank to open a BCA, we have provisionally decided not to mandate this as part of this remedy. This aspect of the account opening process is addressed in our remedy to enable consumers and SMEs to make comparisons between providers on the basis of their service quality as set out in Section 3.

Implementation issues

Composition and the terms of reference of the industry group

- 6.284 The responses to our [Remedies Notice](#) highlighted the need for an appropriate body to be put in place to manage and agree the standardised approach to BCA opening processes. Some banks pointed out to us that the industry had already commenced an initial dialogue in respect of a common 'Know Your Customer' (KYC)/'Know Your Business' (KYB) solution.
- 6.285 Oliver Wyman told us that it had been in dialogue with, and held roundtable discussions with, a number of larger banks that provided BCAs on how to develop a proposal to implement this remedy. Their work so far has involved working with these banks to try to converge to a core set of information requirements that would be common to account opening forms and/or processes. The BBA told us that a dialogue with a number of smaller banks had taken place to discuss Oliver Wyman's work done to date, and agree the best way forward to implement this remedy.

⁶⁶⁴ [HSBCG response to Remedies Notice](#), paragraph 113.

⁶⁶⁵ [RBSG response to Remedies Notice](#), Section 3.6, pp37–38.

⁶⁶⁶ [Business Finance Compared response to Remedies Notice](#), p23.

- 6.286 Referring to this initiative ('Project Bulldog'), LBG told us that good progress had been made to develop a common BCA opening form in relation to developing a standard form for the sole trader segment (which represents about 60% of all SMEs), and work was also progressing on UK-domiciled limited companies and partnerships. LBG stated that it was envisaged that the output from this initiative would be extended to include other providers via the BBA, and therefore it had the potential to deliver this remedy promptly and effectively.^{667,668}
- 6.287 Since some BCA providers⁶⁶⁹ are already working with Oliver Wyman and the BBA to develop a common account opening form, we provisionally consider that this initiative could be a suitable means of delivering this remedy.⁶⁷⁰
- 6.288 However, to do so, it would need wider provider participation to ensure that the views of all, including smaller providers, new entrants and those from NI are adequately reflected in the proposal being developed. This initiative could also benefit from suitable involvement of and communication with potential entrants to the BCA market as well as SME trade bodies. The CMA would need to approve any proposal that is developed, to ensure that the AEC is addressed.
- 6.289 LBG stated that the development and implementation of this remedy would be facilitated by the involvement of the FCA. RBSG told us that this remedy would require the involvement and support of bodies such as the FCA, the government and input from the JMLSG.
- 6.290 We note that the FCA is responsible for supervising how banks comply with the MLR, and that they have systems and controls to mitigate the risk that they may be misused for the purposes of financial crimes of all kinds. We have therefore provisionally decided to make a recommendation to the FCA that it attends the proposed industry group as an observer. The FCA has signalled to us that it will be willing, if invited, to observe the discussions at the proposed industry group.

⁶⁶⁷ [LBG submission on the interaction between the SME remedies and existing SME initiatives](#), paragraph 3.30.

⁶⁶⁸ LBG stated that LBG and other providers were progressing Project Bulldog (coordinated by Oliver Wyman) to seek to standardise account opening forms. Ibid.

⁶⁶⁹ [REDACTED]

⁶⁷⁰ [REDACTED] told us that some large BCA providers were currently working with Oliver Wyman and the BBA to assess whether greater convergence and simplicity in BCA opening across all BCA providers was possible, and a practicable proposition through standardising essential customer due diligence requirements such as KYC/KYB while still recognising and maintaining each individual bank's operating model and policy differences. It was [REDACTED] understanding that a number of BCA providers had been invited to participate in this initiative but some had chosen not to.

- 6.291 The core set of questions in the standard BCA opening form and evidence requirements would need to be regularly assessed, for example to take into account changes in regulation, in particular the AML regime.⁶⁷¹ Further, the proposed changes and updates to the standard form should be in the public domain.
- 6.292 LBG highlighted the need for BCA providers to have an ongoing obligation to cooperate since BCA opening requirements change over time (eg due to legislation) to allow for the common forms to be updated.⁶⁷²
- 6.293 We have therefore provided for a periodic assessment of a common BCA opening form under this remedy, for example by a standing committee of the BBA.
- 6.294 The detailed terms of reference of the industry group to develop proposals to implement this remedy should be decided by its members, but we would expect to include the following:
- (a) Develops and agrees a standard form and evidence requirements in accordance with the FCA's guidelines, relevant regulations and industry guidance.⁶⁷³
 - (b) Specifying the categories of SMEs, the standard form and evidence requirements will apply to.
 - (c) Prescribing where the standard form and evidence requirements (including, where appropriate, proposed changes to these) will be made available (eg online) along with clear instructions as to what was required for verification, either in person at a bank branch, or online or via the telephone.
 - (d) Developing guidelines regarding how banks promote the standard form and evidence requirements to customers.
 - (e) Devising a mechanism for regular review of the standard form and evidence requirements, for example in light of any regulatory developments.

⁶⁷¹ For example, the UK must implement the European Fourth Anti-Money Laundering Directive into UK law by June 2017, which is intended to further embed the risk-based approach across Europe.

⁶⁷² [LBG submission on the interaction between the SME remedies and existing SME initiatives](#), paragraph 3.33(b).

⁶⁷³ For example, by the JMLSG. JMLSG is an industry-led body that gives practical assistance in the interpretation of the MLR and defines good industry practice. It is made up of the leading UK trade associations in the financial services industry.

Method and timing of implementation

- 6.295 Standardisation of account opening forms and evidence requirements will have maximum benefit if it is adopted by all BCA providers, and our provisional decision to implement this remedy through an order reflects this requirement.
- 6.296 We will consider any representations on whether there should be a de minimis threshold for implementing this remedy; this may be set relatively low (for example, at 20,000 to 25,000 active BCAs per provider)⁶⁷⁴ thus covering the majority of active accounts and including larger providers in both GB and NI, while also excluding the large number of very small providers.
- 6.297 As we have noted, the ongoing industry initiative coordinated by Oliver Wyman and the BBA may be a suitable means to implement this remedy. As part of this initiative, we also encourage the BBA to work with banks to develop an effective communication strategy to inform relevant stakeholders, including SMEs and SME trade associations/bodies about the implementation plan for this remedy.
- 6.298 Regarding the timing of implementation, we recognise that it would be subject to specific details to be agreed in the proposed industry group, for example the categories of SMEs to be covered by the common BCA opening form.
- 6.299 LBG's view was that BCA providers could work together with this industry initiative to agree common application forms for specific types of SME within three months, with common application forms for further types of SME to be agreed within a further three months. It also felt that an industry-wide implementation of the final common form could then take place within a defined period of time.⁶⁷⁵ HSBCG told us that it would take approximately 24 months to implement this remedy once common industry standards were agreed.⁶⁷⁶
- 6.300 Since some progress has already been made in developing a standard form for SMEs with simple organisation structures by Oliver Wyman working with a number of BCA providers and the BBA, we would expect the proposed industry group to present its proposal to the CMA within one month of our final report.

⁶⁷⁴ Using a common definition across providers.

⁶⁷⁵ [LBG submission on the interaction between the SME remedies and existing SME initiatives](#), paragraph 3.33(a).

⁶⁷⁶ [HSBCG response to Remedies Notice](#), paragraph 115.

- 6.301 If this initiative is unable to produce a proposal that is acceptable to the CMA within this time period, we will consult with relevant stakeholders, and develop a standard BCA opening form and evidence requirements to address the AEC, and will reflect this in our final Order.
- 6.302 We would expect all BCA providers to implement this remedy within six months of our final Order.

Monitoring compliance

- 6.303 The monitoring of compliance can be done according to the usual CMA monitoring mechanism possibly through banks and/or the BBA providing periodic compliance reports to the CMA.
- 6.304 After a standard form and evidence requirements have been approved by the CMA and implemented by the industry, any future changes would need to be approved through an appropriate governance mechanism (for example, a standing committee of the BBA to which the FCA should be invited as an observer), which should be developed by the proposed industry group.

Cost of remedies

- 6.305 RBSG told us that coordinating the implementation of this remedy across the industry could be complicated, expensive and time-consuming.⁶⁷⁷
- 6.306 Clydesdale told us that from a practical and technical perspective there would inevitably be some costs associated with forms and process changes, website amendments, legal and compliance oversight, staff training and distribution costs.
- 6.307 However, Oliver Wyman told us that based on its initial assessment,⁶⁷⁸ the categories of information required by banks in their BCA opening forms were not substantively different.
- 6.308 LBG stated that there were likely to be significant commonality between providers regarding the data and information they required for BCA opening purposes.⁶⁷⁹
- 6.309 As we have noted, progress has already been made to develop a core set of questions that can be included in the standard BCA opening form through an

⁶⁷⁷ [RBSG response to Remedies Notice](#), Section 3.6, p39.

⁶⁷⁸ Its initial work has focused on BCA opening form for sole proprietorships and single-director companies. According to Oliver Wyman, these constitute about 60% of total SMEs.

⁶⁷⁹ [LBG submission on the interaction between the SME remedies and existing SME initiatives](#), paragraph 3.29.

ongoing industry initiative driven by a number of BCA providers working with Oliver Wyman and the BBA.

6.310 Further, this remedy does not require banks to standardise their AML compliance activities, and it may be possible for businesses too complex to benefit from greater standardisation to be taken out of scope of this remedy.

6.311 Overall, while there may be some additional costs for the banks to implement this remedy, these are likely to be relatively small. Costs of monitoring compliance with this remedy are also likely to be low since monitoring will be based on banks and/or the BBA providing periodic compliance reports to the CMA.

6.312 We invite further views from parties on costs of implementing this remedy.

7. Other remedy options

- 7.1 In our [Remedies Notice](#) we set out remedy options that we were not minded to pursue and grouped these under three headings:
- (a) Measures to control outcomes: imposing a price control on unarranged overdraft charges and/or obliging banks to offer minimum interest rates on outstanding balances in current accounts;
 - (b) Measures that would address perceived distortions arising from the widespread use of free-if-in-credit (FIIC) accounts; and
 - (c) Structural remedies.
- 7.2 In our [Remedies Notice](#) we also made clear that we would consider these remedies further if parties to the investigation, or any other interested person, were to provide us with evidence or reasoning as to why we should take these remedies forward.
- 7.3 In Section 5 we noted that we had received representations that our [Remedies Notice](#) did not sufficiently address the AECs and/or any resulting detrimental effects for PCA overdraft users. In light of these submissions, we considered a range of additional remedy options targeted at these users and in Section 5 we set out our consideration of additional measures in relation to overdraft users. This includes our provisional decision to require PCA providers to introduce an MMC for unarranged overdraft users. Our specification of this measure means that it will operate primarily as an 'information' remedy, increasing transparency of this obscure area of charging by providing a clear point of comparison between PCA providers. It can also be considered as a measure to control outcomes, as it will have the effect of limiting the size of any monthly charges levied by the PCA provider for the use of unarranged overdraft facilities, albeit with the MMC being determined by the PCA provider rather than a regulator.
- 7.4 We also discussed in Section 5 an alternative approach of having the CMA, or some other competent body, set a price control for the fees levied by PCA providers on users of unarranged overdrafts. We set out our reasoning for our provisional decision to reject that approach. We also explained why we consider that requiring banks to set an MMC, in combination with the other measures included in our package of remedies, will be effective and proportionate in addressing the AECs and the resulting customer detriment, including that experienced by overdraft users.
- 7.5 In this section we revisit the potential to introduce:

- (a) measures to address perceived distortions arising from the widespread use of FIIC accounts, including the proposal to oblige providers to offer minimum interest rates on outstanding balances in current accounts; and
- (b) structural remedies, and in particular further divestitures from the larger banks.

7.6 In doing so we explain why we continue to believe that we should not include these in our proposed package of remedies, addressing the comments received from those parties that argued in favour of these remedies being put in place. In addition, we summarise an additional remedy option put forward by a respondent to our [Remedies Notice](#) and explain why we do not propose to include that in our package of remedies.

Measures that would address perceived distortions arising from the widespread use of FIIC accounts

7.7 In response to our [Remedies Notice](#) many respondents commented that FIIC accounts are in fact not free, even when the account is in credit, as the customer implicitly pays through interest foregone on the credit balance. Further, RBSG⁶⁸⁰ and TSB⁶⁸¹ said that FIIC distorted customer perceptions of the costs of banking and that the perceived lack of benefits from switching was exacerbated by the misunderstanding that banking was free. The FSCP told us that cross-subsidisation, coupled with a lack of transparency in banks' pricing structures and contingent charges, obscured the true cost of having an account.⁶⁸²

7.8 We agree with the general thrust of these points and consider that the use of 'free if in credit' is an unhelpful misnomer. Indeed, the costs of a FIIC account are not only limited to interest foregone on credit balances, but also can include fees such as foreign transaction fees and same-day bank transfer fees, using for example Clearing House Automated Payment System (CHAPS) to transfer large amounts of money.

7.9 One respondent, Virgin Money,⁶⁸³ submitted that the prevalence of FIIC in the PCA market was a major contributor to the low levels of switching and that it additionally led to significant cross-subsidies. Virgin Money further submitted that the CMA should seek to introduce remedies that would address the problems it associated with FIIC, through encouraging a market-driven move

⁶⁸⁰ [RBSG response to Remedies Notice](#), p4.

⁶⁸¹ [TSB response to Remedies Notice](#), paragraph 24.

⁶⁸² [Financial Services Consumer Panel response to Remedies Notice](#), p1.

⁶⁸³ [Virgin Money response to Remedies Notice](#); [Virgin Money supplementary response to Remedies Notice](#).

away from FIIC, with this being preferable to regulatory intervention. Specifically, Virgin Money proposed:

- (a) the imposition of limits on charges found to be excessive, unfair and/or regressive; or, if this was not possible
- (b) a requirement on banks to pay credit interest on PCAs at or above a minimum level.

- 7.10 Virgin Money further submitted that the CMA should explore ways in which PCA providers could be encouraged to reduce their reliance on complex and opaque fees and charges, and to compete on headline charges that were clearer and easier for consumers to understand.⁶⁸⁴
- 7.11 We continue to be of the view that it is not necessary to impose limits on charges (beyond our proposal to require banks to set an MMC for unarranged overdraft usage) or require banks to pay credit interest. This is for two main reasons.
- 7.12 First, as we set out in our [provisional findings](#), we have not found that the FIIC model, in itself, is the cause of the lack of customer engagement we observe. Therefore seeking to restrict the offering and use of FIIC accounts would be unlikely to address the competition problems we have identified. In this context we noted that:
- (a) switching rates in countries where FIIC is not the prevailing model for the provision of PCAs, eg the Netherlands, were very similar to the UK; and
 - (b) similarly, switching rates in the BCA market in the UK, which is not a FIIC model, are similarly low to those we observe in PCAs.
- 7.13 Second, our proposed package of remedies will increase the pressure on banks to compete on charges and fees, and to increase the transparency of their charging structures.
- 7.14 For example, in relation to overdrafts we have provisionally decided that PCA providers should provide additional information to users to manage their exposure to unarranged overdraft charges and fees (see Section 5). Similarly, easier comparison with ‘reward accounts’ or other PCA products which pay interest on positive balances will make customers more aware of the benefits available elsewhere or the costs of foregone interest on FIIC accounts. More broadly our proposed measures to prompt users to consider alternative products and providers; to enable easier comparison of PCAs through the

⁶⁸⁴ [Virgin Money supplementary response to Remedies Notice](#), paragraph 30.

adoption of an open API standard and the provision of open data; and to improve the current account switching process, will in combination increase the transparency of charging structures, including allowing for the comparison with accounts where better rates of interest are available; and help customers make an active and informed choice as to whether a FIIC account or another type of PCA is the right product for them.

- 7.15 It may be the case that our proposed measures could lead customers to switch to interest-paying PCAs or to avoid unarranged overdraft charges and other fees to such an extent as to reduce the prevalence of FIIC accounts. For the avoidance of doubt, we would not consider such an outcome, in itself, to be unwelcome, if this were driven by competitive market dynamics, and on this we are in agreement with Virgin Money.
- 7.16 However, we do not consider that the erosion of the FIIC model should be an objective in itself. Any concerns we have with the FIIC model are not the charging structure in itself, but the absence of transparency about its implicit and explicit costs to customers and the real difficulties customers face in making comparisons with other types of account and in moving to different providers. These are all issues that we are tackling directly with our remedies as set out in paragraph 7.14. If, once these underlying issues have been addressed, some customers make an active and informed choice to use this type of account, then the justification for second-guessing these choices through regulation is weak.
- 7.17 Moreover, introducing regulatory requirements with the specific objective of driving out the FIIC model could have distributional impacts that many would consider undesirable. A requirement for interest to be paid on credit balances could, for example, result in banks recovering the costs of operating PCAs from monthly fees. The customers who would gain most from such a change would be PCA users with credit balances sufficiently large for the interest payments to exceed the monthly fees, while those with small credit balances would face fees in excess of their interest receipts and would be worse off. It is by no means clear that such a distributional outcome should be actively pursued as an end in itself through a regulatory approach.

Structural remedies

- 7.18 In our [Remedies Notice](#) we considered, on the basis of our [provisional findings](#), that structural remedies would be neither effective nor proportionate in addressing the competition problems we had identified. In particular, the main competition issues we had provisionally found derived from weak customer engagement. A consequence of this is that longer-established banks, with larger market shares, have a larger base of established

customers and are likely to have a higher proportion of inactive customers. We considered that structural remedies to break up a large bank would not address the fundamental issues we had identified; the creation of two smaller banks, each with a high proportion of inactive customers, would not in itself lead to addressing the AECs we have provisionally found. We considered that measures directly targeting the underlying causes of the AEC – ie by improving customer engagement and facilitating switching – are more likely to be effective in addressing the competition issues we had identified, and at lower cost.⁶⁸⁵

- 7.19 Most respondents to our [Remedies Notice](#) either agreed with, or did not comment on, our proposal not to consider structural remedies further. However, one respondent, Nationwide, suggested that the CMA undertake further work on the issue of market concentration and consider again whether structural remedies should be adopted. In particular, Nationwide submitted that incumbent providers benefited from scale advantages, which were exacerbated by the weak customer response we identified, which in itself was exacerbated by their large back-book of customers who were likely to be less engaged. Nationwide told us that these factors added to the difficulties of smaller banks to attract customers and win additional market share.⁶⁸⁶
- 7.20 Further, Nationwide was concerned whether the CMA’s proposed remedies to address weak customer response would have a sufficiently immediate impact and questioned whether the recent divestments (of TSB from LBG and Williams & Glyn from RBSG) were necessarily good indicators of the costs and time of divestments. It argued that the market now had experience of how to deal with divestments in the banking sector and could deliver them more efficiently.⁶⁸⁷
- 7.21 Having considered responses to our [Remedies Notice](#) we remain of the view that structural remedies would not be effective or proportionate. On the points submitted by Nationwide, we agree that longer-established providers benefit from a larger customer base, many of which will have been customers with the provider for a prolonged period of time and may be less engaged than more recent customers of the provider. Nevertheless, divestment of a large longer-established bank could well simply create two smaller banks with low customer engagement and this would not address the AECs we have provisionally found. The fact of divestment might induce some additional customer engagement on a transitional basis, particularly among customers who saw themselves as having been transferred against their will to a ‘new’

⁶⁸⁵ [redacted]

⁶⁸⁶ [Nationwide response to Remedies Notice](#), Appendix, paragraphs 2.5–2.9 & 4.3.

⁶⁸⁷ [Nationwide response to Remedies Notice](#), Appendix, paragraph 4.4.

bank, but this is clearly not a very desirable way of inducing customer engagement. We also note that the divestment of Williams & Glyn from RBSG has yet to take place and the divestment of TSB from LBG is still relatively recent.⁶⁸⁸ Therefore the impacts from these divestitures have yet to be fully realised.

- 7.22 In addition, the evidence from these recent banking divestitures suggest that a divestment remedy would be very costly, both for the provider being divested and for customers. In this context, we consider Nationwide's submission that the costs of and time period to implement any future divestment would be lower/shorter than past examples to be optimistic: most of the factors which influenced the costs of the Williams & Glyn and TSB divestments remain. Therefore, we would not expect the costs or time associated with any further divestments to be significantly different.
- 7.23 Our remedies, taken together with the important technological changes already affecting retail banking markets, could nonetheless result in significant changes to the structure and operation of retail banking markets. The combination of open APIs and a more informed and engaged customer base has the potential to facilitate the entry and expansion of providers and intermediaries using fundamentally different business models to traditional banks.
- 7.24 These developments have the potential to open up retail banking markets to new competition that could lead to new entry, introducing additional supply-side constraints. These changes in supply-side constraints will not necessarily be limited to traditional 'bank' business models. The combination of technological changes and the changes motivated by our remedies could enable the provision of banking services from suppliers from other financial services sectors, or indeed other sectors from outside of financial services. We take the view that this type of structural change is more likely to result in sustained improvements to competition, innovation and customer welfare than creation of another one or two smaller 'traditional' banks. This has informed our provisional decision not to pursue divestitures.

Other remedies proposed by respondents to our Remedies Notice

- 7.25 A number of respondents proposed remedies additional to those that we discussed in our [Remedies Notice](#). These included measures to specifically target overdraft users, which are discussed in detail in Section 5.⁶⁸⁹ Other

⁶⁸⁸ TSB has subsequently been acquired by Spanish banking group, Sabadell, in 2015.

⁶⁸⁹ We considered respondents' submissions and consequently published a [Supplemental Remedies Notice](#) on 7 March 2016.

suggestions were by and large variants of remedies we had proposed, and we have discussed these variants where appropriate in Sections 3 to 6.

7.26 Which? in its response⁶⁹⁰ proposed one additional remedy that was not a variant of our other proposed remedies: to require providers to establish Consumer Challenge Groups (CCGs). Which? described this remedy as being part of a broader effort to put mechanisms in place to support a culture shift in banking that focused on the needs of customers. Which? stated:

For example, this remedy could involve:

- Each bank being required to establish an independent customer challenge group to hold it to account on its engagement with its customers;
- The challenge group publicly reporting to an independent body on the quality of the bank's engagement with customers and whether customers' views have been fully taken into account;
- Developing reputational, financial and/or procedural incentives based on the challenge group's report;
- Holding the bank to account for enabling the challenge group to undertake its work drawing on the appropriate information and skills, and being able to demonstrate its independence; and
- Holding each challenge group to account for discharging its role effectively and independently.

7.27 We have considered whether the addition of such a remedy, or a variant thereof, to our proposed package of remedies would materially increase the effectiveness of our package of remedies. Which? noted in its response that CCGs had been used in other regulated sectors. Most prominent of these is in the water sector where as part of the most recent price control review, the water industry regulator, Ofwat required each of the monopoly water companies to establish CCGs. We are also aware that a similar approach has been used in the airport sector, where statutory advisory bodies were required to engage with airport management and to make recommendations to the boards and executive on proposed airport developments.

⁶⁹⁰ Which? response to Remedies Notice, pp2–3.

- 7.28 Having considered whether the establishment of CCGs should be a regulatory requirement for retail banks in the UK, we have provisionally decided not to include this within our proposed package of remedies. In particular, while we recognise the potential benefit of such a requirement for regulated monopoly companies, such benefit is much reduced for companies operating in markets that have scope for competition.
- 7.29 As explained below in our evaluation of the effectiveness and proportionality of our proposed package of remedies in Section 9, we consider that our proposed package of remedies, taken together, will be effective in delivering a more competitive environment, where banks will have enhanced incentives to focus on the needs of their current and prospective customers. Different banks may choose to act on these incentives in different ways. Some may choose to increase their customer focus by putting in place a CCG, or something similar to it. Others may decide to invest heavily in customer research, to improve their product offering or radically simplify their charging structure. We do not see a need to specify a 'one size fits all' approach to how providers in a more competitive environment should seek to meet customers' demands.
- 7.30 Moreover, there currently exists the potential for consumer and other bodies to assess and comment on how banks engage with and treat their customers, with this being enhanced by the additional information we are proposing to require providers to make available.
- 7.31 Overall, we consider that any incremental benefit, over and above the benefits arising from our remedies package, from requiring banks to establish CCGs, would be limited and as such we have provisionally decided not to take this remedy option further.

8. Relevant customer benefits

8.1 In deciding the question of remedies, the CMA may ‘have regard to the effect of any action or any relevant customer benefits (RCBs) of the feature or features of the market or markets concerned’.⁶⁹¹ RCBs are defined in EA02 and are limited to benefits to relevant customers in the form of:⁶⁹²

- (a) Lower prices, higher quality or greater choice of goods or services in any market in the UK (whether or not the market(s) to which the feature(s) concerned relate); or
- (b) Greater innovation in relation to such goods or services.

8.2 The EA02 provides that a benefit is only a RCB if the CMA believes that:⁶⁹³

- (a) the benefit has accrued as a result (whether wholly or partly) of the feature(s) concerned or may be expected to accrue within a reasonable period of time as a result (either wholly or partly) of that feature or those features; and
- (b) the benefit was, or is, unlikely to accrue without the feature or features concerned.

8.3 In the [Remedies Notice](#) and [Supplemental Remedies Notice](#) we invited parties to inform us of any RCBs to which we should have regard.

8.4 No party submitted any evidence about any RCB. We consider that most of the features we identified in our [provisional findings](#) are unlikely to provide benefits to customers. For example we would not expect RCBs to arise from features such as the lack of customer engagement and/or barriers to switching and searching. However, we provisionally found that there were linkages from the provision of PCAs to BCAs, with 51% of start-up SMEs going to their PCA provider for their BCA, and 36% doing so without searching at all. The implication of this is that upfront competition for PCA customers could be important, for example, competition for Student/Graduate accounts. We are aware that if our remedies are effective in diluting these identified linkages, then this could result in weakened competition for first-time PCA customers. This could manifest itself in a number of ways, including less attractive offers for new customers, for example the withdrawal of free overdraft provision in student accounts. To the extent there would be a reduction in competition due to a weakening of linkages, this will be offset by

⁶⁹¹ Section 134(7) of EA02.

⁶⁹² Section 134(8)(a) of EA02.

⁶⁹³ Section 134(8)(b) of EA02.

the increase in competition and rivalry between providers for new customers, which will arise from our proposed package of remedies.

- 8.5 We have also considered whether our remedies, if they are effective at increasing switching by BCA customers and in diluting the linkages we found between BCA and SME lending, could result in weakened competition for start-up SMEs. This might be, for example, through a reduction in the length of the free banking period typically provided to start-up SMEs when they open their BCA. As set out in our provisional findings,⁶⁹⁴ we did not consider that that competition for start-up SMEs is particularly intense, because SMEs are not fully engaged in the market, with many SMEs either not searching, or not comparing fees across banks, at start-up stage. Therefore, any reduction in competition for start-ups arising from the weakening of linkages, and the resulting reduction in customer benefit, is likely to be limited given that this competition is not particularly intense at present. Moreover, our package of proposed remedies are intended, among other things, to make it easier for start-up SMEs to find BCAs that best meet their needs. Therefore, similar to the case for PCAs, we expect any reduction in competition for start-up SMEs arising from the weakening of linkages to be offset by the increase in competition and rivalry that will arise from our proposed package of remedies.
- 8.6 We have provisionally concluded that there are no significant RCBs that might be lost as a result of introducing our proposed package of remedies. Consequentially we see no need to modify our proposed remedy package to take account of RCBs.

⁶⁹⁴ See [provisional findings](#), paragraphs 9.24–9.31.

9. Effectiveness and proportionality of the proposed package of remedies

9.1 Based on our assessment in Sections 5 to 8 above, we have proposed that the following measures be included within the package of remedies that will work together to address the AECs that we have provisionally identified:

- (a) Cross-cutting foundation measures to address important underlying causes of the AECs we have provisionally found in both PCA and SME banking markets:
 - (i) Requiring the largest PCA and BCA providers to adopt and maintain common API standards through which they will share data with other providers and third parties
 - (ii) Requiring the largest PCA and BCA providers to release and make available through open APIs, and to maintain as open data: product information on prices, charges terms and conditions, and customer eligibility criteria in the case of loans, for all PCA products and all relevant SME banking products; service quality indicators specified by the CMA; and appropriate reference data such as branch and ATM location, and branch opening hours.
 - (iii) Requiring the largest PCA and BCA providers to release and make available through an open API Midata data sets, and subsequently to adopt and maintain open standards for APIs with full read and write functionality on PCA and BCA transaction data sets.
 - (iv) Requiring PCA and BCA providers to display prominently core indicators of service quality, with the data collected and published biannually and made available as open data to third parties.
 - (v) A recommendation to the FCA to require PCA and BCA providers to publish and make available to others, including as open data, additional objective measures of service performance, encompassing their PCA, BCA and SME lending products and principal sales/delivery channels.
 - (vi) A recommendation to the FCA: to undertake a research programme, in conjunction with a selection of PCA and BCA providers to identify those prompts that are most likely to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements; subject to the results of the research programme, to implement a series of prompts to be communicated to customers; consider the extent to which the content of prompts

should be standardise; and to monitor the effectiveness of the prompts and redesign them as and when necessary.

- (vii) Requiring PCA and BCA providers to cooperate with the FCA in the research programme at (vii) above, including RCTs, to identify those prompts that are likely to be most effective in changing customer behaviour.
- (b) Measures to improve the awareness of and process of switching current accounts:
- (i) Seeking undertakings from Bacs to strengthen the corporate governance of CASS by having an independent chair of its management committee, expanding membership of its management committee or relevant subcommittees and increasing transparency of its decisions and performance against KPIs.
 - (ii) Seeking undertakings from Bacs to increase customer awareness of and confidence in the switching process.
 - (iii) A recommendation to HMT to enable the PSR to have regulatory oversight of CASS.
 - (iv) Seeking undertakings from Bacs to enhance the CASS redirection process such that beyond the current 36-month redirection period, if an account has a redirected transaction within a 13-month period, redirection will continue.
 - (v) Requiring PCA and BCA providers to make transaction history available to customers at the time of, and after, closing their accounts.
- (c) Measures to increase customer awareness of and engagement with the overdraft usage and charges and to reduce the detriment arising from overdraft usage:
- (i) Requiring PCA providers to enrol automatically all their customers in alerts to inform them of unarranged overdraft usage.
 - (ii) Requiring PCA providers to offer and inform customers of the opportunity to benefit from grace periods during which they can take action to avoid or mitigate the charges and consequences resulting from unarranged overdraft use.
 - (iii) A recommendation to the FCA to identify, research, test and as appropriate, implement measures to increase overdraft customers' engagement with their overdraft usage and charges.

- (iv) Requiring PCA providers to specify and publicise a monthly maximum charge (MMC) that a customer could incur in any given month from using an unarranged overdraft facility or exceeding their arranged overdraft limit.
 - (v) A recommendation to the FCA that it undertakes work to assess the ongoing effectiveness of the MMC in (iv) and consider whether measures (including, if appropriate the introduction of rules) could be taken to further enhance its effectiveness.
 - (vi) A recommendation to the FCA that it looks at ways to engage customers more in considering overdraft features and their potential relevance and impact, during the PCA opening process.
 - (vii) A recommendation to the FCA to consider whether, following the introduction of open APIs, it should require PCA providers to offer online tools that indicate whether a prospective customer may be eligible for an overdraft.
 - (viii) Seeking undertakings from Bacs to work with CASS participants to review the switching process to ensure that PCA providers offer a firm decision on the overdraft offered after a customer has completed the application process but before they switch accounts.
- (d) Measures to increase the ability of SMEs to compare BCAs and SME lending products, and improve BCA opening procedures:
- (i) Requiring SME lending providers to publish on their websites, and release as open data, their charges, terms and eligibility criteria for the provision of SME unsecured loans and overdrafts of up to £25,000 and for the largest SME lending providers to develop and publish a price and eligibility indicator tool for unsecured and secured loans and overdrafts.
 - (ii) Measures to provide for the creation of a website (or websites) whose function it will be to enable comparisons between rival providers of SME banking services, including BCAs and lending products. We propose to adopt the Nesta challenge prize approach to deliver this.
 - (iii) Requiring banks to establish and adopt less onerous, simplified and standardised BCA opening procedures by agreeing and adopting a standard BCA opening form containing a core set of questions and evidence requirements. This may be achieved through an industry working group coordinated by the BBA.

- (iv) A recommendation to the FCA to attend the proposed industry group in (iii) as an observer.
- (v) A recommendation to HMT that it works with CRAs and SME lenders to develop mechanisms to allow for 'soft searching' for lending products for SMEs.
- (vi) A recommendation to HMT that it reviews the efficacy and impact of the measures implemented under the [SBEE Act](#) and ongoing commercial, technological and regulatory initiatives intended to facilitate the sharing of SME information.
- (vii) A recommendation to BIS that it works with the [British Business Bank](#) and professional associations such as the Institute of Chartered Accountants in England and Wales ([ICAEW](#)) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs.

9.2 In our assessment of the effectiveness of this proposed package of remedies, we consider below:

- (a) how the package of remedies addresses the AECs and/or the resulting customer detriment; and
- (b) other aspects of the effectiveness of our proposed package of remedies

How the package of remedies addresses the AECs and/or resulting customer detriment

9.3 In Sections 3 to 6 we discussed the rationale for each element of the proposed package of remedies. In this subsection we summarise how the elements of the remedies package work together to remedy the AECs that we have provisionally found, and/or the resulting customer detriment. We consider the impact of the remedy package on the PCA, BCA and SME lending markets.

Effectiveness in addressing the AECs and the resulting customer detriment in relation to the provision of PCAs

9.4 We consider first how the proposed package of remedies addresses the features of the market that restrict competition between providers of PCAs. We set out in paragraph 1.4(a) a summary of our AEC findings in relation to PCAs. These have four key elements:

- (a) Barriers to searching for alternative providers of PCAs.

- (b) Barriers to switching to alternative providers of PCAs.
- (c) The barriers to searching and switching above, when combined with the lack of triggers for customers to engage in the market, mean that overall customer engagement remains low.
- (d) Incumbency advantages.

Barriers to searching for alternative providers of PCAs

9.5 Our proposed package of remedies provides additional means for PCA customers to make comparisons of charges and service. The elements of our proposed package of remedies that address these features are those that require:

- (a) the adoption of an open API standard, together with the provision of the appropriate open data (product and service information and the sharing of customer transaction data) and security standards;
- (b) the requirements to make service quality information available; and
- (c) the adoption of an MMC.

9.6 First, as we noted above in Section 3, the requirement for the adoption of open API standards and open data, can be expected to reduce or remove the friction involved in customers searching and comparing PCA providers. This can be through enabling providers of price comparison services to offer simple, quick and reliable comparisons between banks or allowing customers to assess different options available in the market, on the basis of their own transaction history. Such an outcome will also address the issue we have identified of customers being restricted in their ability to compare potentially complex charging structures of different PCAs, in particular for overdrafts. Moreover, the adoption of open API standards and open data is likely to facilitate the emergence of new providers with different business models, offering innovative solutions for PCA customers.

9.7 Second, we have provisionally found that the quality of service from providers is a key consideration for customers, in addition to prices, when they are thinking about switching their PCA. Therefore it is important that PCA comparison tools are able to include the provision of service quality data, in a consistent manner, across the variety of PCA products and providers available in the market. Our proposal to require PCA providers to collect and make available service quality information both on their own website and on an open data basis will facilitate the emergence of comparison tools that not only include comparative information on prices, but also quality of service.

- 9.8 Third, our proposal to require PCA providers to specify and publicise an MMC can be expected to help address the complexity of overdraft charges by enabling easier comparison of overdraft charges for heavy overdraft users.

Barriers to switching to alternative providers of PCAs

- 9.9 Barriers to switching are addressed by a combination of our proposed package of remedies by providing:
- (a) measures to improve the process of switching current accounts, including reforms of and enhancements to CASS governance and the operation of the switching process itself, and requiring Bacs to increase customer awareness of and confidence in the switching process; and
 - (b) additional tools to address the barriers to switching for customers with overdrafts.
- 9.10 First, at the time of the establishment of CASS, there was focus on ensuring that the operation and switching process was rigorous, in order to ensure that the risk of failure, and associated undermining of industry and public confidence would be minimised. However, now that CASS is established, we consider that changes should be made to the CASS governance structure, including to provide for regulatory oversight by the PSR. This combination of measures would provide far greater incentives for CASS to be operated in the interests of customers, including strengthening incentives for ongoing innovation and improvement.
- 9.11 Second, in order to increase the awareness of and to increase confidence in CASS, we propose to seek undertakings from Bacs. These include: the development of a long-term promotional campaign; targeting those customer groups with low awareness and/or that could benefit most from switching; and developing suitable awareness and confidence metrics. These requirements, together with our proposed measures on CASS governance, will help ensure both Bacs and CASS participants are suitably incentivised to operate and develop the service in the interests of customers.
- 9.12 Third, we have identified specific areas of CASS and the switching process that could be amended, ie the length of the CASS redirection period and the provision of transaction history to customers who have switched provider. These measures will help to address real and/or perceived risks of customers switching provider, helping to further build confidence in the process.
- 9.13 Fourth, to address additional barriers to switching for those customers with overdrafts, we are proposing to seek undertakings from Bacs for it to review the PCA opening and switching process to ensure that providers offer a firm

decision on the overdraft offered, prior to switching their account. Additionally, the development of an open API standard and the provision of open data provides an opportunity for the development of effective overdraft eligibility tools to provide prospective customers with an indication of their overdraft eligibility, during the search process. With open API standards currently not yet available, it is not appropriate for us to put such a requirement on providers at this point in time. Therefore we propose to recommend to the FCA to consider whether to introduce such a requirement at the appropriate time, if it has not been delivered by market developments.

Barriers to searching and switching, when combined with the lack of triggers for customers to engage in the market, means that overall customer engagement remains low

- 9.14 While the remedies mentioned above will address the barriers to searching and switching for PCA customers that we have identified, we consider it important to supplement these with measures aimed directly at increasing consumer engagement. This is because customers need to be sufficiently engaged in the market to consider whether they are using the correct products to meet their needs before they begin to undertake the searching part of the customer journey. Therefore, in addition to the measures above, we propose to introduce measures to prompt customers, both periodically and following the occurrence of specific events, to review their existing banking arrangements. These prompts are intended to increase customer engagement and to encourage customers to compare different available offers in order to ensure that they are receiving the best value product for their own needs and requirements.
- 9.15 We are recommending that the FCA undertakes a programme of customer research and testing with PCA providers of the potential available periodic and event- or situation-based prompts, to ensure that the suite of prompts, and the form of the prompts, that providers are required to introduce, are those that are most likely to have the greatest impact in stimulating customer engagement and searching. In doing this, we recognise that the effectiveness of the prompts will be maximised once all elements of the package are in place and the results of the testing should be interpreted in this light. To ensure that any testing covers an adequate number and range of PCA providers and their customers, we also propose to require providers to participate in and cooperate with the FCA's testing programme.
- 9.16 Further, our remedy to make available transaction data via open APIs will also address low customer engagement by enabling customers to understand more easily their potential gains from switching.

- 9.17 In addition, to address the factors contributing to the AECs with respect to overdraft customers, further complementary remedies are required to improve customer engagement, particularly for users of unarranged overdrafts. We consider that customer engagement is particularly low in respect of unarranged overdrafts because usage of unarranged overdrafts is outside of borrowing limits agreed in advance and because customers who use these facilities may not have planned to do so.
- 9.18 We therefore consider measures are required in order to increase customer awareness of and engagement with their overdraft usage and charges, and to help customers engage with and manage their overdraft usage. We propose to do this through requiring providers to automatically enrol customers on to timely alerts to inform them when they begin using an unarranged overdraft, and requiring providers to offer and inform customers of grace periods during which they can take action to avoid or mitigate unarranged overdraft charges. We are additionally proposing to recommend to the FCA that it undertakes work to identify, research, test and, as appropriate, implement measures to increase customer engagement with the overdraft usage and charges.
- 9.19 Further, we propose to require providers to introduce, and publicise, a monthly limit on the unarranged overdraft fees and charges that can be levied on a customer. This measure will increase engagement through greater transparency for those customers that utilise unarranged overdraft facilities and directly address the detriment arising from the low engagement. Providers have a range of potential commercial responses to the requirement to introduce such a limit, which would enhance competition for this group of customers. As this measure includes ensuring effective communication of the monthly limit to customers, we propose to initially include a broad requirement on providers as to the nature of that communication. We also propose to recommend that the FCA undertake a review of the ongoing effectiveness of this measure and to consider whether there is a need for specific amendments or additional measures which could supplement our measure.
- 9.20 We consider that these measures will both enhance competition and directly mitigate the customer detriment arising from the lack of competition for overdraft users, in particular users of unarranged overdrafts.

Conclusions

- 9.21 We consider that when taken together, our proposed PCA remedies would increase engagement by customers with their PCA, increase their awareness of charges and encourage them to better make use of their account, and make it easier for customers to compare alternative offers and to switch. This would reduce customer acquisition costs (and therefore incumbency

advantages) and increase pressure on PCA providers to compete on price, service and innovation in order to retain existing customers and attract new ones. This would also mean that banks will increasingly compete on merit, with those that provide better value in terms of price, quality and innovation being better able to attract and retain customers and further grow their business. This would benefit new entrants and smaller banks seeking to grow their customer base and expand. Over time this would also increase the constraint posed by new entrants and smaller banks on larger established banks as well as to increase the constraints these larger established banks impose on each other. Our proposed measures on overdrafts would additionally help to directly address the customer detriment associated with overdraft fees and charges. All of the remedies are expected to operate throughout the UK, and therefore address the entire geographic scope of the AECs.

Effectiveness in addressing the AECs and the resulting customer detriment in relation to the provision of BCAs

9.22 We now consider how the package of remedies addresses the features of the BCA markets that restrict competition. We set out in paragraph 1.4(b) a summary of our AEC findings in relation to BCAs. These features were similar to those for PCAs:

- (a) Barriers to searching for alternative providers of BCAs.
- (b) Barriers to switching to alternative providers of BCAs.
- (c) Low levels of customer engagement.
- (d) Incumbency advantages.
- (e) Linkages between PCAs and BCAs.

Barriers to searching for alternative providers of BCAs

9.23 With the exception of the overdraft remedy, we consider that the measures similar to those we are proposing be introduced for PCAs to address the barriers to searching that we have found there, would also address the barriers to searching for BCAs. The measures we are proposing would work in a similar way as for PCAs, with the combination of our proposed package of remedies providing additional means for SMEs to make comparisons of charges and services. The requirement for the development of open API standards and open data, combined with the provision of information on the

quality of services from different BCA providers, will help to enable the development of effective comparison tools.

- 9.24 However, additionally for SMEs, we recognise there are particular issues around the development of effective comparison tools. This is for a variety of reasons, including the heterogeneity of SMEs and their resultant different banking requirements. In recognition of this, the industry has initiated the Nesta challenge prize to incentivise the development of effective comparison tools. We consider this an important mechanism to deliver effective comparison tools for SMEs. We are proposing to require the larger banks in GB and in NI to support the initiative, through funding and making data available during and beyond the Nesta challenge prize process. Further, we propose to require the same banks to list their relevant SME products on at least two designated finance platforms, and on at least two PCWs.
- 9.25 The above measures, when taken together will reduce the barriers to searching, helping start-ups to identify the best value BCA for their needs, as well as helping established SMEs to search for alternative banking arrangements.

Barriers to switching to alternative providers of BCAs

- 9.26 The barriers to switching BCAs are similar to those identified for PCAs (with the exception of the feature identified for PCAs related to overdraft users and the addition of a lengthy, onerous and time consuming account opening process). We consider that the measures we have outlined above to address the low customer confidence in CASS, by improving the process for switching current accounts through the reforms to the governance of CASS and increasing awareness of the switching process, will equally address the barriers to switching we have found in relation to BCAs.
- 9.27 In addition, we are proposing to require BCA providers to agree and adopt a standard account opening form containing a core set of questions and standard evidence requirements (both to be approved by the CMA) for opening a BCA. This proposed measure will lower barriers to switching by making the account opening procedure simpler. This measure will be further enhanced by the development of open APIs discussed above, which will enable the automatic and secure sharing between banks of data contained in the standard form, which would obviate the need for an SME to provide this information to a new provider, and therefore facilitate switching.

Limited triggers for SMEs to consider their banking arrangements

- 9.28 Similar to what we have found for PCAs, while the package of remedies we are proposing will help to address the barriers to searching and switching we have identified, there is currently low engagement of SMEs in the markets, which is contributed to by the lack of triggers for SMEs to consider their banking arrangements. To address this, we are proposing to recommend that the FCA undertakes a programme of customer research and testing with BCA providers, of potential period and event-based prompts for SMEs. This will help ensure that the suite of prompts, and the form of these, that providers are required to introduce, are those that are most likely to have the greatest impact in stimulating SMEs' engagement in the market and searching for alternative BCAs. To ensure that any testing by the FCA covers an adequate number and range of BCA providers and their customers, we also propose to require providers to participate in and cooperate with the FCA's testing programme.
- 9.29 The transaction data shared via open APIs and the emergence of effective PCWs arising from the Nesta challenge will also enable SMEs to better understand their gains from switching.

Linkages between PCAs and BCAs

- 9.30 The measures that we are proposing to address barriers to searching and switching, and to trigger customers and SMEs to more actively engage in the current account market, will additionally act to weaken the linkages present between PCAs and BCAs. As customers become more accustomed to considering their PCA options and switching PCA provider, we expect that start-up SMEs will be increasingly likely to consider alternatives to their PCA provider. Moreover, with more tools available to compare price and service of different BCAs, this will also work to weaken the linkage between PCAs and BCAs as start-ups will have more information on which to choose a BCA.
- 9.31 Similarly, our proposals to require providers to adopt simplified and standardised account opening procedures should act to further weaken the identified linkages, as standardised procedures will, among other things, reduce the advantage the PCA provider has with respect to an account holder seeking to establish an SME and open a BCA.

Conclusions

- 9.32 We consider that when taken together, our proposed BCA remedies would increase engagement by SMEs with their BCA, make it easier for customers to compare alternative offers and to switch, and reduce the strength of

linkages between PCAs and BCAs. This would reduce customer acquisition costs (and therefore incumbency advantages) and increase pressure on BCA providers to compete on price, service and innovation in order to retain existing customers and attract new ones. This would also mean that banks will increasingly compete on merit, with those that provide better value in terms of price, quality and innovation being better able to attract and retain customers and further grow their business. As is the case in the PCA market, and in combination with the outcomes we expect there from our proposed package of remedies, this would benefit new entrants and smaller banks seeking to grow their customer base and expand. Again, we expect that over time this would increase the constraint posed by new entrants and smaller banks on larger established banks as well as increase the constraints these larger established banks impose on each other. All of the remedies are expected to operate throughout the UK, and therefore address the entire geographic scope of the AECs.

Effectiveness of remedies in addressing the AECs and resulting customer detriment in SME lending markets

9.33 We now consider how the package of remedies addresses the features of the market that restrict competition between providers of SME lending products. We set out in paragraph 1.4(c) a summary of our AEC findings in relation to the provision of SME lending. These features are:

- (a) barriers to comparing SME lending products due to opaque charges, complex terms and a lack of effective comparison tools;
- (b) strong linkages between BCAs and SME lending products;
- (c) information asymmetries (between an SME's BCA provider and other providers of lending products);
- (d) the nature of demand for SME lending products; and
- (e) incumbency advantages.

Barriers to comparing SME lending products

9.34 Our proposed measures will address the barriers to comparing SME lending products. These proposed measures will enable SMEs to more easily access information on SME loan and overdraft terms and conditions. We achieve this in part through requiring banks to publish indicative prices for unsecured loans and overdrafts up to £25,000, as well as more information on availability of loans through the requirement for the largest SME lending providers to

develop a price and eligibility indicator tool for unsecured and secured loans and overdrafts. Further, enhancements to comparability will be achieved by our proposed requirement on banks to make information available through open data on their service quality, charges, terms and conditions for loans and overdrafts, as well as our proposals in relation to the Nesta challenge prize. Together these will facilitate the creation of a website or websites to enable the comparison of SME banking products.

- 9.35 Our proposed recommendations to HMT will further enhance the ability of SMEs to search for SME lending products. The review of the impacts of the measures in the [SBEE Act](#), as well as reviewing ongoing commercial, technological and regulatory initiatives intended to facilitate the sharing of SME information will help to secure and maximise the potential benefits of these developments. Aligned with this is our proposed recommendation to BIS that it works with the [British Business Bank](#) and professional associations such as [ICAEW](#) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs.
- 9.36 These measures, when taken together will reduce barriers to searching and comparing, helping SMEs to search alternative lending opportunities.

Strong linkages between BCAs and SME lending products and information asymmetries

- 9.37 In our provisional findings we found that there were strong linkages between the provider used by a SME for its BCAs and the lender it subsequently uses. For example, we found that around 90% of SMEs go to their main bank for overdrafts, general purpose business loans and credit cards and that around 60% of SMEs considered only one provider when seeking lending. These linkages have been identified in previous investigations. For example, as a result of the 2002 SME banking investigation the largest banks provided undertakings to prohibit the tying of SME loans with BCAs, which we are proposing to retain.⁶⁹⁵ The measures we are proposing to address barriers to searching will additionally act to weaken the linkages present between BCAs and SME lending as well as undermine the information asymmetries present between an SME's BCA provider and other providers of lending products. For example, our proposal to require larger banks to develop and publish online a loan price and eligibility tool will help to increase confidence among SMEs in applying for a loan from a provider other than their BCA provider.

⁶⁹⁵ See [Review of 2002 SME banking undertakings](#), paragraphs 4.17–4.20.

Nature of demand for SME lending products

- 9.38 Our remedies relating to a loan price and eligibility tool will reduce the cost of obtaining multiple quotes. In addition, the proposed recommendations to HMT to review the impacts of the measures in the [SBEE Act](#), as well as reviewing ongoing commercial, technological and regulatory initiatives intended to facilitate the sharing of SME information, will help to secure and maximise the potential benefits of these developments. Combined with information sharing via open APIs this should assist SMEs in gathering the financial information required to apply for a loan and assist lenders in providing a decision more quickly.

Conclusions

- 9.39 We consider that when taken together, our proposed SME remedies would increase engagement by SMEs in lending markets and increase the ability for SMEs to compare lending products. This would reduce customer acquisition costs (and therefore incumbency advantages) and increase the pressure on BCA providers and other SME lending providers to compete. This would also mean that providers will increasingly compete on merit, with those that provide better value in terms of price, quality and innovation being better able to attract and retain customers and further grow their business. This would benefit new entrants and alternative providers of finance seeking to grow their customer base and expand. As is the case for PCAs and BCAs, this would increase the constraints posed by new entrants and alternative lending providers on the established banks, as well as increase the constraints that the established banks impose on each other. All of the remedies are expected to operate throughout the UK, and therefore address the entire geographic scope of the AECs.

Other aspects of the effectiveness of our proposed remedies package

- 9.40 In evaluating the effectiveness of our proposed package of remedies, we have considered the following further factors:
- (a) The extent to which the remedy measures are capable of effective implementation, monitoring and enforcement.
 - (b) The timescales over which the remedy measures will take effect.
 - (c) The consistency of the package of remedies with existing and likely future laws and regulations.
 - (d) The coherence as a package of remedies.

Implementation, monitoring and enforcement

9.41 Our consideration of how each measure could be implemented, monitored and enforced is set out in our assessment of each potential remedy in Sections 3 to 6. To monitor compliance with the CMA Order and undertakings we propose requiring relevant parties to submit a compliance report to the CMA.⁶⁹⁶ In summary:

- (a) We propose to require, by CMA Order, the largest PCA and BCA providers in GB and in NI to work to develop an open API standard and open data to allow third parties access to product information, service quality metrics and transaction data. Further, we propose to require all PCA and BCA providers, by CMA Order, to publish service quality metrics to enable PCA, BCA and SME lending comparison. It will be transparent from compliance reports whether any of the relevant providers are not complying with these Orders.
- (b) We propose to recommend to the FCA to undertake a research programme to develop a set of most effective customer prompts to increase customer engagement in retail banking markets. This includes PCAs and BCAs as well as prompts related to PCA customers' overdraft use. This recommendation will be supported by a CMA Order to require providers to participate in the FCA research and to send the switching prompts to customers. The FCA has developed experience and expertise in the conducting of such research and so is well placed to undertake this proposed recommendation.
- (c) We propose to seek undertakings from Bacs for it to introduce improvements to the governance and performance of CASS, as well as to introduce improvements to the CASS process. This includes changes to the CASS governance arrangements; measures to increase the awareness of and confidence in CASS, targeting specific customer groups; as well as measures to extend the CASS redirection period. The proposed undertakings are related to issues within the direct influence of Bacs. It will be transparent from compliance reports whether Bacs is not compliant with these requirements.
- (d) We propose to recommend to HMT that it provides for the PSR to have appropriate regulatory oversight of CASS. HMT is the appropriate

⁶⁹⁶ We are proposing for many remedies that these should apply to all PCA or BCA providers. However, we are seeking views on whether there should be a de minimis threshold for implementing these remedies. We have suggested that this may be set relatively low (for example, at 150,000 to 200,000 active PCAs and 20,000 to 25,000 active BCAs) thus covering the majority of active accounts and including larger providers in both GB and NI, while also excluding the large number of very small providers.

government department to provide the PSR with powers to undertake the regulatory oversight role. In addition, to reduce some of the perceived risks of switching PCA or BCA provider, we propose requiring by CMA Order that all PCA and BCA providers allow for the provision to customers of their transaction histories. It will be transparent from compliance reports whether any provider is not complying with this requirement.

- (e) We propose to require PCA providers, by CMA Order, to introduce an overdraft alert, to inform PCA customers when they enter, or are about to enter their unarranged overdraft. As part of this alert we propose that PCA providers should also inform customers of the grace period within which they have an opportunity to transfer money into their PCA to avoid/reduce overdraft charges. It will be transparent from compliance reports whether any provider is not complying with this requirement. We also propose to recommend to the FCA that it undertakes research and testing to optimise the alerts and how these are communicated. As with the prompts referred to at 9.41(b) above, the FCA's testing of overdraft engagement measures will be supported by a CMA Order. The FCA's experience and expertise in conducting research and testing means it is well placed to undertake this proposed recommendation.
- (f) We propose to require PCA providers, by CMA Order, to introduce an MMC for unarranged overdraft fees and for this to be communicated in a no less prominent manner than other aspects of its PCA overdraft charges. We also propose to recommend to the FCA to keep the effectiveness of the MMC under review. It will be transparent from compliance reports whether any provider is not complying with this requirement and the FCA's experience and expertise means it is well placed to undertake this proposed recommendation.
- (g) We propose to recommend to the FCA that after open API standards have been introduced, it reviews whether banks should be required to provide an overdraft eligibility tool. As sectoral regulator, the FCA is best placed to review whether such an eligibility tool should be required. We also propose to seek undertakings from Bacs for it to work with CASS participants to review the switching process to reduce the risks for overdraft customers having insufficient overdraft availability from their prospective new supplier. It will be transparent from compliance reports whether Bacs is not complying with this requirement.
- (h) We propose to recommend to the FCA to consider whether changes to the PCA opening process could be introduced to better inform customers and to increase customer engagement with overdraft choices. This would include whether customers should, as part of the account opening

process, be required to make a positive acknowledgement of the overdraft features in a new PCA. The FCA's experience and expertise in conducting research and testing means it is well placed to undertake this proposed recommendation.

- (i) We propose to require, by CMA Order, the largest BCA and SME lending providers to support the Nesta challenge prize process in developing a comparison tool(s) for SMEs, covering BCAs and lending products. These will cover the provision of data; providing funding to facilitate the Nesta challenge prize process; and requiring providers to list their products on designated PCW/comparison platforms. It will be transparent from compliance reports, as well as ongoing feedback from the progression of the Nesta challenge prize, whether any provider is not complying with this requirement.
- (j) We propose to require, by CMA Order, all lenders that provide unsecured lending and overdrafts under £25,000 to SMEs to publish loan price data and, the largest SME lending providers in GB and NI to develop and publish a price and eligibility indicator tool for unsecured and secured loans and overdrafts. It will be transparent from compliance reports, as well as from feedback from market participants, whether any provider is not complying with this requirement. Further, we propose to recommend to HMT to take measures to allow for SMEs to undertake 'soft searches' for lending products.
- (k) We propose to require, by CMA Order, all BCA providers to develop and use a standard BCA application form setting out a core set of questions and evidence requirements to enable easier switching between BCA providers and the sharing of minimum necessary information. This may be achieved through an industry working group coordinated by the BBA. We further propose to make a recommendation to the FCA to attend the proposed industry group as an observer. It will be transparent from compliance reports whether any provider is not complying with this requirement.
- (l) We propose to recommend to HMT to undertake a review in two years' time of the impact of the measures in the [SBEE Act](#) as well as ongoing commercial, technological and regulatory developments in the area of sharing SME data to help ensure that the potential benefits from these measures and developments are realised to their maximum extent. HMT is the government department best placed to undertake such a review and propose actions to address any issues identified.

(m) We propose to recommend to BIS that it works with the [British Business Bank](#) and professional associations such as [ICAEW](#) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs.

9.42 We have provisionally concluded that each of the measures is capable of effective implementation, monitoring and enforcement. In reaching this view we note that our proposed package of remedies contains a large number of recommendations; primarily to the FCA, but also to HMT and BIS. We consider that this is appropriate to the particular facts and circumstances of this investigation. In particular, the ongoing regulatory role of the FCA means that it is best placed to integrate many of the further actions necessary to address the AECs with its other interventions and potential future interventions in these retail banking markets. We also envisage that over time, as the remedies become embedded and/or subject to review by the FCA, the FCA would introduce its own rules and measures to supersede these measures, where that is appropriate. In such circumstances we would expect to review the relevant Order or undertaking and revoke/release it if the statutory test for doing so is met. We will consult with the FCA, HMT and BIS about the final recommendations that we make. It will be a matter for those bodies to decide whether and how to implement our recommendations, and over what timescales (subject to the application of sections 140A to 140H of FSMA to the FCA where it applies).

The timescales over which the remedy measures will take effect

9.43 In evaluating the timescales over which the remedy measures within our proposed package of remedies are likely to take effect we have considered:

- (a) the time that it is likely to take to implement the remedy measures following publication of our final report; and
- (b) the time that it is likely to take for the remedy measure, once implemented, to remedy the AEC and the resulting customer detriment.

Time taken to implement remedy

9.44 The time taken to implement following this retail banking market investigation will depend, in part, on whether the CMA is taking action itself, or recommending action to be taken by others.

9.45 Where the CMA is taking action itself, the implementation of remedies following a CMA investigation typically involves two stages. In the first, the

CMA makes an Order.⁶⁹⁷ This usually involves a period of informal consultation with relevant parties, followed by a formal public consultation, as specified in Schedule 10 to the Act. The CMA must make a final Order within six months of the date of the publication of the final report. The CMA may extend this six-month period by up to a further four months if it considers that there are special reasons why a final order cannot be made within the statutory deadline.⁶⁹⁸ In the second stage of implementation, the parties subject to any Order take the action required by the CMA within the period specified in the Order.⁶⁹⁹

9.46 We would expect to put in place an Order in relation to those measures that we propose the CMA implements within the statutory six-month period from the date on which we publish our final report. We would expect to accept undertakings with parties where this is practicable shortly after publication of our final report. An additional transitional period may be given to enable parties subject to the Order or undertakings to make the necessary changes to comply with the Order or undertakings. For each of the remedies which we propose to implement by CMA Order or undertakings, our current intention for transitional periods are as follows:

- (a) **Development and adoption of an open API standard.** Require the largest banks in GB and the largest banks in NI to provide third party access to product information, the reference data and 'Midata' data sets via open APIs by Q1 2017; to provide access to service quality metrics in line with the requirements of service quality metrics remedy (see below); and to provide full read write functionality on PCA and BCA transaction data sets no later than January 2018.
- (b) **Service quality metrics.** Require all banks to make available the core metrics as detailed in Section 3 within a period no greater than six months from the date of the Order.
- (c) **Prompts.** Require all banks to cooperate with and participate in the FCA's research and trialling of prompts (including on overdraft engagement measures) with this coming into effect shortly after the Order is made. We also expect in advance of the Order, for banks to work with the FCA to

⁶⁹⁷ It is also possible for the CMA to seek and accept undertakings (see the [Guidelines](#), paragraphs 92 & 93). This is unlikely to be practicable for most of remedies in this investigation given the large number of parties from whom undertakings would need to be sought, although there are some remedies for which we are proposing accepting undertakings, namely in relation to CASS.

⁶⁹⁸ Section 138A of the Act. These time limits do not apply to any further implementation required after undertakings have been accepted or an Order made.

⁶⁹⁹ There is a similar two-stage process for undertakings. The first stage involves us publicly consulting on the undertakings being offered, followed by acceptance of the undertakings. In the second stage of implementation of the undertakings, the parties giving the undertakings take the action required to comply with them.

undertake preparatory work for the research and trials on a voluntary basis. Further, we also propose to accept undertakings from providers or make an order that prompts for SMEs will be extended to SMEs that fall outside of the FCA's regulatory boundary, but within our terms of reference. These undertakings or Order would be effective from the same date as the equivalent FCA rules came into effect.

- (d) **CASS redirection period.** Bacs to have implemented the changes to the redirection period, within a period of six months from the undertakings being accepted.
- (e) **CASS governance and awareness.** Bacs to have made the changes to the CASS governance within a period of six months of the undertakings being accepted. Further, we would expect it to start incorporating changes into its approach regarding CASS awareness and confidence shortly after the undertakings have been accepted.
- (f) **Transaction history for customers.** Require all PCA and BCA providers to provide customers at the time of closing an account, their transaction history for a minimum period of five years and additionally require banks to retain transaction history and provide to customers at their request for up to five years, with this coming into effect within a period no greater than six months from the date of the Order.
- (g) **Overdraft alerts and grace periods.** Require all PCA providers to introduce an alert to inform PCA customers when they are entering their unarranged overdraft and that they have a grace period within which they can take action to avoid or reduce the associated unarranged overdraft charges and fees, with this coming into effect within six months of the Order being made.
- (h) **Monthly maximum charge.** Requiring all banks to introduce an MMC on their PCAs, and this to be communicated to customers in a no less prominent manner than other PCA overdraft charges information, with this coming into effect within six months of the Order being made.
- (i) **Provision of a firm decision to a customer prior to the switching of account provider.** Bacs to work with CASS participants to review the switching process, within a period of six months of the undertakings being accepted.
- (j) **The development of a comparison site(s) for SMEs.** Require the largest banks in GB and the largest banks in NI to fund the Nesta challenge prize process and additionally to make data available before, during and beyond the Nesta challenge prize process, with these

requirements coming into effect shortly after the Order is made. This will be supplemented by requiring these same banks to list their relevant SME products on at least two designated finance platforms, with this coming into effect within one month of the Order being made. Further, we would require these same banks to list their relevant SME products on at least two PCWs, one of which is the Nesta challenge prize winner, with this coming into effect within a short period of the conclusion of the Nesta challenge prize process.

(k) **The publishing of SME lending product prices, and development of price and eligibility indicator tools.** Require all SME lenders to publish prices for unsecured loans and overdrafts, and to make these available to third parties. We expect this measure to be implemented within three months of the Order coming into effect. Further, we will require the largest banks in GB and in NI to place on their websites loan price and eligibility indicator tools, and make these available to two or more price comparison sites, including the eventual Nesta prize winner(s). This measure must be undertaken within six months of the Order being made.

(l) **BCA opening procedures.** Require all banks to agree and adopt a standard form and evidence requirements for opening a BCA. We expect banks to propose to the CMA a standard form within two months of our final report, with implementation coming into effect within six months of the Order being made.

9.47 We would particularly welcome views on the transitional periods that we are proposing for each of the measures that we are intending to implement by CMA Order or by accepting undertakings.

9.48 The timescale for implementing the measures that we propose to implement by means of recommendations will be a matter for the bodies to which we make the recommendation – in this case either the FCA, HMT or BIS. Our current expectations in relation to these measures are as follows:

(a) **Prompts research.** We are proposing to recommend to the FCA that it undertakes a programme of research into customer prompts. Based on our discussions with the FCA and our understanding of its previous similar research we would expect that the FCA would be in a position to have completed its testing and analysis of the results of its testing in between 15 and 18 months of our final report (between nine and 12 months of our Order being made). We further expect there to be a period of around six months for the FCA to incorporate the remedy into its rules (by summer 2018), around two years after the publication of our final report.

- (b) **Service quality metrics.** We are proposing to recommend to the FCA to require providers to publish, and make available to others as open data, additional measures of service performance encompassing providers' PCA, BCA and SME lending products and principle sales/delivery channels. We expect that this part of the remedy would be implemented within one to two years after the publication of our final report.
- (c) **Regulatory oversight of CASS by the PSR.** We are proposing to recommend that HMT give the PSR powers to allow them to have regulatory oversight of CASS in the way that we consider necessary to maximise the effectiveness of CASS in promoting competition. We are hopeful such changes can be made within a year of publication of our final report.
- (d) **Customer overdraft and grace period alerts.** We are proposing to recommend to the FCA that it identifies, researches, tests and implements appropriate measures to increase customers' engagement with their overdraft usage. Potentially this could be included in, or run in parallel with, the research and testing work on customer alerts which we are also recommending that the FCA undertakes.
- (e) **Monthly maximum charge for overdrafts.** We are proposing to recommend to the FCA that it undertakes work to assess the ongoing effectiveness of the MMC and consider whether measures could be taken to further enhance its effectiveness. Any initial review would need to be a sufficient time after the introduction of the MMCs by banks in order that its effectiveness can be evaluated.
- (f) **Overdraft eligibility checker.** We are proposing recommending to the FCA to consider requiring PCA providers to offer online tools indicating a customer's overdraft eligibility. However, the need for such a requirement may be superseded by market developments following the introduction of APIs (and our package of remedies). We would expect the FCA to consider whether such a requirement is necessary following a suitable timescale following the introduction of APIs.
- (g) **Customer engagement on overdrafts at account opening.** We are proposing to recommend to the FCA that it looks at ways to engage customers more in considering overdraft features and their potential relevance and impact, during the PCA opening process. We would expect the FCA to start to undertake this work shortly after the publication of our final report.

- (h) **'Soft' searches for loans.** We are proposing to recommend to HMT to work with CRAs and SME lenders to enable SMEs to undertake 'soft' searches for loans, without adversely affecting their credit ratings. We would expect HMT to start to undertake this work shortly after the publication of our final report.
- (i) **Sharing of SME data.** We are proposing to recommend that HMT undertake a review of the commercial, technical and regulatory developments in the area of sharing SME data and that this review is within two years of our final report.
- (j) **Increasing SME awareness of searching and switching.** We are proposing to recommend to BIS that it works with SME advisory bodies and other relevant professional associations to explore ways in which their members can channel advice on the choice of providers and sources of finance for SMEs. We would expect BIS to be able to start to undertake this work relatively shortly after the publication of our final report.

9.49 As well as the Orders and recommendations that we are proposing to make and the undertakings we are proposing to accept, we also expect there to be commercial market developments that will occur following the implementation of our remedies package. We are uncertain as to which of these potential commercial developments will materialise, but there is clearly scope for our proposed package of remedies to facilitate such developments. Potential areas include the emergence of 'credit passports' where open API standards and open data will allow market participants to develop platforms to allow for the sharing of customer data, opening up the opportunity for rival suppliers to compete for customers and for customers to switch to suppliers that better meet their needs, offering better value.

Time taken for remedy package to take effect

9.50 As can be seen from the preceding discussion, we currently envisage that most of our proposed remedies will be in place within six months of the CMA Order being made or undertakings being accepted. However, other measures are dependent on our recommendations being acted upon and the measures we expect to follow from our recommendations coming into effect; for example the introduction of a requirement for banks to introduce prompts and alerts following the FCA's research and testing and the PSR having regulatory oversight of CASS following HMT enabling this.

9.51 However, even after a measure is introduced, or following a transitional period, it will take time for the introduction of the measure to have an impact on the market. Moreover, it is also clear that many of the measures in our

proposed package of remedies are interrelated and integrated with each other. This means that the total potential benefits that could arise from the package will only be realised once the full package is in place and the market has a period of time in which to adapt and respond to the new competitive pressures and commercial opportunities that they will present.

9.52 As we set out in Section 3 the foundation measures are of particular importance to the overall effectiveness of our proposed package of remedies. The combination of open API standards, customer prompts and enabling service comparisons underpins many of our other measures, such as:

- enabling customers to compare PCAs, BCAs and SME lending products (with the latter being enabled through the Nesta challenge prize);
- providing for overdraft and SME loan price and eligibility indicators; and
- enabling the sharing of SME data to allow for greater rivalry between suppliers of SME banking products.

9.53 These foundation measures are reliant on a combination of CMA Orders on parties as well as our proposed recommendations to the FCA being acted upon and delivering the outcomes we envisage. These measures are also the ones with the longest period before they are fully introduced, which, with the exception of the service quality metrics, will take place during 2018. Likewise, we currently expect the Nesta challenge prize to run until mid-2018, which will then be followed by a period to bring the successful products of the winner or winners to market. This will then be followed by a period in which SMEs become more familiar with the ability to compare and realise the value they could obtain from switching the providers of their banking products.

9.54 Despite these longer implementation timescales, nevertheless there are other measures in our package that will be able to begin to address the AECs and the associated detriment in advance of these foundation measures becoming effective. For example, we are proposing to require the changes to CASS governance (and its work on increasing awareness and confidence in CASS) within six months of the undertakings being accepted. While the envisaged effects of these changes will inevitably take some time to materialise, we would expect these to start to materialise relatively quickly. We similarly expect this to be the case for the changes to the switching processes we are proposing. Further, the changes to CASS governance will also help ensure that the switching service is more responsive to customer needs and more focused in ensuring that CASS operates in a way that seeks to maximise the benefits of competition and increased rivalry for the benefit of customers. It will be able to deliver some of these benefits in the shorter term, but again

these will likely be enhanced further once the full package of proposed remedies are in place and once customers become more accustomed to and aware of the changes in the market that the remedies will stimulate.

- 9.55 In addition, we are proposing to require banks to introduce measures to address directly the detriment associated with customers' use of unarranged overdrafts, both through the introduction of an MMC and the use of alerts and grace periods. These similarly will be introduced shortly after our Order is made and we expect these to quickly impact customers' usage of their unarranged overdrafts.

Provisional conclusion on timescales for remedies to address the AEC

- 9.56 We provisionally conclude that our proposed package of remedies will begin to have a beneficial impact on competition from around 12 to 18 months after our final report, although significant beneficial impacts for all customer types will likely take around two to three years from our final report to emerge.
- 9.57 The full benefits of our proposed package of remedies will, however, not be realised until all elements of the package are effectively implemented. As explained above, some of our proposed remedies have relatively long implementation timescales, in part due to the need for other bodies to undertake further work following our recommendation, or because of the need for ongoing cross-industry technological developments, or in the case of the Nesta challenge prize, to allow this initiative to run its course. Therefore, the full initial impact of our proposed remedies will likely start to emerge from mid-2019. We expect that the effects of our remedies will continue to grow beyond this time: as customers become more engaged in the markets and become more aware of the potential benefits of shopping around and switching; as rivalry between suppliers increases; and as opportunities for new, disruptive business models to meet consumers' and SMEs' banking needs emerge.

Consistency with existing and likely future laws

- 9.58 As part of our consideration of the design of each of the remedies in our proposed package, we have considered whether these remedies would be inconsistent with other relevant laws and regulations applicable in retail banking. We have particularly focused on the interaction between our proposed remedies and EU legislation; data protection legislation; consumer legislation; and future legislative programmes.
- 9.59 In relation to the switching prompts to increase customer awareness and overdraft alerts, we have carefully considered data protection issues and, in particular, whether these necessarily amount to direct marketing. We believe

that they do not. We will continue to work with the FCA and the Information Commissioner to ensure that these remedies are implemented in a way that is compliant with data protection regulation. We also considered whether switching prompts and our proposed overdraft remedies were incompatible with the Payment Services Directive (PSD) and the Consumer Credit Directive (CCD). We believe that the measures we propose are compatible but that the FCA will need to take account of the scope of PSD and CCD when using its rule-making powers.

- 9.60 The Payment Accounts Directive (PAD) will require standardised terminology to be used by banks in communication with customers as well as an annual statement of fees. We have taken this into account when developing our remedies. However, as PAD is a minimum harmonisation directive, it allows member states to go further than its requirements.
- 9.61 We designed the information-sharing remedy via open APIs to take account of the Second Payment Services Directive (PSD2), once it comes into force, by specifying that the open API standard developed should be compatible with PSD2. We have also aligned the timing of our remedy with the transposition of PSD2. We note that any information sharing will need to comply with data protection laws and we encourage providers to continue to work with the Information Commissioner in that respect.
- 9.62 We also took account of the [SBEE Act](#) in relation to our package of SME remedies. In particular, we took account of the regulations that HMT has already put in place, namely the Small and Medium Sized Businesses (Credit Information) Regulations 2015 and Small and Medium Sized Businesses (Finance Platform) Regulations 2015 which came into force on 1 January 2016. These respectively require banks to share certain information with other providers through credit reference agencies and designated banks to refer SME customers that they reject for finance to finance platforms that can match the SME with designated alternative finance provider. When designing our BCA account opening remedy, we also had regard to the current and future AML regulations.
- 9.63 We also considered the DPA and AML regulations in relation to the remedy requiring PCA and BCA providers to provide transaction histories to customers at account closure and retain and provide, on request, transaction histories for five years following account closure.
- 9.64 In light of the above, we have provisionally concluded that our proposed package of remedies, and the elements within it, are consistent with current and expected laws and regulations applicable to the domestic retail banking markets.

Coherence as a package of remedies

- 9.65 It is clear from the above discussion of the individual measures which we propose to include in our remedies package that the remedies are highly integrated and that there are a number of interdependencies and linkages between the various measures, as well as synergies, which will enhance the impact of the overall package of remedies. The integrated nature of the measures also means that the impact of the overall package would be increased once all of the measures are put in place.
- 9.66 First, our measures work together to increase customer engagement and reduce barriers to searching and switching (for PCAs and BCAs) in markets where these have traditionally been very low, and make them more comparable to markets where competition is more effective. The increased customer engagement will help to drive dynamic benefits such as competitive responses from providers and ongoing technological innovation, which are difficult to measure but very important in delivering better outcomes. This is achieved by a combination of our remedies working in conjunction with each other. Our measures will also work alongside and leverage off other initiatives from government such as the OBWG established by HMT which published a report on its work in February 2016, and from industry, such as the Nesta challenge prize and the initiative to develop a common BCA opening form and evidence requirements.
- 9.67 Second, our measures work together to weaken the linkages between PCAs and BCAs, and between BCAs and SME lending. This will happen by facilitating easier comparison of different providers and products, as well as reducing the incumbency advantage of the PCA provider (in the context of BCAs) and the BCA provider (in the context of SME lending) through requirements such as developing a common BCA opening form and evidence requirements, and the provision of customers' transaction history. These measures will supplement the measures to enhance engagement, searching and/or switching, which will also act to weaken the linkages we identified.
- 9.68 Third, our measures work together to enable PCA customers to better manage their exposure to overdraft usage and associated charges, particularly those associated with unarranged overdrafts. Again our measures to enhance customer engagement, searching and switching are important here, allowing customers to choose the best account for their requirements. Our measures to improve the switching process for overdraft customers should also make it easier for customers to switch if they decide to do so. These measures are further supplemented by specific measures to help overdraft customers better manage their overdraft usage and charges through the requirement on banks to provide alerts and to notify customers of grace

periods, as well as our requirement for banks to introduce and publicise an MMC for unarranged overdraft charges.

- 9.69 Fourth, our measures work together to reduce information asymmetries and incumbency advantages by addressing barriers to searching and weakening product linkages. For example, our proposals such as those ensuring the development of open API standards, together with ongoing industry developments such as the measures implemented under the [SBEE Act](#) as well as ongoing commercial, technological and regulatory initiatives will further reduce information asymmetries, for example through increased sharing of SME information. Our measures together reduce incumbency advantages.
- 9.70 We therefore conclude that the combination of our measures represents a coherent package of remedies, whose elements are mutually reinforcing and integrated.

Provisional conclusion on effectiveness of remedy package

- 9.71 We have provisionally concluded that the proposed package of remedies represents an effective solution to the AECs and resulting customer detriment that we have provisionally found in GB and NI.

Proportionality of our proposed package of remedies

- 9.72 The UK retail banking sector is not only important in its own right, but also has a wide-ranging and significant impact on the functioning of the UK economy. The retail banking markets that are the focus of this investigation enable individuals and businesses to store money; underpin transactions for the exchange of goods and services; and provide sources of funding for SMEs to invest in and grow their businesses.
- 9.73 In the UK there are more than 68 million active PCAs, with 97% of adults having a PCA. Together these PCAs generated revenues of around £8.7 billion in 2014.
- 9.74 There has been a steady increase in the number of SMEs since the financial crisis in 2008. In 2014, there were over 5 million SMEs in the UK, which accounted for 99.9% of all UK businesses. There are around 5.5 million BCAs, which generated approximately £2.7 billion in revenues in 2014. The total stock of outstanding general purpose business loan balances at the end of 2014 was £90 billion with a further £9 billion of invoice finance loans and £25 billion of new asset finance loans.

- 9.75 The cost of ineffective competition in retail banking markets is high and extends beyond market boundaries. Without effective competition, the costs of banking will be higher, increasing the costs to consumers and SMEs of accessing and using their own money, the costs of transactions and of borrowing. In our view, greater levels of consumer and SME engagement, improved ability to compare, an easier and less risky switching process, weakening of the linkages between PCAs, BCAs and SME lending, weakening of information asymmetries between an SME's BCA provider and other lenders and addressing the incumbency advantages enjoyed by established banks will help deliver a more competitive market to the benefit of SMEs and personal customers.
- 9.76 We need to achieve as comprehensive a solution as is reasonable and practicable to the AECs we have provisionally found and any resulting detrimental effects on customers.⁷⁰⁰ However, we are mindful of the need for us to ensure that our proposed package of remedies is proportionate.
- 9.77 In this section, we summarise our assessment of whether our proposed package of remedies, taken as a whole, would be a proportionate response to the problems we have provisionally found. We do this by considering the following questions:⁷⁰¹
- (a) Is the package of remedies effective in achieving its aim?
 - (b) Is the package of remedies no more onerous than necessary to achieve its aim?
 - (c) Is the package of remedies the least onerous if there is a choice?
 - (d) Does the package of remedies produce adverse effects which are disproportionate to the aims?

Effective in achieving its aim

- 9.78 For the reasons set out in the effectiveness discussion above (paragraphs 9.3 to 9.71) we provisionally concluded that our proposed package of remedies would be effective in its legitimate aim of remedying the AECs and the customer detriment that is likely to continue to result from the AECs if their underlying causes are not addressed.

⁷⁰⁰ Section 134(6) of EA02.

⁷⁰¹ The [Guidelines](#), paragraph 344.

No more onerous than necessary to achieve its aim

9.79 In assessing whether the proposed package of remedies is no more onerous than necessary, we considered:

- (a) whether each measure within the proposed package of remedies is required to remedy the AECs that we have provisionally found; and
- (b) whether the design of each remedy measure within the package of remedies is no more onerous than it needs to be.

Is each element of the package of remedies necessary?

9.80 We considered whether each of the elements of the package is necessary to achieve as comprehensive a solution as is reasonable and practicable. We have found that competition in PCAs and SME banking is limited because of impediments for PCA customers and SMEs which result in low engagement and low searching and/or switching rates.

9.81 In developing our proposed package of remedies we are aware that the retail banking markets that are the focus of this investigation have been the subject of a number of past interventions, introduced over many years. Our analysis has indicated that the impact of these various measures has not been as effective as was envisaged, contributing to the persistence of the competition problems that we identified in our provisional findings. An example is the introduction of CASS in 2013, which while it has delivered a switching process which works, was not combined with other effective measures to increase wider customer engagement in the PCA and BCA markets.

9.82 This experience of piecemeal reform has been an important consideration in our reaching a view that we need to develop and introduce a comprehensive, integrated and mutually reinforcing package of remedies in order to create a seamless switching process, complemented by measures to increase customer engagement and prompt customers to switch or secure better value from their existing PCA or BCA provider.

9.83 We have explained above in paragraphs 9.65 to 9.70 how the remedies which we are proposing work closely together to address the problems we have identified.

9.84 Our proposed remedies seek to address the AECs we have provisionally found by creating greater scope for competition and customer engagement as well as weakening the linkages between PCAs and BCAs, and between BCAs and SME lending, reducing information asymmetries and addressing some of the incumbency advantages that we found. The impact of our measures will

be experienced from a customer's initial engagement in the market, through prompts; to enabling greater and easier comparison, through for example the development of APIs, the provision of quality of service information, the development of SME comparison tools, the enabling of the sharing of SME information and the provision of SME loan price and eligibility indicators; through to switching PCAs and BCAs with the reforms to CASS governance and processes and requiring the development of a common BCA application form. In addition, we propose to introduce measures that directly address the detriment associated with the lack of competition and barriers to switching experienced most acutely by PCA customers who use unarranged overdrafts.

- 9.85 In this way, each of the measures makes an important contribution to the effectiveness of the package as a whole and we expect the impact of our proposed combination of remedies to be greater than the sum of its parts.
- 9.86 We have also ensured that we are not proposing remedies that we consider will not be effective or proportionate. For example, as explained in Section 4, we are not proposing to take forward potential changes to CASS which would have required Bacs to transfer continuous payment authorities on debit cards when switching through CASS. Also, we are proposing in our parallel [review of the 2008 NI PCA banking Order](#) to revoke all of the measures in that Order. Similarly, as part of our other parallel review, of the [2002 SME banking undertakings](#), we are proposing to release all but one of the measures in those undertakings as these are no longer required or have been superseded by the measures we are proposing to introduce as part of this investigation.

Is the design of each remedy measure within the package of remedies no more onerous than it needs to be?

- 9.87 Our detailed consideration of the design and implementation of each of the proposed measures is set out in Sections 3 to 6.
- 9.88 In reaching our provisional decisions on remedy design, we have sought to avoid imposing costs and restrictions on parties that go beyond what is needed to achieve an effective remedy.
- 9.89 For example, for a number of remedies – including the requirement to work to develop and to adopt open API standards to share data; the requirement to participate in the Nesta challenge prize and to list SME banking products on at least two websites; and the requirement to develop and publish an online SME loan price and eligibility tool – we have decided to impose requirements on only a subset of providers, the larger banks in GB and NI, ensuring that our remedies cover a critical mass of the market. In relation to our other proposed remedies we believe that while the measures should apply generally, there

may be particularly small PCA or BCA providers where the remedy should not apply. We have invited comments on whether in relation to these remedies it is appropriate to apply a de minimis threshold and if so what that level should be. Our initial view is that such a threshold could be in the region of 150,000 to 200,000 active PCAs per provider and/or 20,000 to 25,000 active BCAs per provider.

- 9.90 We have also avoided over-specifying our remedies, where this is not necessary for their effectiveness. For example, we have decided not to propose setting a cap on the level of the MMC that we have proposed for PCA unarranged overdraft charges. Instead, as explained in Section 5, we consider that allowing providers to set the level of the MMC will achieve the aims of this remedy, while limiting or avoiding potential unintended consequences associated with the more intrusive approach of capping this charge and will ensure that banks remain accountable for their charges to customers.
- 9.91 For a number of our proposed remedies we have decided to make a recommendation to consider in the future whether further measures are required, rather than for the CMA to introduce measures now. An example of this approach includes our recommendation to the FCA to assess market developments following the introduction of APIs and whether there should be a requirement introduced on PCA providers to develop and introduce an overdraft eligibility tool. In these cases, we have been aware of the need for other interventions to take effect and the potential for market-based solutions to emerge in response to these earlier interventions.
- 9.92 In developing the design of the remedies we have considered whether measures should include a 'sunset' provision, to limit the duration of the remedy by reference to a specific future date or event. Further, for other potential remedies, we have recognised the merit in signalling now that they should be subject to a review in the future. For some remedies, or parts of remedies, this involves a recommendation to the FCA to undertake customer research or testing once the remedy has been introduced to assess whether the effectiveness of the measure can be improved, for example our proposed remedies for unarranged overdraft alerts, the communication of grace periods and the MMC.

Least onerous if there is a choice

- 9.93 If the CMA is choosing between two remedy measures which are both effective, it should choose the remedy measure that imposes the least cost or is least restrictive.

- 9.94 In addition to the measures we have included in our package of proposed remedies we also considered alternative ways of addressing the AECs and/or customer detriment. These included measures we put forward ourselves for consideration and other measures that were put to us by parties in response to the [Remedies Notice](#) and [Supplemental Remedies Notice](#). Our consideration of these alternatives is set out in Sections 3 to 6. We have found that a number of these alternative measures would be of limited effectiveness and/or would not be required to address the AEC if other measures in our package of remedies were put in place.
- 9.95 We provisionally rejected remedies which we found might be effective but more costly than the measures we are proposing to adopt. For example, we considered but rejected a requirement for the introduction of account number portability (ANP). While we considered that ANP would likely be effective in addressing the perceived and real risks faced by customers and SMEs when switching PCA or BCA provider, an effective, but much less costly alternative, of requiring improvements to CASS, is available.
- 9.96 In our consideration of the range of potential remedies we identified or had suggested to us, we were unable to identify an alternative package of measures that would be both less onerous and effective in remedying the AECs. However, in developing our package of potential remedies, we have taken care to avoid including measures that did not make a material contribution to remedying the AEC as set out in paragraphs 9.80 to 9.86.

Does not produce adverse effects which are disproportionate to the aim

- 9.97 We considered whether the package of remedies, or any specific measure within it, was likely to produce adverse effects which were disproportionate to the aim of remedying the AEC and/or the resulting customer detriment.
- 9.98 In reaching a provisional judgement about whether to proceed with a particular remedy, we have considered the potential effects, both positive and negative, on those persons most likely to be affected by it. We have paid particular regard to the impact of the remedies on customers. We have also had regard to the impact on those parties subject to them and on other affected parties, such as other businesses (eg potential entrants, or firms active in upstream or downstream markets), government and regulatory bodies and other monitoring agencies.⁷⁰²

⁷⁰² The [Guidelines](#), paragraph 348.

Benefits of the remedies package

- 9.99 Measures to improve customer engagement are at the heart of our proposals for making retail banking markets work better to deliver better outcomes for consumers and SMEs. Our measures will work at several stages in the customer experience to increase the competitive pressure on banks:
- (a) By empowering consumers and SMEs to make better-informed decisions at the time of first choosing an account; this is particularly important for start-up SMEs, which account for a large proportion of BCAs and currently have limited information about the service and quality of different BCAs.
 - (b) By encouraging switching (or the threat of switching) to lower-priced and/or higher-quality products by PCA and BCA customers. This may involve a customer switching entirely from one provider to another (full switching), opening a new account while retaining the old account (partial switching or multi-banking) or switching to a different account with their existing provider (internal switching). Customers can benefit from each of these forms of switching.
 - (c) By empowering SMEs and providing them with new tools to compare loan terms and conditions across providers.
 - (d) By increasing overdraft users' awareness of their usage and of the charges they could incur, including the cumulative charges they may incur in unarranged overdraft charges, and giving them tools to manage their account usage more actively.
- 9.100 The combined impact of these measures will be to increase the pressure on banks to compete by lowering their prices, improving those aspects of service which are valued by customers, and through innovation. As customer engagement increases, banks will be under more pressure to improve their offering in order to retain existing customers and attract new ones.
- 9.101 The increase in customer engagement and additional availability of data will reduce the incumbency advantage enjoyed by established banks, and will create an environment which will give more opportunities for expansion by small banks and banks with a better offering, and for new players to come into the market, including from the FinTech sector. Over time, this is likely to increase the competitive pressure on banks and could facilitate further technological change, allowing for new business models and approaches to develop, in turn enabling PCA customers and SMEs to meet their banking needs in new and more efficient ways.

9.102 In our [provisional findings](#), we concluded that, while we were not able to quantify the detriment associated with the AECs we had identified, we expected that this detriment would be substantial, particularly in view of the dynamic benefits that increased competition would deliver.

9.103 We now turn to discuss more specifically how customers are likely to benefit from our remedies and the magnitude of such benefits.

How customers are likely to benefit from our remedies

9.104 We expect increased customer engagement to bring about a more competitive environment, in which an increasing number of PCA and SME banking customers switch products and providers, and become better able to manage their use of their banking products, including usage of overdrafts. In turn, banks will need to adjust their charging structures and service levels to succeed in this more competitive environment.

9.105 In addition, we expect our remedies, particularly in relation to open APIs and the other measures that build on that remedy, to promote greater innovation and dynamic benefits.

9.106 While we are not able to quantify such benefits precisely, we expect these to be substantial. This is because of the scale and significance of retail banking markets both to their customers and to the wider economy (see paragraphs 9.72 to 9.74). In this context, we note that:

- (a) PCA, BCA and SME lending markets generated revenues of £8.7 billion, £2.7 billion and £2.9 billion⁷⁰³ respectively in 2014. Any reduction in prices (through reduction in charges or through increase in rewards, cashback and/or interest on credit balances) as a result of more competition would therefore have a large impact in monetary terms. For example, a reduction in charges, or increase in rewards to customers, of only 1 to 2%, would deliver customer benefits of between £100 million and £300 million per year across these three markets.
- (b) The competitive pressure on banks is currently weak, due to high barriers to searching and switching, the linkages between PCAs and BCAs, and (in the case of SME lending) the linkages between BCA and SME loans. In this context, our package of remedies has the potential to drive

⁷⁰³ Total revenue from interest and charges for general purpose business loans (including commercial mortgages) in 2014; for the 14 banking groups included in Table 6.7 of the [provisional findings](#).

important changes in banks' strategies for acquiring and retaining customers.

- (c) Quality of service, innovation and development of new business models are of particular importance at this point in the development of UK retail banking markets.⁷⁰⁴ Beyond any financial gains from switching and from increased price competition, increased quality of service and innovation is likely to result in very significant benefits to customers and SMEs.

9.107 While we are not able to quantify all the beneficial impacts accruing from increased competition, we illustrate below the order of magnitude of some of the potential gains to specific customer groups who are likely to benefit directly from our remedies.

Direct benefits to PCA customers

9.108 In relation to PCAs, we expect that customers will be better able to assess which products are best for them and switch to them, leading to direct benefits, either financial and/or in the quality of service received. It may take some time for a significant increase in switching rates to materialise, but we expect benefits from increased switching rates to be long-lasting. We also expect customers who better manage their overdraft usage as a result of our remedies to gain directly from reduced exposure to unintentional overdraft charges. Finally, we expect our remedies to benefit heavy unarranged overdraft users through the limit on MMCs.

9.109 We have undertaken further analysis in order to estimate the potential gains to customers from increased switching. Gains from switching give an estimate of the magnitude of the direct harm to customers arising from lack of switching, and can therefore be interpreted as a measure of the financial benefits that will arise for customers who switch as a result of our remedies, though they do not take into account any improvements in quality of service through switching. The analysis estimates that, in GB, if PCA customers switched to a cheaper product for them, annual savings would be on average £116, ranging from £89 on average for customers who do not use an overdraft to £153 on average for overdraft users.^{705,706} In NI, annual savings

⁷⁰⁴ For instance, our [PCA customer survey](#) (p36) found that quality of staff and customer service were the most important factors for customers (83% essential or very important), ahead of any monetary aspects. Similarly, our SME follow-up survey found that service attributes and service quality were very important factors to SMEs when choosing a bank (see [provisional findings](#), paragraph 8.77).

⁷⁰⁵ Gains from switching are calculated here as average gains from switching to the five cheapest products; smoothed over five years. See Appendix 1 for further details.

⁷⁰⁶ These are gains from switching to/from standard and reward accounts. Gains from switching to/from packaged accounts tend to be higher, however in order to estimate the gains from switching to/from packaged

would be on average £85, ranging from £70 on average for customers who do not use an overdraft to £115 on average for overdraft users.⁷⁰⁷

9.110 We expect that our remedies, by encouraging more switching by PCA customers, including through partial switching and internal switching, would directly benefit those who do switch as a result of our remedies. While we cannot accurately predict the impact of our remedies on switching rates, even modest increases in the current levels of switching would result in substantial benefits to consumers given the size of potential gains from switching to customers. Table 9.1 below shows the potential benefits to customers who switch as a result of our remedies, under different assumptions on the increase in switching rates. If, as a result of our remedies, 1.4 million more PCA customers switched accounts, ie an increase in switching rate of only two percentage points, overall direct gains for those who switch would be of the order of £160 million per year, or £470 million cumulative gains for these customers over three years.⁷⁰⁸

Table 9.1: Illustrative examples of gains from switching PCAs

Increase in switching rate (percentage points)	Number of additional PCA customers switching*	£ million	
		Average annual gains from switching for those who switch†	Cumulative gains over three-year period for those who switch in any one year
1	680,000	78.9	236.7
2	1,360,000	157.8	473.4
3	2,040,000	236.6	709.8
4	2,720,000	315.5	946.5
5	3,400,000	394.4	1,183.2

Source: CMA analysis based on pricing and usage data provided by PCA providers.

* Based on 68 million active PCA accounts in 2014.

† Average annual savings of £116 per account, calculated as average gains from switching to the five cheapest products, and smoothed over five years, for standard and reward accounts in GB; see working paper on the Update on PCA Pricing Analysis for methodology (to be published shortly).

9.111 Table 9.2 below shows overall gains over a five-year period if switching increased by only one percentage point and this increase was sustained over five years (such that 680,000 customers switched every year, or 3.4 million in

accounts, we made additional assumptions on the value to customers of the benefits from packaged accounts, which may not be reflective of the true value customers place on the benefits and their usage of them. For these reasons, we adopted a cautious approach of using the gains from switching to/from standard and reward accounts.

⁷⁰⁷ Results for NI are less robust, because the underlying customer transactions data for NI customers was incomplete in some respects and so we have had to make adjustments for this in order to produce price estimates.

⁷⁰⁸ This takes into account that a customer who switched in one year is likely to gain from this switch over several years given the long-term nature of banking. Here, we assume cautiously that customers would accrue benefits over three years in total. The calculations assume that these customers' usage patterns remain the same during the three years after they switch.

total over five years). The overall direct gains for those who switch would be of the order of £950 million over five years.

Table 9.2: Illustrative example of cumulative gains from switching PCAs over a five-year period

	<i>£ million</i>		
	<i>Number of additional PCA customers switching</i>	<i>Average annual gains from switching for those who switch</i>	<i>Cumulative gains in the year*</i>
Year 1	680,000	78.9	78.9
Year 2	680,000	78.9	157.8
Year 3	680,000	78.9	236.7
Year 4	680,000	78.9	236.7
Year 5	680,000	78.9	236.7
Total	3,400,000		946.8

Source: CMA analysis based on pricing and usage data provided by PCA providers.

* Cumulative gains in any one year are calculated by adding annual gains from switching from customers who switched in that year, and the two previous years (ie assuming that gains accumulate over three years for those who switch).

9.112 This latter number may overestimate direct gains from switching for those who switch because, over the longer term, we may expect banks to reduce prices as competition intensifies (and thus direct gains from switching may reduce).⁷⁰⁹ Banks may also respond to this increased competition by changing their pricing structures (for instance, by offering more fee-paying reward accounts). In the longer term, benefits from the remedies may therefore be of different types than the gains from switching that we have quantified, and the increased pressure on banks to offer their customers better value for money and to innovate as a result of our remedies means that customers are likely to benefit more widely.

9.113 We also expect significant direct benefits to overdraft users from our overdraft remedies package (additional to the direct gains from switching). In 2014, 44% of all PCA customers used overdrafts to varying degrees.⁷¹⁰ Total fees and charges on overdrafts paid by PCA customers were of the order of £2.9 billion in 2014 in the UK, with £1.7 billion accounted for by arranged overdraft charges and the remaining £1.2 billion for unarranged overdraft charges and fees.⁷¹¹ We therefore would expect large direct benefits to PCA customers who will be better able to manage their overdraft usage, and reduce incidence of charges, through our overdraft remedies package.

9.114 The FCA and LBG undertook separate studies of the impact of text alerts on unarranged overdraft charges; both studies found that text alerts reduced

⁷⁰⁹ We note, however, that the calculations above are conservative, for example, they are based on a modest assumption over the increase in switching rates.

⁷¹⁰ See provisional findings, [Appendix 7.4](#).

⁷¹¹ See provisional findings, [Appendix 5.2](#), combining Table 1 with information on total number of main PCAs in Table 2.

monthly unarranged overdraft charges by 6%.⁷¹² This gives an indicative⁷¹³ estimate for the reduction in unarranged charges of the order of £34 million per year as a result of our remedy to enrol automatically customers into an unarranged overdraft alert. If 10% of PCA customers were to opt out of these alerts,⁷¹⁴ the overall reduction in overdraft charges would be of the order of £31 million per year.⁷¹⁵ These estimates do not take into account the wider benefits from alerts contributing to higher engagement of customers with their choice of PCA.

9.115 We note, however, that there is a relationship between gains from switching and gains from the reduction of incidence of overdraft charges: the more effective our remedies are at reducing the incidence of overdraft charges, the lower the gains from switching for these customers.

9.116 In relation to heavy unarranged overdraft users, we found that, in 2014, there were over half a million instances where customers incurred cumulative unarranged overdraft charges in excess of £100 in a month, and over a million instances where customers incurred unarranged charges in excess of £75 in a month.⁷¹⁶ The monthly maximum charge has the potential to directly reduce cumulative charges paid by such customers.

Direct benefits to SMEs

9.117 In relation to BCAs, we expect direct benefits from our remedies to accrue both to SMEs who decide to switch BCAs as a result of our remedies, but also to start-ups who are likely to make a better-informed decision on which BCA to choose as a result of the availability of more effective price and service comparison tools. In our provisional findings, we estimated that, based on our BCA pricing analysis, SMEs would save approximately £70 per year on their BCA if they were to switch.⁷¹⁷ Table 9.3 shows, based on this average number, the potential gains from increased switching by SMEs. If as a result of our remedies 110,000 more SMEs switched BCAs, representing an increase in switching rates of only two percentage points, this would result in

⁷¹² FCA occasional paper No.10 (March 2015), [Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#).

⁷¹³ Indicative as, for example, it could be possible for text alerts, depending on how they are designed and the take-up of mobile banking, to reduce unarranged overdraft charges by more than 6% ([LBG Trials Report](#), slide 13).

⁷¹⁴ Such opt-out rates are in line with those found by LBG in its trial, see Appendix 1 for more detail.

⁷¹⁵ Appendix 1 explains how we estimated these benefits; we only calculate benefits for customers who are not already enrolled in overdraft alerts. Similarly, we discount benefits to take into account that some customers do not have mobile phones.

⁷¹⁶ See Appendix 1 for details. This is a lower bound estimate of the number of instances where customers incurred more than £75 or £100 in unarranged charges in a month.

⁷¹⁷ We noted that, due to the assumptions in the BCA pricing analysis, this is likely to be a conservative assumption, as it does not take into account any period of free banking that an SME would get if it switched to another bank.

gains of about £8 million per year for those SMEs that switch, or £23 million cumulative gains over three years for these SMEs.

Table 9.3: Illustrative examples of gains from switching BCAs

<i>Increase in switching rate (percentage points)</i>	<i>Number of additional SMEs switching BCAs*</i>	<i>£ million</i>	
		<i>Average annual gains from switching</i>	<i>Cumulative gains from switching over three-year period for those who switch†</i>
1	55,000	3.9	11.7
2	110,000	7.7	23.1
3	165,000	11.6	34.8
4	220,000	15.4	46.2
5	275,000	19.3	57.9

Source: CMA analysis.

* Based on 5.5 million BCA accounts in 2014.

† Based on average gains from switching of £70 per account switching, see [provisional findings](#), paragraph 12.18.

9.118 Table 9.4 below shows overall gains over a five-year period if switching increased by only one percentage point and this increase was sustained over five years (such that 55,000 SMEs switched every year, or 275,000 in total over five years). The overall direct gains for those who switch would be of the order of £45 million over five years.

Table 9.4: Illustrative example of cumulative gains from switching over a five-year period

<i>Increase in switching rate (percentage points)</i>	<i>Number of additional SMEs switching</i>	<i>£ million</i>	
		<i>Average annual gains from switching for those who switch</i>	<i>Cumulative gains in the year*</i>
Year 1	55,000	3.9	3.9
Year 2	55,000	3.9	7.8
Year 3	55,000	3.9	11.7
Year 4	55,000	3.9	11.7
Year 5	55,000	3.9	11.7
Total	275,000		46.8

Source: CMA analysis.

* Cumulative gains in any one year are calculated by adding annual gains from switching from customers who switched in that year, and the two previous year (ie assuming that gains accumulate over three years for those who switch).

9.119 In addition, we expect that our remedies would enable start-ups to make better informed decisions on their BCA provider, and this would increase the direct gains from our remedies. Table 9.5 below shows potential gains to start-ups from making a better informed decision. For instance, if 10% of all start-ups chose BCAs which are better value for their needs as a result of our remedies, the total direct gains would increase by at least a further £2.4 million per year. Over five years, this would amount to approximately £10 million of further benefits to SMEs.

Table 9.5: Illustrative examples of gains to start-ups

<i>Proportion of start-ups making better-informed decision (%)</i>	<i>Number of start-ups*</i>	<i>Average gains over one-year period (£m)†</i>
10	34,600	2.4
20	69,200	4.8
30	103,800	7.3
40	138,400	9.7

Source: CMA analysis.

* Based on 346,000 new businesses in 2013. See provisional findings, [Appendix 8.1](#). This likely underestimates total start-ups opening a BCA in any given year as it does not include businesses not registered for VAT.

† Based on gains from switching of £70 on average period. We only use one-year savings to reflect the fact that start-ups benefit from free banking for first 12 to 18 months, and the fact that only 60% of SMEs will still be in business after three years, see [provisional findings](#), paragraph 8.19.

9.120 We note that these are likely to significantly underestimate any direct gains to SMEs, due to the conservative assumptions in order to derive these estimates, and because of the importance to SMEs of service quality in choosing a BCA, which is not taken into account in these estimates. We were not able to conduct similar analysis for SME loans, largely due to the bespoke nature of SME loan pricing which makes it difficult to compare prices on a like-for-like basis. However, given that 90% of SMEs currently obtain a loan from their existing BCA provider, we think it is likely that there would be large financial gains to be made for SMEs if they were able to compare loan prices more easily, as well as further benefits from being able to more easily access loans. The benefits from increased competition driving down loan prices are also likely to be very substantial.

9.121 Overall, therefore, these illustrative examples suggest that direct gains from switching PCAs and BCAs, and from better management of overdraft usage, would over time be very substantial, and of the order of several hundred million pounds per year and in the region of £1 billion over a five-year period.

Costs of the remedies package

9.122 We have set out our initial view of the costs associated with each of the individual remedies in Sections 3 to 6 above. We are still giving consideration to the costs of our proposed remedies and we invite further submissions on the costs of the various elements of the package, in light of the further detail provided on their specification in this document.

9.123 Many of the remedies we are proposing are variations of or extensions to current or previous industry, regulatory or government initiatives. They therefore impose limited additional costs on firms and target existing expenditure more effectively, in the interests of consumers and SMEs. For example:

- (a) The development of open API standards and open data. This seeks to progress the OBWG initiative, developing a delivery and funding framework, requiring bank participation and setting well-defined delivery timescales. Obligations consistent with our remedies will be required by PSD2 in two years' time and our measures are focused on ensuring that customers derive the maximum benefit from these obligations.
- (b) The provision of quality of service data and information. This builds on the data already collected and used by providers, but requires this to be expanded in scope and for the information to be made available to third parties, in order that it can be incorporated into comparison tools. This extension will enable consumers and SMEs to make better-informed decisions about the provider of their banking services.
- (c) Customer prompts and alerts. This builds on and improves regulatory and industry initiatives such as the requirement for banks to provide customers with an annual statement. Our remedy will make these and other prompts more widespread and effective through upfront research and testing. It also builds on the provision by some banks of text alerts to prompt customers about their account usage, allowing them to better manage their fees and charges.
- (d) The Nesta challenge prize. This is building on an industry initiative to encourage the provision of a comparison tool for SME banking and ensuring that this also adequately incorporates the provision of comparative information on service quality, as well as ensuring coverage of SME lending products.
- (e) Reforms to CASS governance and increasing customer awareness and confidence in CASS. These measures will take the governance and performance of CASS to the next stage of development, from ensuring it was operationally sound when the service was established, to ensuring that it evolves in a way that its incentives become aligned with promoting competition, securing greater awareness and confidence and operating in the interests of customers.
- (f) The requirement for providers to provide transaction history to customers at the time of, and after, closing their accounts and the changes to CASS processes to extend the CASS redirection period. The proposed measures build upon the existing policy of many providers on the provision of transaction history for their customers and upon developments already initiated by CASS on extending the redirection period.

- (g) Introduction of a standard BCA opening form. This builds on an industry initiative and ensures it will be rolled out across all providers.
- (h) Provision of overdraft alerts and information on grace periods. This builds on industry and regulatory initiatives. This includes the roll-out by some providers of overdraft alerts to help customers better manage their overdraft usage and to reduce or avoid associated fees and charges, as well as the FCA's work with banks to develop retry periods. Our proposals will ensure that these beneficial alerts are provided by all PCA providers, customers are made aware of grace periods and that these evolve over time with market and technological developments, under the review of the FCA.
- (i) Unarranged overdraft monthly maximum charge. This builds on industry initiatives whereby some providers have introduced their own arrangements to limit the aggregate amount of fees and charges that customers can accumulate within a month.

9.124 By building on existing developments, we have been able to establish 'proof of concept' and ensure that the additional or 'incremental' costs of our remedy package are kept as low as possible. Taking this approach has allowed us to derive the maximum benefit from the work that has already been undertaken and to take into account what we have learnt from that work.

9.125 As is normal at this stage of our market investigation, our understanding of the costs of our remedies is still evolving. We are inviting further evidenced submissions from affected parties of their likely identifiable incremental costs in light of the more detailed specification of our measures in this document.

9.126 Nevertheless, we have been able to form an appreciation of the magnitude, and in some cases levels, of costs associated with our remedies.

9.127 For our proposed remedies associated with open API standards and open data, we are proposing to specify the timetable for delivery of these and the requirements replicate to some extent the requirements of complying with PSD2. We have noted that the timetable for the first release of open data should not present providers with a major problem as this gives rise to no security or privacy concerns and most of the data is already in the public domain, albeit hard to access. Similarly, the release of redacted PCA information should present few major problems as it has already been compiled as part of the earlier Midata initiative.

9.128 Further the 'read-and-write' API functionality poses challenges, including privacy concerns, which have associated costs in order that these concerns be properly addressed. They also raise issues of security and fraud

prevention. However, we do not expect our proposals to require providers to adopt these relevant measures any sooner than they will be obliged to under PSD2. Therefore, while the cost of the remedy is likely to exceed that of complying with PSD2, the difference in cost is likely to be small, particularly relative to the benefits associated with the prompt implementation of this key measure. We doubt whether the total costs of support in cash or kind for the Implementation Entity, Trustee and the procurement of data services involved in operating a 'data sandbox' would exceed £20 million.

- 9.129 Our proposals for service quality information require banks to supplement existing consumer and SME surveys and data and to make these available variously to customers and third parties. We have estimated the incremental costs of the additional surveys to be in the region of £5–£6 million a year, with the costs split between providers. The incremental costs associated with making a wider variety of service quality data available will likely be minimal, and largely associated with one-off costs to ensure consistency of definitions. We consider that the costs associated with making the data available to customers and third parties would also be relatively low, as this can be incorporated into providers' periodic updates of their websites and publication materials.
- 9.130 Our proposals to introduce customer prompts will require costs to be incurred during the design and testing phase and when the prompts are implemented. On the design of the prompts, costs will be associated with the FCA's research and testing programme, both the costs to the FCA and the costs to the providers participating in the testing. It is too early to determine an estimate of the costs of the FCA's research and testing programme, but we would not expect this to be too substantial. We will continue to work with the FCA in the period prior to our final report to further develop our understanding of the magnitude of these costs.
- 9.131 The requirements for the implementation of the prompts will be informed by the results of the FCA's research and testing programme, and the costs will be largely driven by the required changes to providers' IT systems and wider communications infrastructure to deliver the prompts, as well as changes to the design of marketing and customer information publications. The magnitude of the implementation costs will be better understood once the FCA has completed its research and testing, and will be a relevant consideration for the FCA when it makes its decision as to which prompts and forms of prompt to require banks to introduce. The FCA will assess the costs of potential prompts against the benefits of the introduction of the prompts as part of our overall package of remedies. This assessment will take place in the context that the other elements of our remedies package are in place.

9.132 Nevertheless, we note that banks, as well as providers of other financial services, and providers of products and services in other sectors frequently update their publication materials and increasingly update their IT systems and communications systems in order to meet growing customer demand for more timely information. Indeed we have noted in the design of our remedies that many banks themselves have undertaken such changes and made the required investments to engage more frequently with their customers. They also need to conduct staff training regularly. Any estimate of costs associated with the implementation of specific prompts would be additional to these generally incurred costs.

9.133 We are making a number of proposals to change the operation of CASS, provide transaction information to customers who have changed provider and to introduce reforms to how CASS is governed:

- (a) Changes to the operation of CASS. We are proposing changes to the CASS redirection period, which as we have noted is a logical extension of the operation of CASS, with this having been discussed between CASS participants, and reforms proposed. Bacs has indicated that the changes to the redirection period might involve costs to it of around £2.5 million. Bacs has told us that a rule of thumb for total industry-wide costs would be a magnitude of ten of its own costs. If this rule of thumb holds in this instance this would take industry-wide costs up to £25 million. We note that Bacs is already working with CASS-participating banks to introduce this change and as such the full cost would not be attributable to our remedy.
- (b) Provision of transaction histories to customers. We are proposing changes to the process for PCA and BCA providers to provide transaction histories to customers who have switched provider. This is already provided by many banks, albeit in a potentially inconsistent and non-comprehensive manner. We expect the additional costs of these changes to be minimal. Banks are already required to retain customer transaction data for a period of five years, the same period as we are requiring. Therefore any costs would be limited to interactions with customers, training of staff and retrieving the relevant requested data.
- (c) Changes to CASS governance and increasing customer awareness of and confidence in CASS. We are proposing changes to CASS governance, including the provision of regulatory oversight by the PSR, and measures to increase customer awareness of and confidence in CASS. We do not expect the changes in CASS governance to incur significant costs. These are largely related to changing the organisation of the CASS management committee and with supplementing membership

of various CASS committees with independent members in order to ensure that non-bank influence is incorporated into the development of CASS and its decision-making process. Similarly, we do not expect the costs associated with the provision for regulatory oversight to be substantial. While we consider it essential for such oversight to exist in order to help ensure that CASS is operated in ways best designed to promote competition in PCAs and BCAs and to operate in the customer interest, we consider this can be achieved with a relatively light-touch approach. Any costs incurred by the PSR would be recovered directly from Bacs, which in turn will recover these from CASS participants.

Bacs and participants currently undertake substantial investment in seeking to ensure high levels of customer awareness of and confidence in CASS. This includes spend on advertising, as well as developing understanding of the CASS guarantee and the process by which the switching process occurs. Bacs has told us that CASS participants have committed to spending £9.2 million in 2016 on central activities to increase awareness of and confidence in CASS. Further Bacs has recently established a working group with CASS participants to develop its approach to targeting specific groups of customers, for example SMEs. Our proposals in relation to customer awareness and confidence will not necessarily require the provision of additional funds; it may be that better outcomes can be achieved within similar scales of budget committed to in recent years. However, even if our proposals do require additional funds in order to make CASS more effective, the additional costs would be significantly outweighed by the benefit that would be realised.

9.134 The combination of our proposals in relation to the operation and governance of CASS will help ensure that incentives to improve the overall process and operation are more focused on ensuring that the service operates in a way that promotes further competition, in the interests of consumers and SMEs.

9.135 We are proposing a number of measures to enable PCA customers who use overdrafts to better manage their unarranged overdraft usage charges and to require PCA providers to limit the unarranged overdraft charges that they impose on customers:

- (a) To require PCA providers to enrol automatically all their customers into alerts that informs them of unarranged overdraft usage. Additionally we are proposing that such alerts include informing customers of the PCA provider's grace period in which the customer can reduce or avoid unarranged overdraft charges if they take action to move money into their relevant PCA. Most providers already provide some form of alert to some of their customers so there would typically only be incremental costs

involved in changing their alerts to comply with our Order and automatically enrolling their customers into our proposed unarranged overdraft alert. Initial estimates provided by some parties suggest that the incremental costs of the alert remedy could be in the region of around £1 million per provider, although some of these estimates could include the costs to PCA providers of lost revenues, which would not be relevant to our consideration of costs.

We are also proposing to recommend to the FCA that it identifies, researches, tests and, as appropriate, implements measures to increase overdraft customers' engagement with their overdraft usage and charges. We have suggested that this include it considering how PCA providers may be able to enhance the effectiveness of overdraft alerts, for example by changing the type, medium and content of the alerts offered. The costs relating to this, which we expect to be small relative to the potential benefits to customers, will depend on the scope of the FCA's work and some of these costs will be shared with the customer prompts remedy (see paragraphs 9.128 to 9.130).

In addition, in relation to the grace period remedy, there may be additional costs associated with changes to marketing materials and staff training, although we note these tend to be updated on a periodic basis, so we expect any incremental costs to be limited.

- (b) To require PCA providers to specify and publicise to customers an MMC for unarranged overdraft charges. The costs of imposing an uncapped MMC remedy would be limited. They will comprise primarily changes to IT systems (to cap charges at the level each provider individually sets for each of its PCAs for those who do not currently offer the service), and communication costs. These communication costs could include the costs of modifying and circulating charges and overdraft information and terms and conditions, staff training costs to communicate these changes internally, and staff time to manage these changes, for example determining at what level to set the MMC for each type of account and additional resources to respond to customer queries. There will also be some limited costs associated with work by the FCA to assess the ongoing effectiveness of the MMC and its consideration of whether measures (including the introduction of rules if appropriate) could be taken to further enhance its effectiveness.
- (c) Measures to facilitate searching and switching for PCA overdraft customers. We are proposing to recommend to the FCA to consider requiring all PCA providers to offer online tools indicating a prospective customer's overdraft eligibility. Further we are proposing to seek

undertakings from Bacs to work with CASS participants to review the account switching process to ensure that PCA providers offer a firm decision on the overdraft offered after a customer has completed the PCA provider's application process but before they switch accounts. We consider that the costs directly associated with these measures will not be significant. Depending on the actions that arise from each of the recommendation and review, these could involve PCA providers incurring costs, although any decision to propose further action would itself be subject to an evaluation of the costs versus the wider benefits that would be delivered.

- (d) Measures to encourage PCA customers to engage more with overdraft features. We are proposing to recommend to the FCA to look at ways to engage customers more in considering overdraft features and their potential relevance and impact, during the PCA opening process. We consider that the costs directly associated with these recommendations measures will not be significant. Depending on any actions that arise, this could involve PCA providers incurring costs, although again, any decision to propose further action would itself be subject to an evaluation of the costs versus the wider benefits that would be delivered.

9.136 We are proposing a number of measures to facilitate the comparison of SME banking products, to promote increased engagement of SMEs and to standardise and simplify BCA opening procedures. These are:

- (a) For the larger banks in GB and in NI to support the Nesta challenge prize including through the provision of customer transaction and other data and the provision of funds to meet the cost of the process. We consider that the costs of the Nesta challenge prize, of £5 million to fund the prize, plus additional administrative and participation costs, would not exceed £10 million, to be shared among the affected banks.
- (b) For the larger banks in GB and in NI to list their products on two or more designated Finance Platforms and subsequently the Nesta challenge prize winner platform. We do not expect the costs associated with this measure to be significant. In particular, because of the way our remedy has been specified, platform commission rates will be commercially negotiated between each bank and platform or PCW and could thus be expected to reflect the value to providers of listing on these sites.
- (c) Ongoing funding of the underlying survey of the BBI site until the core SME service quality indicators are available as specified by the service quality remedy. We do not expect any additional costs to arise from the requirement to continue with the BBI site; this is an ongoing project which

absent our remedies we would expect banks to continue to commission and fund. In any case we would not expect the costs of this to be too substantial, and would be time-limited in duration.

- (d) To require all banks that offer loans and overdrafts up to £25,000 to display the rates for these on their website. Further, we are proposing to require the larger banks in GB and in NI to develop and offer on their website an SME loan price and eligibility indicator tool, covering all secured and unsecured loans and overdrafts up to £25,000. To provide support to these measures we are additionally recommending to HMT that it works with CRAs and SME lenders to develop mechanisms to allow for 'soft searching' for lending products by SMEs.

We do not expect the costs associated with requiring banks to display their loan and overdraft rates on their websites to be significant as these changes could be incorporated into periodic updates of websites and marketing materials. Similarly, we would not expect the cost of HMT working with CRAs and SME lenders to explore the potential for soft searches to be significant.

We expect the costs of developing a loan price and eligibility tool to be more significant, with this being one of the reasons for limiting this to the largest banks in the UK and in NI. The range of estimates of costs that parties have provided to us indicate that the costs of this measure could be between £100,000 and £2 million for each of the eight providers which would be required to develop a loan price and eligibility tool. This suggests a possible range for the cost of this measure to be between under £1 million up to around £16 million.

- (e) To require banks to develop and adopt a standard BCA opening form and evidence requirements to standardise and simplify BCA opening procedures. This builds on an ongoing industry initiative to develop a common BCA opening form. We consider that while there may be additional costs for banks to implement this remedy, these are unlikely to be significant.
- (f) HMT review of sharing of SME data. We are proposing that HMT reviews the efficacy and impact of the measures under the [SBEE Act](#) and ongoing commercial, technological and regulatory initiatives intended to facilitate the sharing of SME information. Any immediate costs associated with the implementation of this remedy will be limited, incurred by HMT. To the extent that HMT finds that the market has not developed sufficiently, the associated cost of any subsequent initiative will depend on the extent of the intervention required to allow SMEs to share their information in a

manner that enables them to consider multiple finance providers. We would expect that HMT will consider the magnitude of any costs, alongside the benefits, when making its decision on what, if any, subsequent initiative should be introduced.

- (g) BIS to work with the [British Business Bank](#) and professional associations such as the [ICAEW](#) to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs. We would not expect the costs to be significant.

9.137 In summary, because we have sought to build on industry, government and regulatory initiatives wherever possible, few of our individual remedies will require affected parties to incur significant incremental costs in the context of these markets. Moreover, our proposed approach to monitoring compliance with the remedies (see paragraph 9.41) means that associated costs of this will be limited. In light of the assessment we have conducted above, we consider that the incremental costs associated with our proposed remedy package are likely to be modest, potentially in the range of around £75–£110 million, mostly consisting of upfront, one-off costs, in comparison with the level of ongoing adverse effects and detriment that is associated with the AECs we have provisionally found.

9.138 We will continue to review the costs of our remedies up to the publication of our final report and we invite further submissions and evidence on this matter.

Balance of the benefits and costs

9.139 We provisionally consider that the benefits of the proposed package of remedies are likely to exceed the costs. We have concluded in paragraphs 9.104 to 9.106 that the dynamic benefits of our proposed package of remedies will over time be substantial, through their impact on increasing competition on prices, services and innovation. While we could not quantify these dynamic benefits, we estimate that the direct benefits from our remedies were broadly more likely than not to reach and exceed a value of several hundred million pounds per year and in the region of £1 billion over a five-year period.⁷¹⁸ In part this is because of the size of the retail banking markets which are the focus of this market investigation, as well as their importance to the wider economy. This means that even those measures that

⁷¹⁸ Though we estimated direct benefits from our remedies over a five-year period, we expect benefits from our remedies to continue to accumulate beyond this, in particular because of the dynamic benefits from increased competition.

we expect to have a relatively small impact on the functioning of the retail banking markets will have an associated significant benefit in absolute terms.

9.140 Further, our more substantial measures, such as those to increase customer engagement and their ability to compare offers, through the development and introduction of APIs, the provision of quality of service information, the introduction of a package of customer prompts and the development of the Nesta challenge prize for SME banking, we expect will have a substantial impact on the efficient functioning of the markets. Again, these, in combination with all of the other measures in our package will have a substantial overall benefit, including to the wider economy.

9.141 We also propose to introduce measures to more directly address the customer detriment associated with the AECs we have found. In particular our package of remedies related to overdrafts will both limit the level of overall cost of using an unarranged overdraft, as well as making it easier for these customers to manage their overdraft use, enabling them to better manage their fees and charges. The benefits that we estimate from these specific measures will be lower than the combination of the other measures, in part reflecting the lower numbers of customers that are directly impacted. However, they will nevertheless help to directly address the detriment incurred by those PCA customers that use overdrafts, in particular those that are heavy users of unarranged overdrafts, and more generally contribute to increased incentives on providers to compete on prices, services and innovation through their impact on customer engagement.

9.142 We have therefore provisionally concluded that the benefits of the proposed remedy package, the direct gains alone which we estimate to be in the region of £1 billion over a five-year period, are likely to exceed its costs of around £75–£110 million, which will predominantly be upfront, one-off costs. We also consider that the proposed remedy package is unlikely to give rise to adverse effects that are disproportionate to its legitimate aim. We will continue to review the costs and benefits of our remedies up to publication of our final report and we invite further submissions and evidence on this matter.

Provisional conclusion on proportionality

9.143 We provisionally conclude that our proposed package of remedies represents a proportionate solution to the AECs and resulting customer detriment.

10. Provisional decision on remedies

- 10.1 We have provisionally decided that we should introduce the package of remedies summarised in paragraph 9.1.
- 10.2 In our judgement, this represents as comprehensive a solution as is reasonable and practicable to the AEC and resulting customer detriment that we have provisionally found.

Appendix 1: Additional evidence on personal current account overdraft usage and charges

Introduction

1. In our [provisional findings](#), we presented evidence on personal current account (PCA) customers' use of overdraft facilities, on their awareness of their usage, on the charges they pay for overdraft usage and on the relationship between overdraft usage and switching.¹
2. Since then, we have continued to develop our evidence on these issues, in order to improve our understanding of the features we had highlighted in our [provisional findings](#) as giving rise to an AEC, and in order to consider carefully how best to remedy those AECs.
3. This appendix sets out the evidence we have gathered in relation to:
 - (a) propensity to switch;
 - (b) gains from switching to PCA customers;
 - (c) cumulative monthly unarranged fees;
 - (d) awareness of overdraft usage;
 - (e) frequency of overdraft usage;
 - (f) the demographic characteristics of overdraft users; and
 - (g) the benefits of overdraft alerts.
4. In response to concerns raised by some respondents to our [provisional findings](#) and [Remedies Notice](#), one area of particular focus for our additional evidence gathering and analysis has been on the differences between arranged and unarranged overdraft usage.

Propensity to switch

5. In Appendix 7.2 to our [provisional findings](#) we presented our analysis of PCA customers' searching and switching behaviour. This analysis included both descriptive analysis of the differences between different groups of customers, and econometric analysis seeking to identify the causes of these differences.

¹ See, in particular, Section 7 and Appendices 7.1, 7.2, 7.4 and 7.5.

6. As set out in our [provisional findings](#), our quantitative analysis found that overdraft users, as a group, were as likely to search as other customers, but less likely to switch. We also examined evidence provided by PCA providers on overdraft users' propensity to switch, but this evidence was less representative and had mixed results. Some of this evidence showed that overdraft users were more likely to switch, while other evidence showed they were less likely to switch. However, we found that heavy overdraft users were consistently less likely to switch.²
7. In order to explore this issue further, we asked PCA providers to analyse switching rates in 2015 based on their PCA customers' overdraft usage in 2014. We asked them to provide data on external³ switching rates for accounts with arranged and unarranged overdraft usage separately, if possible separating out different intensities of overdraft usage. We did not ask them to show results for the GB and NI markets separately.
8. The reported switching rates for different types of overdraft usage are set out in the table below. We note that there are differences in the underlying switching metrics used as providers varied in terms of the data they were able to provide in the time available, including whether this related to CASS or total switching and/or included intra-group switching,⁴ and the range of accounts included.

Table 1: Reported switching rates for different types of overdraft users

<i>Account provider</i>	<i>Account provider brand</i>	<i>All unarranged overdraft users</i>	<i>Unarranged-only users</i>	<i>Arranged-only users</i>	<i>No overdraft usage</i>
AIB	AIB	[X]	[X]	[X]	[X]
Barclays*	Barclays	[X]	[X]	[X]	[X]
Bol	Bol	[X]	[X]	[X]	[X]
Danske	Danske	[X]	[X]	[X]	[X]
HSBCG	HSBC, First Direct, M&S	[X]	[X]	[X]	[X]
LBG	BoS	[X]	[X]	[X]	[X]
LBG	Halifax	[X]	[X]	[X]	[X]
LBG	Lloyds	[X]	[X]	[X]	[X]
Nationwide	Nationwide	[X]	[X]	[X]	[X]
RBSG	NatWest	[X]	[X]	[X]	[X]
RBSG	RBS	[X]	[X]	[X]	[X]
RBSG	Ulster Bank	[X]	[X]	[X]	[X]
Santander	SanUK	[X]	[X]	[X]	[X]
TSB	TSB	[X]	[X]	[X]	[X]
Average		1.1	1.2	1.4	1.0

Source: Parties' responses.

* The reported switching rates for Barclays' unarranged overdraft users and unarranged-only overdraft users refer to accounts that went into Emergency Borrowing.

Notes:

1. The results shown were not prepared on a fully consistent basis. For example, some represent CASS switching rates while others include all switching. For further details, see the notes to the individual tables in Annex A to this appendix.

2. The average shown is a simple, unweighted average of responses.

² [Provisional findings](#), paragraph 7.124.

³ That is, excluding intra-group switching.

⁴ See for each PCA provider the notes to the individual tables in Annex A to this appendix.

9. This evidence shows that switching rates for UK PCA customers are low. We note that the rates reported here are lower than the 3% switching rate we reported in paragraph 7.16 of our [provisional findings](#). This is likely to be because the switching rates presented here are generally limited to CASS switching, and are unlikely to take into account partial switching.⁵
10. Comparing different types of overdraft users, we find that a majority of PCA providers reported that customers who did not go into overdraft were least likely to switch.⁶ The quantitative evidence provided by different PCA providers is set out in greater detail in [Annex A](#) to this appendix.⁷
11. Disaggregating overdraft usage by intensity of usage yields more mixed results. A common thread is that, for any type of overdraft usage, switching rates are generally lower for heavier overdraft users, with all PCA providers other than [X] reporting switching rates for the heaviest category of overdraft users that are two to four times lower than the switching rates they report for the lightest users, and frequently below 0.5%. However, the extent to which the heaviest categories of overdraft users have lower switching rates than customers who do not use their overdraft at all varies.
12. Overall, the evidence shows that only the heaviest overdraft users have switching rates that are lower than those of users who do not go into overdraft at all.
13. Comparing different types of usage, ie arranged and unarranged overdraft usage, we find that accounts that only use an arranged overdraft facility are generally more likely to be switched than accounts that use an unarranged overdraft facility. Within the group of unarranged overdraft users, a majority of PCA providers reported that accounts without an arranged overdraft facility were more likely to switch than accounts that had an arranged overdraft facility and went into unarranged overdraft. However, the evidence on this point is not consistent across all PCA providers.
14. This evidence can be compared with the results of our econometric analysis, which was discussed in Appendix 7.2 to our [provisional findings](#). There, we concluded that, holding everything else constant, overdraft users are two

⁵ See [Appendix 7.1](#) to our provisional findings.

⁶ While we did not carry out formal significance testing, we consider that the large numbers of observations involved imply that material differences in switching rates are generally statistically significant.

⁷ Since we asked PCA providers to provide this evidence using whichever categorisation was most convenient for them, the evidence in Annex A is not presented in a standardised form. This prevents us from making findings based on a standardised set of categories of usage here. Instead, we draw high-level conclusions, based on the assumption that usage for many days per month, on average, is likely to be correlated with usage for many months per year. For evidence supporting that assumption, see the section on frequency of usage, below.

percentage points less likely to switch.⁸ It is important to note that the econometric analysis aimed to estimate the incremental impact of each variable on searching and switching, while the switching evidence presented above simply compares switching rates for different types of overdraft users without controlling for other differences between customers.

15. An important limitation of the econometric analysis – as we noted in our provisional findings⁹ – was that we only had account usage data from the accounts that a customer had switched to, and not their previous one. As a result, we assumed that customers' overdraft usage after switching was not substantially different from their usage before switching.¹⁰ One objective of our further work was to understand whether this assumption affected our conclusions.
16. In addition to obtaining further data from PCA providers, we also carried out a further cross-check by considering survey respondents' stated overdraft usage, rather than the usage data from the transaction data set. However, because respondents' recollection of their overdraft usage does not fully reflect their actual usage,¹¹ we decided to conduct only very basic statistical analysis.
17. We found that respondents who reported going into overdraft in the previous year – which, in the case of accounts that switched, would probably include both the customer's previous PCA provider and their new one – were no more or less likely to switch than respondents who did not report going into overdraft. This was true for reported switching, as well as for switching data derived from our transaction data set. We found the same result comparing respondents who reported going into unarranged overdraft with respondents who reported they did not.
18. Considering all evidence on switching, we find that switching rates are generally low. There is insufficient evidence to conclude that overdraft users, as a group, have a lower switching rate than non-overdraft users. However, switching rates are materially lower for heavy overdraft users than for lighter users and non-users. There is some evidence that users who only use their arranged overdraft facility are more likely to switch than users who go into unarranged overdraft.

⁸ See provisional findings, [Appendix 7.2](#), Annex D, paragraph 12(f).

⁹ See provisional findings, [Appendix 7.2](#), Annex D, paragraph 12(g).

¹⁰ See provisional findings, [Appendix 7.2](#), paragraphs 31–36, as well as Annex B to that appendix (paragraph 11).

¹¹ See the section on awareness of usage, below.

Gains from switching

19. In our [provisional findings](#), we presented the results of an analysis of PCA pricing, showing gains from switching accounts for PCA customers. We have updated this analysis, details of which are presented in our forthcoming Update on PCA Pricing Analysis working paper. In this section, we summarise the main results on gains from switching, focusing on gains from switching for overdraft users.
20. To measure gains from switching, we focus here on gains from switching averaged over five years, including any switching incentives when these apply. This measure has the advantage that it takes into account switching incentives, yet smooths their effect through averaging of gains from switching over a five-year period. The calculation assumes that each customer's pattern of usage in 2014, in terms of their overdraft usage, their average balances, their number of transactions, and so forth, is repeated in the future, and that they will be able to continue their pattern of usage with the PCA provider they switch to.¹²
21. We present two bounds for gains from switching:
 - (a) The average gains from switching to the five cheapest products; and
 - (b) The average gains from switching to the three cheapest products.
22. The use of these averages enables us to identify gains from switching without overemphasising the importance of a particularly cheap product.
23. Finally, we focus here on the gains from switching for customers with standard or reward accounts. Fuller results on gains from switching (including gains from switching from packaged accounts) are presented in the forthcoming Update on PCA Pricing Analysis working paper, as well as the detailed methodology underlying these results.

¹² See the forthcoming Update on PCA Pricing Analysis working paper for a more detailed discussion of our assumptions.

Table 2: Average annual gains from switching for different types of overdraft users

Type of overdraft usage	Average days in overdraft per month*	£
		Annual gains from switching**
No overdraft usage		89–115
All overdraft usage		154–183
All overdraft usage	1–3	94–122
	4–7	159–189
	8–14	206–238
	15+	282–315
Unarranged overdraft usage (with or without an arranged overdraft facility)*** †	1–3	122–154
	4–7	167–200
	8–14	243–279
	15+	325–362
Arranged-only usage	1–3	80–105
	4–7	108–135
	8–14	129–158
	15+	198–227
Unarranged-only usage***	1–3	111–142
	4–7	343–380
	8+‡	698–737

Source: CMA analysis based on pricing and usage data provided by PCA providers.

* The average number days in overdraft is defined as an average over all months in the year, as opposed to the average over the months when the account was overdrawn.

** The ranges shown represent the average annual gains from switching to the five cheapest alternatives and the three cheapest alternatives, respectively.

*** Based on an average unarranged overdraft balance of £100.

† The categorisation here is by average days in unarranged overdraft.

‡ Our data set contains insufficient accounts without an overdraft facility that were in unarranged overdraft for more than 15 days per month, on average, to make a separate estimate for that category. Instead, we present a single result for all accounts that had eight or more days, on average.

24. As set out in the forthcoming Update on PCA Pricing Analysis working paper, we have found that the average annual gain from switching for non-overdraft users would be about £89–£115 per year in GB, and £70–£94 in NI.¹³ The annual gains from switching for overdraft users can be as much as three to four times as high, and higher still if the user is in unarranged overdraft for a large part of the month, on average.
25. Specifically, in the GB market heavier overdraft users stand to gain approximately £206–£238 for customers in overdraft for 8 to 14 days a month and approximately £282–£315 for 15+ days in overdraft a month. If this usage stays within the prearranged overdraft facility, we estimate gains from switching for these groups of customers of £129–£158 and £198–£227, respectively.¹⁴ These gains are due to both differences in overdraft charges

¹³ In the remainder of this section we focus on the results for the GB market. The results for the NI market will be discussed further in the Update on PCA Pricing Analysis working paper.

¹⁴ Light arranged-only users have potential gains from switching that are less than the gains from switching for non-users because, on average, they stand to gain less from switching to a PCA provider that pays interest on credit balances than the average user who does not go into overdraft at all.

and differences in rewards or interest on credit balances, since all but a small number of customers are in credit for at least part of the year.¹⁵

26. The largest potential gains from switching are found for the heaviest unarranged overdraft users. Accounts without a planned overdraft facility that are in unarranged overdraft for more than eight days per month, on average, across the year stand to gain as much as £698–£737 per year. As we have set out previously,¹⁶ such customers might have difficulty finding a suitable PCA provider to switch to.
27. Customers with a higher potential gain from switching should have stronger incentives to switch. However, we do not observe that switching increases with frequency of overdraft usage.¹⁷ As the frequency of overdraft usage increases, the potential gains from switching tend to increase but the switching rates tend to fall. This suggests that overdraft users are relatively disengaged, or that they face high barriers to searching and switching, or both.
28. Due to data limitations, our ability to take into account unarranged overdraft charges in this analysis was limited. Specifically, while our data set included data on the arranged limit and the total amount by which each account was overdrawn on average each month, we did not have information on the average unarranged overdraft amount each month. We also did not have information about the pattern of unarranged overdraft usage within each month, except the total number of days the account was in unarranged overdraft each month.
29. Instead, we made an assumption about the amount by which each overdraft user was in unarranged overdraft. We tested the assumption that each overdraft user had an unarranged overdraft balance of £20 or £100, which reflected feedback we received from PCA providers about plausible unarranged overcharge balances. The results shown in the table above are based on an assumed average unarranged overdraft balance of £100. However, we found that this assumption did not materially affect the results.

¹⁵ See the section on frequency of usage, below.

¹⁶ See [provisional findings](#), paragraphs 7.111–7.116.

¹⁷ See the section on frequency of usage, below.

Monthly unarranged fees

30. We have also looked at the distribution of the monthly total unarranged overdraft charges (excluding overdraft interest)¹⁸ incurred by PCA customers in a given year, based on 2014 data on these charges for a range of account provider brands' most popular on-sale PCAs that offer an unarranged overdraft facility.¹⁹ In this analysis, we focused on those customers who paid the highest accumulated monthly unarranged amount charges.
31. Table 3 shows that a low proportion but a sizeable absolute number²⁰ of customers have accumulated high monthly total unarranged charges in at least one month. For ten brands of seven PCA providers, in at least 1% of the accounts of each brand's most popular on-sale PCA, customers incurred more than £100 in monthly unarranged charges at least once.²¹ Further, for five of these brands, the same was true for at least 2% of their most popular on-sale accounts and for two brands the same was true for at least 4% of their most popular on-sale accounts. Further, we note that the data does not include overdraft interest, which, if included, would likely result in an increase in the total monthly unarranged charges reported below.

¹⁸ Note, we chose to exclude interest because most account providers were not able to separate arranged overdraft interest from unarranged overdraft interest. We therefore consider that the analysis of our results represents an underestimate for all brands apart from Halifax.

¹⁹ The data requested: (a) included all charges incurred for the refusal or provision of an agreed overdraft facility (unpaid item fees, daily or monthly charges, paid item fees and any other relevant charges) but excluded overdraft debit interest unless explicitly noted; and (b) excluded all charges waived by the provider, including situations where overdraft charges are waived due to negotiation or complaints from a customer, where a customer is assessed as being in financial difficulties and where fees were waived under standard terms and conditions.

²⁰ Given that there were around 68 million active PCAs in 2014.

²¹ []

Table 3: Distribution of active accounts as a proportion of all active accounts where the month with the highest total unarranged charges exceeded a given amount in 2014

		<i>Proportion of each brand's most popular on-sale PCA accounts (%) where customers incurred more than:</i>		
<i>Account provider</i>	<i>Account provider brand</i>	<i>£50 or more in total monthly unarranged charges in at least one month (excluding interest)</i>	<i>£100 or more in total monthly unarranged charges in at least one month (excluding interest)</i>	<i>£150 or more in total monthly unarranged charges in at least one month (excluding interest)</i>
AIB	AIB	[redacted]	[redacted]	[redacted]
Barclays	Barclays†	[redacted]	[redacted]	[redacted]
Bol	Bol	[redacted]	[redacted]	[redacted]
Danske	Danske	[redacted]	[redacted]	[redacted]
HSBCG**	First Direct*	[redacted]	[redacted]	[redacted]
	HSBC*	[redacted]	[redacted]	[redacted]
LBG§	Lloyds*	[redacted]	[redacted]	[redacted]
	BoS*	[redacted]	[redacted]	[redacted]
	Halifax*‡	[redacted]	[redacted]	[redacted]
Nationwide	Nationwide	[redacted]	[redacted]	[redacted]
RBSG	NatWest & RBS***	[redacted]	[redacted]	[redacted]
	Ulster	[redacted]	[redacted]	[redacted]
Santander	Santander*	[redacted]	[redacted]	[redacted]

Source: Parties' responses.

* [redacted]

** [redacted]

*** [redacted]

† [redacted]

‡ [redacted]

§ [redacted]

32. Table 3 also shows that these high levels of unarranged charges also represent a significant proportion of unarranged usage for seven brands ([redacted]) of six account providers ([redacted]). For each of these brands, Table 4 shows that, in at least 10% of active accounts of the brands' most popular PCA where a customer also incurred an unarranged overdraft charge, customers incurred more than £100 in monthly unarranged charges in at least one month in 2014.

Table 4: Distribution of active accounts as a proportion of all active accounts incurring unarranged overdraft charges where the month with the highest total unarranged charges exceeded a given amount in 2014

Proportion of brand's most popular PCA accounts where customers incurred unarranged charges (%) and incurred:

<i>Account provider</i>	<i>Account provider brand</i>	<i>£50 or more in maximum total monthly unarranged charges (excluding interest)</i>	<i>£100 or more in maximum total monthly unarranged charges (excluding interest)</i>	<i>£150 or more in maximum total monthly unarranged charges (excluding interest)</i>
AIB	AIB	[redacted]	[redacted]	[redacted]
Barclays	Barclays†	[redacted]	[redacted]	[redacted]
Bol	Bol	[redacted]	[redacted]	[redacted]
Danske	Danske	[redacted]	[redacted]	[redacted]
HSBCG**	First Direct*	[redacted]	[redacted]	[redacted]
	HSBC*	[redacted]	[redacted]	[redacted]
LBG‡	Lloyds*	[redacted]	[redacted]	[redacted]
	BoS*	[redacted]	[redacted]	[redacted]
	Halifax*§	[redacted]	[redacted]	[redacted]
Nationwide	Nationwide	[redacted]	[redacted]	[redacted]
RBSG	NatWest & RBS***	[redacted]	[redacted]	[redacted]
	Ulster	[redacted]	[redacted]	[redacted]
Santander	Santander*	[redacted]	[redacted]	[redacted]

Source: Parties' responses.

- * [redacted]
- ** [redacted]
- *** [redacted]
- † [redacted]
- ‡ [redacted]
- § [redacted]

33. In addition to looking at the distribution of monthly unarranged charges we also looked at whether customers accumulated high total monthly unarranged charges multiple times. Table 5 shows that for five brands ([redacted]) of four account providers ([redacted]), in at least 1% of accounts of each brand's most popular on-sale PCA, customers incurred more than £100 or more in unarranged charges in at least two months in 2014. This data also shows that a low proportion but a sizeable absolute number of customers also incurred high monthly total unarranged charges multiple times.

Table 5: Distribution of active accounts as a proportion of all active accounts where the month with the second highest total unarranged charges exceeded a given amount in 2014

		<i>Proportion of each brand's most popular on-sale PCA accounts (%) where customers incurred more than:</i>		
<i>Account provider</i>	<i>Account provider brand</i>	<i>£50 or more in total monthly unarranged charges in two months (excluding interest)</i>	<i>£100 or more in total monthly unarranged charges in two months (excluding interest)</i>	<i>£150 or more in total monthly unarranged charges in two months (excluding interest)</i>
AIB	AIB	[REDACTED]	[REDACTED]	[REDACTED]
Barclays	Barclays†	[REDACTED]	[REDACTED]	[REDACTED]
Bol¶	Bol	[REDACTED]	[REDACTED]	[REDACTED]
Danske	Danske	[REDACTED]	[REDACTED]	[REDACTED]
HSBCG**	First Direct*	[REDACTED]	[REDACTED]	[REDACTED]
	HSBC*	[REDACTED]	[REDACTED]	[REDACTED]
LBG§	Lloyds*	[REDACTED]	[REDACTED]	[REDACTED]
	BoS*	[REDACTED]	[REDACTED]	[REDACTED]
	Halifax*‡	[REDACTED]	[REDACTED]	[REDACTED]
Nationwide	Nationwide	[REDACTED]	[REDACTED]	[REDACTED]
RBSG	NatWest & RBS***	[REDACTED]	[REDACTED]	[REDACTED]
	Ulster	[REDACTED]	[REDACTED]	[REDACTED]
Santander	Santander*	[REDACTED]	[REDACTED]	[REDACTED]

Source: Parties' responses.

* [REDACTED]

** [REDACTED]

*** [REDACTED]

† [REDACTED]

‡ [REDACTED]

§ [REDACTED]

¶ [REDACTED]

34. As with customers' highest monthly unarranged fees, for five brands ([REDACTED]) of four leading providers in GB and NI ([REDACTED]), multiple occurrences of customers incurring high charges also represent a significant proportion of customers' unarranged overdraft usage. For each of these brands Table 6 shows that, in at least 5% of active accounts of the brands' most popular on-sale PCA where a customer also incurred an unarranged overdraft charge, customers incurred more than £100 in monthly unarranged charges in at least two months in 2014.

Table 6: Distribution of active accounts as a proportion of all active accounts incurring unarranged overdraft charges where the month with the second highest total unarranged charges exceeded a given amount in 2014

Proportion of brand's most popular PCA accounts where customers incurred unarranged charges (%) and incurred:

<i>Account provider</i>	<i>Account provider brand</i>	<i>£50 or more in total monthly unarranged charges in two months (excluding interest)</i>	<i>£100 or more in total monthly unarranged charges in two months (excluding interest)</i>	<i>£150 or more in total monthly unarranged charges in two months (excluding interest)</i>
AIB	AIB	[X]	[X]	[X]
Barclays	Barclays†	[X]	[X]	[X]
Bol¶	Bol	[X]	[X]	[X]
Danske	Danske	[X]	[X]	[X]
HSBCG**	First Direct*	[X]	[X]	[X]
	HSBC*	[X]	[X]	[X]
LBG‡	Lloyds*	[X]	[X]	[X]
	BoS*	[X]	[X]	[X]
	Halifax*§	[X]	[X]	[X]
Nationwide	Nationwide	[X]	[X]	[X]
RBSG	NatWest & RBS***	[X]	[X]	[X]
	Ulster	[X]	[X]	[X]
Santander	Santander*	[X]	[X]	[X]

Source: Parties' responses.

- * [X]
- ** [X]
- *** [X]
- † [X]
- ‡ [X]
- § [X]
- ¶ [X]

35. Lastly, by adding the information we collected on the number of times in 2014 where customers' highest total monthly charges accumulated exceeded a certain level on active accounts and customers' second highest total monthly charges accumulated exceeded a certain level on active accounts on providers' brands' most popular PCAs, we are able to obtain an indicative lower bound²² on the number of months in which customers incurred charges above a given level (as detailed in Table 7 below) in 2014.

²² By combining customers' highest and second highest monthly accumulated charges we can obtain an indicative lower bound on customers exceeding a certain level of unarranged charges in their accounts but not an actual lower bound as certain providers, for example, included unarranged overdraft interest and some waived fees.

Table 7: Indicative lower bound on the total number of instances active accounts incurred more than £75 in unarranged overdraft charges in a month

<i>Account provider</i>	<i>Account provider brand</i>	<i>Lower bound on number of months active accounts incurred between £75 and £100 in unarranged charges</i>	<i>Lower bound on number of months active accounts incurred between £100 and £150 in unarranged charges</i>	<i>Lower bound on number of months active accounts incurred between £150 and £200 in unarranged charges</i>	<i>Lower bound on number of months active accounts incurred more than £200 in unarranged charges</i>
AIB	AIB	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Barclays	Barclays†	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bol¶	Bol	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Danske	Danske	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
HSBCG**	First Direct*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	HSBC*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
LBG‡	Lloyds*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	BoS*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Halifax*§	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Nationwide	Nationwide	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
RBSG	NatWest & RBS***	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Ulster	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Santander	Santander*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total		620,321	344,682	161,068	12,582

Source: Parties' responses.

* [REDACTED]

** [REDACTED]

*** [REDACTED]

† [REDACTED]

‡ [REDACTED]

§ [REDACTED]

¶ [REDACTED]

36. Together, all these results suggest that there is a low proportion but a sizeable absolute number of customers who incur large total monthly unarranged charges each year. In addition, many of the customers who incur large total monthly unarranged charges do so multiple times within a year.

Awareness of usage

37. The difference between customers' perceptions about their overdraft usage and their actual overdraft usage was already explored in Appendix 7.4 to our [provisional findings](#). As we set out in Appendix 7.4, while we do not expect customers to know their usage and charges to the day and penny, a large discrepancy between perceived and actual usage may indicate a lack of understanding and engagement among overdraft users. Customers who have limited awareness of overdraft use will have fewer incentives to shop around, and even if they do so, it may be more difficult to assess the different offers and identify the best PCA. In addition, if customers underestimate their usage, they may have used overdrafts, and incurred costs, inadvertently.

38. In general, we found that people underestimated their overdraft usage, with 52% of overdraft users underestimating the number of months they were in

any type of overdraft in 2014 by more than two months.²³ At the same time, 55% of unarranged overdraft users underestimated the number of months they were in unarranged overdraft specifically in 2014 by two or more months.²⁴

39. Annex A to Appendix 7.4 to our [provisional findings](#) explored how customers' awareness of their total overdraft usage varied between customer segments. We found that women, customers with a degree, and users who went into unarranged overdraft were statistically significantly more likely to assess the number of months they were in any type of overdraft correctly than men, customers without a degree, and arranged-only overdraft users, respectively.²⁵
40. Awareness of overdraft limits was also significantly higher for younger customers, customers without a degree, unarranged overdraft users and users with low monthly inflows.²⁶ These findings about customers' awareness of their overdraft usage and overdraft limit suggest that customer groups on lower incomes, who we might expect to be more likely to use unarranged overdrafts intentionally and to be concerned about the fees and charges associated with unarranged overdraft usage, are more likely to be aware of their unarranged overdraft usage and overdraft limit.
41. The sample sizes of unarranged overdraft users in the GfK survey (and hence in our actual vs perceived analysis) are too small to allow for further analysis by frequency of use, to a statistically acceptable degree of confidence. However, it is clear that the percentage of respondents who underestimate their overdraft usage by two months or more falls in the range of 50 to 60% for all types and patterns of overdraft usage.²⁷

Frequency of usage

42. We also conducted further analysis of the frequency of usage of arranged and unarranged overdrafts, using the transaction data set. Our objective was to

²³ [Appendix 7.4](#), paragraph 25. We note that this result is based on the overdraft sample with 80 observations excluded because the customers responded that they did not know or refused to say how many months they went into overdraft. If, instead, we assume that these respondents all knew correctly how many months they were in overdraft, or that none of them did, we obtain a range of 48.5 to 56% around the 52% figure discussed in the text.

²⁴ [Appendix 7.4](#), Annex C, paragraph 5. Here, 104 observations were excluded, leading to a range of 46 to 68% around the 55% figure discussed in the text.

²⁵ See provisional findings, [Appendix 7.4](#), Annex A, Table 1.

²⁶ See provisional findings, [Appendix 7.4](#), Annex A, Table 2.

²⁷ This is based on calculating the share of customers in our survey data set who were heavy (nine or more months in 2014) or lighter arranged-only, unarranged-only, or unarranged and arranged overdraft users and who underestimated their overall overdraft usage or their unarranged overdraft usage – where relevant – by two or more months. Since this generally yields results that are based on fewer than 150 observations, we do not consider it appropriate to report the exact results, but we do report the high-level tenor of the results.

understand whether unarranged overdrafts and arranged overdrafts are used differently, in terms of how often customers go into each type of overdraft, how long they typically stay in each type of overdraft and, in light of the survey evidence on awareness of usage, which was summarised in the previous section, whether customers' usage patterns suggest that they go into overdraft intentionally.

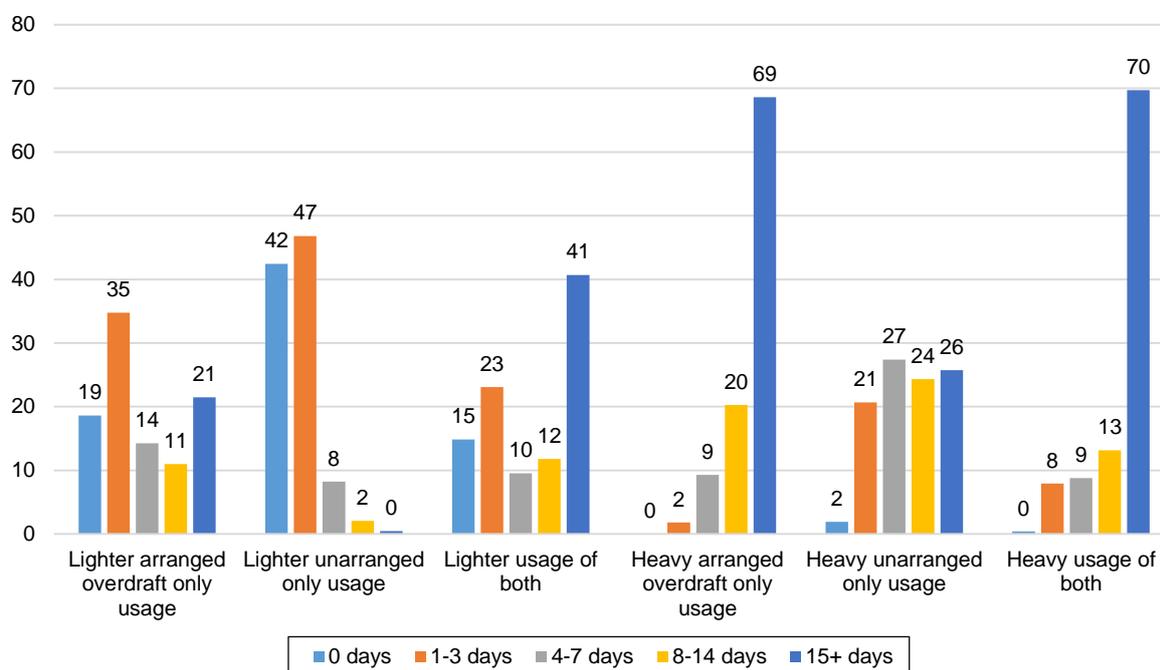
Measures of frequency

43. There are different ways in which we can think of heavy overdraft usage: it could relate to customers who go into overdraft for many months in the year, or customers who, when they go into overdraft in a given month, are in overdraft for many days during that month. We therefore first considered whether it matters whether we define heavy users as customers who are in overdraft at least once in a large number of months, or whether we focus on the average number of days per month that the customer is in overdraft.
44. For overdraft usage in general, this issue was considered in Annex C to Appendix 7.4 to our [provisional findings](#), where we found that there was a strong positive correlation between the number of months and the number of days in overdraft.
45. Our analysis in this section distinguishes between three types of usage:
 - (a) arranged-only usage, whereby in a given month a customer went into their arranged overdraft at least once, but not into their unarranged overdraft;
 - (b) unarranged-only usage, whereby in a given month a customer without an arranged overdraft facility went into overdraft at least once; and
 - (c) usage of both, whereby in a given month a customer with an overdraft facility went into unarranged overdraft at least once.
46. Each account in our data set fell in one of these three categories for each month that it was overdrawn. Note that, while the categories are mutually exclusive for each month, over the course of a year a customer can be an arranged-only user in some months and a user of both types of overdraft in others.²⁸
47. In line with the approach in our [provisional findings](#), we define heavy usage as usage for nine months or more in 2014. Consistent with our previous results,

²⁸ This would happen, for example, if a customer with an overdraft facility went into unarranged overdraft in three months and while using only their arranged overdraft facility for each of the other nine months of 2014.

we find that heavy overdraft users also tend to use their overdraft facilities for more days in each month. The two measures of usage are related. This is the case for all three types of usage.

Figure 1: Average days in overdraft as a % of all usage in each category

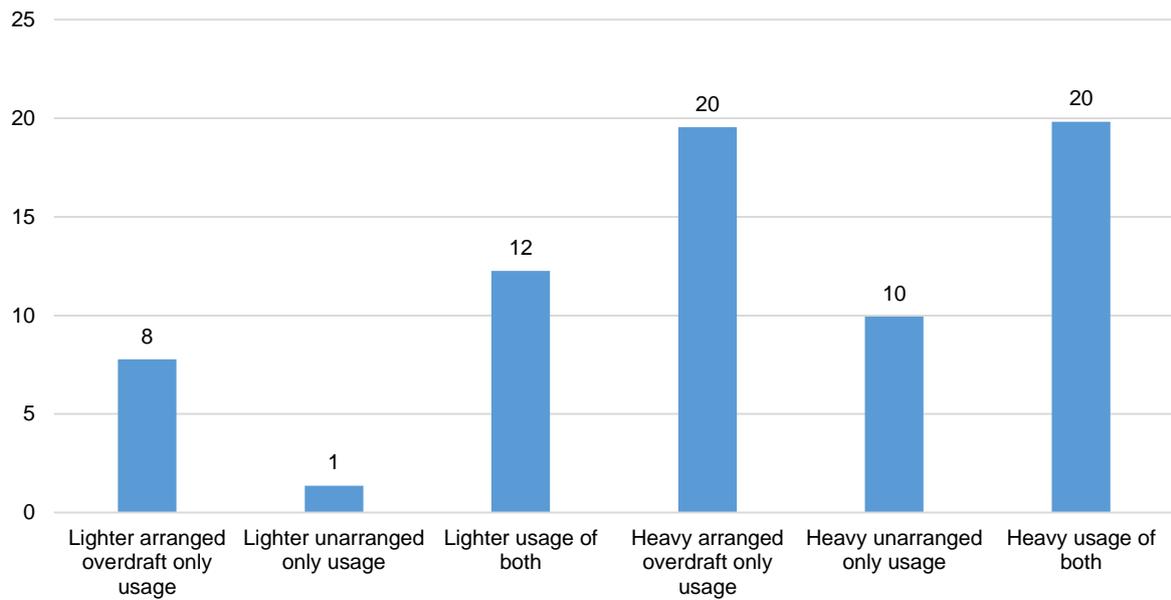


Source: CMA analysis based on the transactions data set (37,228 overdraft users in total).
 Note: Average days in overdraft calculated as the average over all months in 2014, instead of only the months when the account was in overdraft.

48. That said, we find that the relationship is weaker for unarranged overdraft usage. Particularly, unarranged-only usage is likely to be for fewer days in a month. In fact, while a sizeable proportion of arranged overdraft usage is permanent – 17% of heavy arranged-only overdraft usage involves accounts that are in overdraft for 30 days per month, on average – there are almost no accounts in our data set that show a similar usage pattern for unarranged overdraft facilities.²⁹ The average for each type and pattern of usage is shown in the following graph.

²⁹ Specifically, there are five accounts in our transactions data set that were in unarranged overdraft throughout 2014, compared with 1,296 accounts for arranged overdraft. The latter figure represents 2% of all accounts, or 5.7% of all accounts that went into overdraft in 2014.

Figure 2: Average days per month in overdraft

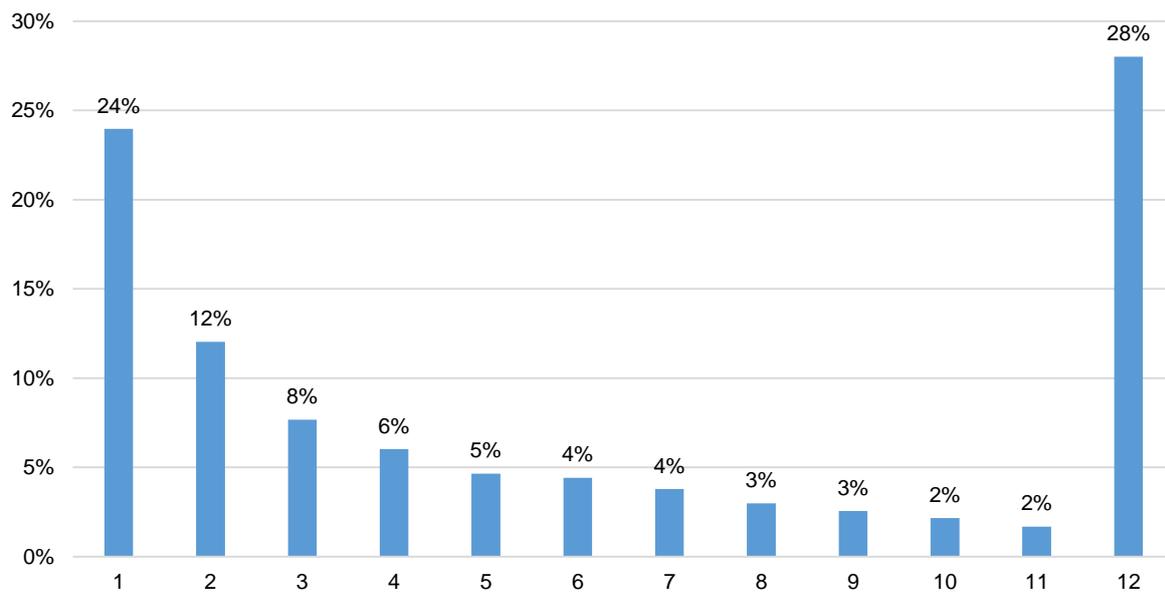


Source: CMA analysis based on the transactions data set (37,228 overdraft users in total).

Patterns of usage

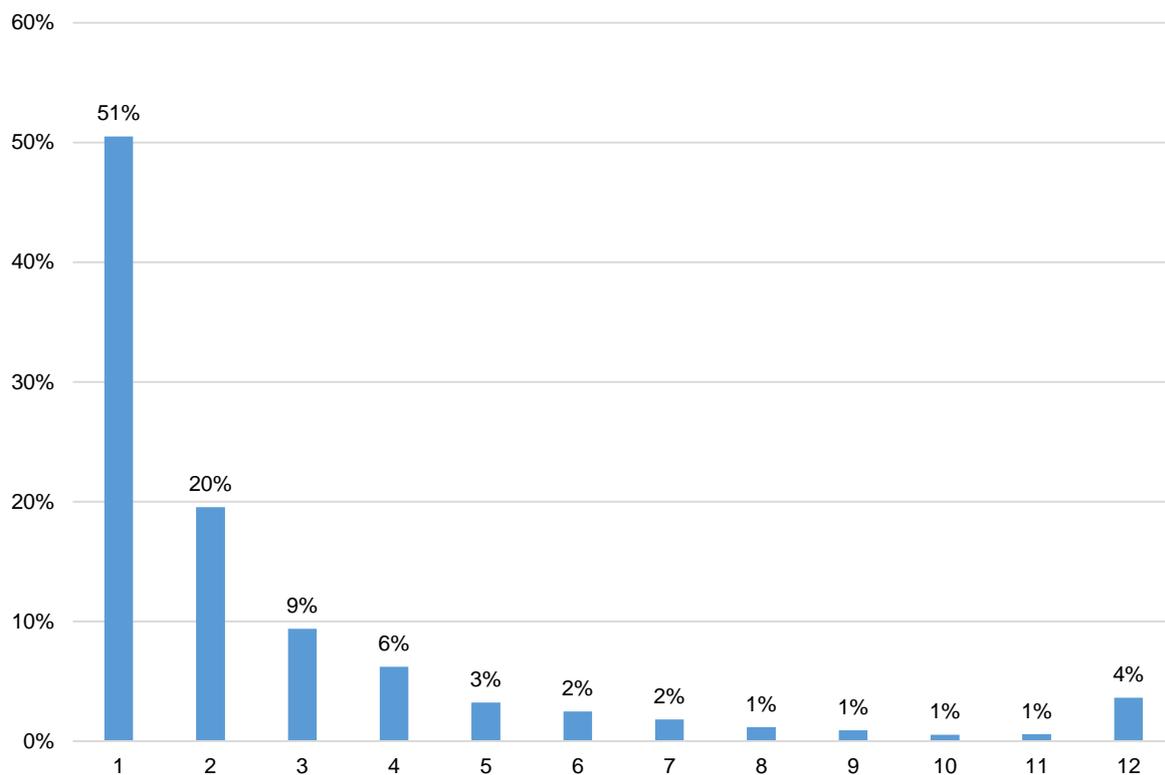
49. We also analysed whether overdraft users go into overdraft consistently, every month for a period of time, or whether their usage pattern is more idiosyncratic. The following graphs set out the distribution of the maximum number of consecutive months that the accounts in our transactions data set were in either type of overdraft, in unarranged overdraft only, and in arranged overdraft only.

Figure 3: Maximum number of consecutive months overdrawn in 2014 (% of all overdraft users)



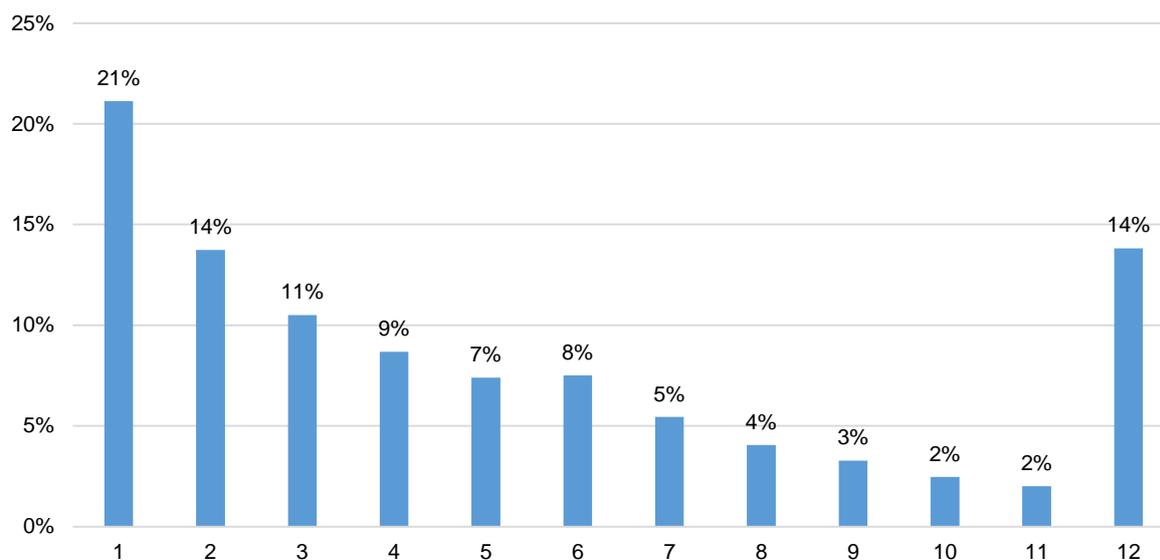
Source: CMA analysis based on the transactions data set (29,125 accounts that went into overdraft at least once in 2014).

Figure 4: Maximum number of consecutive months in unarranged overdraft only (% of all unarranged-only overdraft users)



Source: CMA analysis based on the transactions data set (2,979 that were unarranged-only for at least one month in 2014).

Figure 5: Maximum number of consecutive months in arranged overdraft only (% of all arranged-only overdraft users)



Source: CMA analysis based on the transactions data set (22,221 accounts that were arranged-only for at least one month in 2014).

50. We find that that both arranged and unarranged overdraft are generally short-term, for less than the entire month and for relatively few months in a row. About half of users go into overdraft for no more than four months consecutively. The evidence also suggests that unarranged usage is generally used for a smaller number of consecutive months than arranged usage. For example, around 50% of users of any type of overdraft facility used it for more than four months in a row at least once in 2014. The same goes for arranged-only usage. Unarranged-only usage, on the other hand, is typically only for one or two months in a row.
51. We note that it is possible that the figure for arranged-only overdraft usage gives an incorrect impression of the overdraft usage of the relevant individuals, since they might change from arranged-only to arranged and unarranged overdraft usage, rather than only from arranged-only to no usage. For that reason, we prefer not to place very much weight on data about arranged-only overdraft usage. However, we consider that this possibility does not affect our overall conclusion about unarranged-only users, because such users are users without an arranged overdraft facility, meaning that they can change to another type of overdraft usage only by setting up an arranged overdraft facility.
52. These findings suggest that unarranged overdraft usage is more likely to be temporary. Insofar as customers use unarranged overdraft for short periods of time, this could also suggest that some of this usage may be inadvertent. However, the results are also consistent with the view that unarranged

overdraft usage is more likely to be used for unplanned emergency borrowing, when the customer knowingly goes into unarranged overdraft because of an unusual pattern of income and expenditure.

Demographics

53. In [Appendix 7.5](#) to our provisional findings we presented our analysis of demographic characteristics of PCA customers by overdraft usage. We looked at how overdraft usage relates to different customer attributes, considering basic characteristics (gender, age, education, working status), a proxy for the customer's financial literacy, and customer income (measured as inflows in the account).
54. Our findings on overdraft usage suggest that:
- (a) Customers that use overdrafts tend to be younger than those who do not. Moreover, customers in the unarranged overdraft group are more likely to be aged 18–34 compared with customers that only use arranged overdrafts (44% vs 27%).
 - (b) Users of arranged overdraft only, tend to have higher income (43%) compared with both unarranged overdraft users and non-users (30% and 31% respectively). Customers that did not use overdrafts in 2014 are more likely to have low incomes (39% as opposed to 25% for the arranged only group and 36% for the unarranged group).
 - (c) Customers in the arranged-only group are more likely to have a degree-level education (48% compared with 42% for non-users and 40% for unarranged users) and be financially literate (63% compared with 58% for non-users and 55% for unarranged users).
 - (d) Non-users are more likely to be non-working compared with overdraft users (47% compared with 30% for arranged-only and 27% for unarranged users).
55. We found no material relationships between any of these customer attributes and the intensity of overdraft usage.³⁰

³⁰ See provisional findings, [Appendix 7.5](#), Annex B.

Benefits of overdraft alerts

56. This subsection sets out how we estimated potential benefits to PCA customers from avoiding unarranged overdraft charges as a result of our overdraft alert remedy.
57. There is evidence that alerts have a material impact on the incidence of unarranged overdraft charges. An FCA study³¹ found that signing up to text alerts³² reduced average monthly unarranged overdraft charges by 6% (£0.22). This estimate represents average gains across the active PCAs that are eligible for an unarranged overdraft. Given that the majority of PCA holders do not make use of unarranged overdrafts, the average gains are relatively small, but we would expect higher gains for those who do use unarranged overdrafts.
58. The FCA's findings are in line with PCA provider research pointing to alerts having a marked effect on customer behaviour and incurred overdraft charges:
- As a result of an RCT run in 2015 by LBG, LBG found that automatic enrolment to near- and over-limit text alerts led to an average reduction of 6% (£0.25–£0.75) in monthly unarranged charges. It also found that the top 20% of overdraft fee payers saved on average 5% (£1–£1.50) per month in unarranged charges.³³
 - HSBCG provided evidence that the impact of automatically enrolling its customers to unarranged overdraft text messages has been very significant: it found the number of customers transferring funds on the first day they went over their arranged limit increased from 16 to 50% for HSBC and from 32 to 74% for First Direct.
 - [✂]³⁴

³¹ See FCA (March 2015), *Occasional Paper No. 10: Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour*. We only report results for Bank A.

³² Results refer to any type of text alerts including regular balance alerts as well as alerts sent upon automatic triggers.

³³ See [LBG Trials Report](#), slide 42. The results of the FCA and LBG studies are not directly comparable because, among other reasons, (a) the FCA report evaluates the average impact of signing up to alerts whereas the LBG trial evaluates the impact of automatic enrolment to text alerts on monthly unarranged overdraft charges; (b) the FCA study assesses the impact of signing up to any type of text alert whereas the LBG study assesses the impact of near-limit and over-limit unarranged overdraft alerts; and (c) different sample selection – the FCA study takes into account only active PCAs that are eligible for unarranged overdraft whereas the LBG study restricts the sample to unarranged overdraft users (have been in unarranged overdraft at least once in the last three months) but not in the previous month.

³⁴ [✂]

59. Our estimated potential savings from avoiding charges as a result of the overdraft alerts remedy is based on reducing the £1.2 billion of annual unarranged overdraft charges in total in the UK ³⁵ by 6% (in line with the results of the FCA study and LBG trials noted above). However, we made some adjustments to take into account that some customers are already enrolled in overdraft alerts, some customers do not have mobile phones, and that some customers might opt out of the alerts:
- (a) Using data from PCA providers, we estimated that around 46% of PCAs are already set up to receive at least one type of alert. The detailed calculations are set out in Table 7.
 - (b) We estimated that the proportion of PCAs enrolled in alerts could increase by 47 percentage points to a maximum of 93%, the proportion of the UK population that own a mobile phone.³⁶
 - (c) We then estimated the number of newly enrolled customers (as result of our remedy) that would subsequently opt out of the alerts. We used an opt-out rate of 10% based on the alert coverage rate for PCA providers that do automatically enrol their customers into at least one type of text alerts and a 7% opt-out rate found in the LBG trial.
 - (d) Combining (b) and (c) above, we estimated that, approximately, an additional 43% of PCA customers would be enrolled into alerts following our remedies.
60. Taking into account in this way the number of additional customers that would be enrolled into overdraft alerts as a result of our remedy, we estimated it would lead to customer benefits of approximately £34 million per year (assuming no customers opt out of the alerts as in paragraph 59(b)) or £31 million (assuming a 10% opt out rate of newly enrolled customers as noted in paragraph 59(c) and 59(d)).
61. These results give an indicative estimate of the magnitude of the direct benefits of the alerts. While there are a number of caveats, we do not consider them to be an issue for the purposes of giving an indicative estimate. For instance, customers that deliberately sign up for alerts may be different from customers that are automatically enrolled, which could mean that the use of the 6% reduction in unarranged overdraft charges found by the FCA results in an overestimate of the impact of alerts. However, the results of the 2015 LBG trial (which assessed the impact of automatic enrolment) suggests that

³⁵ Estimating this figure by combining Table 1 in [Appendix 5.2](#) of the provisional findings, with information on the total number of main PCAs in Table 2.

³⁶ Ofcom, [CMR facts & figures 2015](#).

this is not a significant issue as it also found a 6% reduction in unarranged overdrafts charges.

62. We have also assumed that benefits will only arise to those PCA customers that are currently not enrolled to receive any type of alert. However, other customers may also benefit from our remedy, for instance if they are already enrolled in an alert but not an unarranged overdraft alert. Our remedy will also ensure that customers are aware that they have a grace period to avoid or reduce charges.
63. The FCA study also found that signing up to text alerts alongside using mobile banking reduced the monthly amount of unarranged overdraft charges incurred by a much larger amount, with unarranged overdraft charges reducing by 24% (£0.93) for those who signed up to text alerts alongside using mobile banking. We took a conservative approach by assuming that charges would reduce by 6% only; but note that, given the increasing use of mobile banking, the FCA results suggest that the potential impact of alerts could be much greater.

Table 8: Existing coverage of alerts

<i>PCA provider</i>	<i>Alert coverage ^[1] (%)</i>	<i>Number of active accounts at year end (2014)</i>	<i>Number of customers enrolled ^[2]</i>	<i>Number of customers not enrolled for alerts ^[3]</i>
AIB	[X]	[X]	[X]	[X]
Bol	[X]	[X]	[X]	[X]
BoS	[X]	[X]	[X]	[X]
Barclays	[X]	[X]	[X]	[X]
Clydesdale	[X]	[X]	[X]	[X]
Co-op Bank	[X]	[X]	[X]	[X]
Danske	[X]	[X]	[X]	[X]
First Direct	[X]	[X]	[X]	[X]
HSBC	[X]	[X]	[X]	[X]
Halifax	[X]	[X]	[X]	[X]
Lloyds	[X]	[X]	[X]	[X]
Nationwide	[X]	[X]	[X]	[X]
RBS & NatWest	[X]	[X]	[X]	[X]
Santander	[X]	[X]	[X]	[X]
TSB	[X]	[X]	[X]	[X]
Total	46 ^[4]	68,461,155	31,354,041	37,107,114

Source: CMA calculations and parties' responses to CMA's informational requests.

Notes:

^[1] % of customers signed up to receive any type of alert; customers may refer to customers or PCA accounts and in some cases relate only to those that are active. For the purposes of this analysis, we do not distinguish between these definitions and simplify the analysis by treating each customer as having one PCA account.

^[2] # of customers enrolled = # of active accounts × % of customers enrolled

^[3] # of customers not enrolled for alerts = #of accounts – # of customers enrolled

^[4] total avg alert coverage rate (%) = $\frac{\text{\# of accounts enrolled to some type of text alert}}{\text{\# of active accounts}}$

Some parties did not provide an overall rate but coverage per type of alert in which case we have used an average on the basis of this information. Alert enrolment information is provided according to 2015 data whereas the number of active accounts refers to 2014 data. In addition to that, our PCA-level data is restricted to main parties whereas unarranged overdraft charges reflect the total PCA market.

Annex A: Switching rates for different types and intensity of PCA overdraft usage

1. In this annex, we set out the evidence we obtained from PCA providers on switching rates by PCA overdraft usage. While we have standardised the presentation, the evidence varies in terms of its categorisation of different types of usage, depending on the analysis the providers were able to conduct in the time that was available to them.
2. Where available, we present evidence for the following categories of usage:
 - (a) Unarranged overdraft: all accounts that were in unarranged overdraft in 2014.
 - (b) Unarranged overdraft only: accounts that were in unarranged overdraft in 2014, but not in arranged overdraft. That is, these accounts did not have an arranged overdraft facility.
 - (c) Arranged overdraft only: accounts that were in arranged overdraft in 2014, but not in unarranged overdraft.
 - (d) No overdraft: accounts that were not in overdraft in 2014.
3. For each category of usage, the tables show the subsequent switching rate during 2015.

Barclays

<i>Fee-paying days per calendar month (£)</i>	<i>Emergency borrowing</i>	<i>Emergency borrowing (but not a core overdraft)</i>	<i>No overdraft</i>
<=3	[X]	[X]	[X]
<=7	[X]	[X]	
<=14	[X]	[X]	
>14	[X]	[X]	

Note: Includes only CASS switching.

HSBCG

<i>Average no. of days in overdraft</i>	<i>Arranged overdraft and unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
0				[X]
1-3	[X]	[X]	[X]	
4-7	[X]	[X]	[X]	
8-14	[X]	[X]	[X]	
Over 14	[X]	[X]	[X]	

Note 1: Includes only CASS switching.

Note 2: These figures include First Direct and M&S Bank.

LBG (BoS)

<i>Average no. of days in overdraft</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
No usage				[X]
1–5 days	[X]	[X]	[X]	
6–10 days	[X]	[X]	[X]	
More than 11 days	[X]	[X]	[X]	

Note 1: Includes only CASS switching.

Note 2: [X]

LBG (Halifax)

<i>Average no. of days in overdraft</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
No usage				[X]
1–5 days	[X]	[X]	[X]	
6–10 days	[X]	[X]	[X]	
More than 11 days	[X]	[X]	[X]	

Note: Includes only CASS switching.

Note 2: [X]

LBG (Lloyds)

<i>Average no. of days in overdraft</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
No usage				[X]
1–5 days	[X]	[X]	[X]	
6–10 days	[X]	[X]	[X]	
More than 11 days	[X]	[X]	[X]	

Note: Includes only CASS switching.

Note 2: [X]

Nationwide

<i>Average no. of days in overdraft</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
3 or fewer	[X]	[X]	[X]	[X]
4–7	[X]	[X]	[X]	
8–14	[X]	[X]	[X]	
More than 14	[X]	[X]	[X]	

Note: It is unclear whether these switching rates include only CASS switching or all switching.

RBSG (NatWest)

<i>Months of usage in 2014</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
0				[X]
1–3	[X]	[X]	[X]	
4–8	[X]	[X]	[X]	
9–12	[X]	[X]	[X]	

Note 1: Includes both CASS and non-CASS switching.

Note 2: Does not include switching to RBS.

RBSG (RBS)

<i>Months of usage in 2014</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
0				[X]
1-3	[X]	[X]	[X]	
4-8	[X]	[X]	[X]	
9-12	[X]	[X]	[X]	

Note 1: Includes both CASS and non-CASS switching.

Note 2: Does not include switching to NatWest.

RBSG (Ulster Bank)

<i>Months of usage in 2014</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>Arranged overdraft only</i>	<i>No overdraft</i>
0	[X]	[X]	[X]	[X]
1	[X]	[X]	[X]	
2	[X]	[X]	[X]	
3	[X]	[X]	[X]	
4	[X]	[X]	[X]	
5	[X]	[X]	[X]	
6	[X]	[X]	[X]	
7	[X]	[X]	[X]	
8	[X]	[X]	[X]	
9	[X]	[X]	[X]	
10	[X]	[X]	[X]	
11	[X]	[X]	[X]	
12	[X]	[X]	[X]	

Note 1: CMA calculation based on Ulster Bank data.

Note 2: Includes only CASS switching.

Santander UK

<i>Percentile of intensity of usage</i>	<i>Unarranged overdraft</i>	<i>Unarranged overdraft only</i>	<i>No overdraft</i>
No overdraft usage			[X]
P1 (lowest usage)	[X]	[X]	
P2	[X]	[X]	
P3	[X]	[X]	
P4	[X]	[X]	
P5	[X]	[X]	
P6	[X]	[X]	
P7	[X]	[X]	
P8	[X]	[X]	
P9	[X]	[X]	
P10 (heaviest usage)	[X]	[X]	

Note: Includes only CASS switching.

Appendix 2: Development of our remedy to increase customer engagement with their overdraft options

1. In our [Supplemental Remedies Notice](#) we outlined a possible remedy requiring providers to allow new customers an active choice at account opening of whether to have an unarranged overdraft and to allow existing customers to similarly opt out of an unarranged overdraft, in order to raise customers' awareness of and engagement with their overdraft choices and use.
2. In response to our [Supplemental Remedies Notice](#) parties broadly supported helping customers to be better engaged in making choices on overdrafts but also raised a number of concerns with the remedy as proposed which related to its effectiveness, the unintended consequences of providing an opt-out or the focus on unarranged overdrafts without reference to arranged overdrafts.¹
3. The issues identified by parties included:
 - (a) The scope of the remedy and customers' understanding of the interaction of arranged overdrafts and unarranged overdrafts:
 - (i) An overemphasis on unarranged overdrafts rather than overdrafts as a whole.
 - (ii) Consumers' ability to understand the distinction between arranged overdrafts and unarranged overdrafts² and the impact of opting out of an unarranged overdraft³ or unarranged overdrafts for certain types of transaction, which could lead to potential adverse consequences⁴ (considered further below).

¹ Our expectation in setting out a potential remedy in our [Supplemental Remedies Notice](#) was that any opt-out of unarranged overdrafts would be in the context of customers being provided with more information on both arranged overdrafts and unarranged overdrafts.

² This could manifest itself in information being provided that does not challenge customer behaviour, either through a lack of clarity or accessibility, or 'information overload' arising from an excessive amount of information being provided.

³ For example customers might incur late payment charges or loss of service where funds are not available and a customer has chosen not to use an unarranged overdrafts. Failed or missed payments may then impact on a customer's credit history.

⁴ [Danske response to Supplemental Remedies Notice](#), p6. First Trust Bank further noted that it would not be possible to ensure no unarranged overdraft arises unless access to certain payment methods was restricted (see [First Trust Bank response to Supplemental Remedies Notice](#), p2).

- (b) Customer optimism bias with respect to their use of overdraft facilities, resulting in poor decision-making in advance of such eventualities and the unintended consequences of customers opting out:⁵
 - (i) The unintended impact of any prompt or opt-out on other aspects of decision-making.
 - (ii) The potential for PCA providers to increase other fees and charges to compensate for any loss of revenue arising from reduced unarranged overdraft usage, especially in the event of design choices requiring opt-outs to be offered for all full-facility PCAs or constraining the incremental charges for such options.⁶
- (c) Reduced differentiation across providers.⁷
- (d) Challenges to ensuring any measure was effective:
 - (i) The necessity to conduct comprehensive behavioural research to ensure the remedy is effective and the short time frame available for this.⁸
 - (ii) The risk that over-prescription of a remedy renders it outmoded as a result of technological or other change.⁹
 - (iii) The redundancy of the need for an opt-out where a PCA provider offers a number of different PCAs with different overdraft options.¹⁰
 - (iv) Limited customer appetite for any remedy that, subject to design, might curtail their payment options.¹¹

4. In considering responses to our [Supplemental Remedies Notice](#) we have given particular consideration to the potential unintended consequences of any remedy that may lead to customers choosing to opt out of unarranged overdrafts. We noted that several parties identified the potential impact on customers' credit records, disruption to services such as domestic utilities (where payments did not clear) and the ability to access funds in an emergency if they had no access to an unarranged overdraft.

⁵ [Santander response to Supplemental Remedies Notice](#), paragraph 3.9. [HSBCG response to Supplemental Remedies Notice](#).

⁶ [HSBC](#) and [Santander](#) responses to Supplemental Remedies Notice.

⁷ [LBG response to Supplemental Remedies Notice](#), paragraph 2.4.

⁸ [HSBC](#) and [Santander](#) responses to Supplemental Remedies Notice.

⁹ [Danske](#) and [LBG](#) responses to Supplemental Remedies Notice.

¹⁰ [LBG](#) and [Santander](#) responses to Supplemental Remedies Notice.

¹¹ [HSBC](#) response to Supplemental Remedies Notice.

5. We further note that our research found that customers underestimated their use of unarranged overdrafts and therefore might not be able to assess the impact of opting out of unarranged overdrafts. As a result of this risk we have considered whether a more general acknowledgement by customers that they had considered an enhanced disclosure about the nature of the overdraft facilities would be more effective and have fewer unintended consequences.
6. Having considered the views of parties we have provisionally decided to amend this remedy to become a recommendation to the FCA to consider the information available to customers on opening an account and whether PCA applicants can be better engaged in the decision on whether to have an overdraft facility (arranged or unarranged) and the features included with such a facility on an account.
7. In reaching our provisional decision we considered how our overall package of remedies addressed the provisional AEC with respect to overdrafts. Specifically we identified that our remedies providing for unarranged overdraft alerts and grace periods (set out in Section 5) would facilitate greater customer engagement with overdraft usage through a more flexible mechanism, while identifying that there are potential benefits of introducing enhancements to the information provided at the point of application or opening a PCA.

Glossary

AEC	Adverse effects on competition.
AER	Annual equivalent rate.
AIB	Allied Irish Bank, the trading name of AIBG in Great Britain.
AIBG	AIB Group, the parent company of AIB and First Trust Bank .
AML	Anti-money laundering.
ANP	Account Number Portability.
API	Application program interface.
APR	Annual percentage rate.
Arranged overdraft	A type of overdraft facility that is agreed by the customer with their bank, allowing them to borrow money up to a certain amount if there is no money left in the account. This is put in place by the customer prior to needing to use funds that exceed their account balance.
Bacs	Bacs Payment Schemes Limited. Bacs is a membership company limited by Guarantee, with responsibility for the schemes behind the clearing and settlement of UK automated payment methods, direct debit and Bacs direct credit, as well as the provision of managed services for third parties, such as the Cash ISA Transfer Service, and the development, management and subsequent ownership of CASS.
Bank	Includes banks and building societies for the purposes of this document.
Barclays	A major UK retail bank.
BBA	British Bankers' Association .
BBB	British Business Bank .
BBF	Better Business Finance .
BBI	Business Banking Insight .

BCA	Business current account.
BCC	British Chambers of Commerce.
BCOBS	The FCA's Banking Conduct of Business Sourcebook .
BIS	The Department for Business, Innovation and Skills.
BIT	Behavioural Insights Team.
BoE	Bank of England.
BoI	Bank of Ireland, a retail bank operating in the Republic of Ireland and Northern Ireland.
BoS	Bank of Scotland, a subsidiary banking brand of LBG .
CASS	Current Account Switch Service.
CCD	Consumer Credit Directive.
CCG	Consumer Challenge Group.
CDD	Consumer due diligence.
Clydesdale	Clydesdale Bank, a brand of the Clydesdale Group.
CMA	Competition and Markets Authority.
Co-op Bank	The Co-operative Bank, a retail bank operating in the UK.
CPA	Continuous payment authority.
CRA	Credit reference agency.
Danske	A retail bank operating in Northern Ireland.
DPA	Data Protection Act 1998 .
EA02	Enterprise Act 2002 .
EAR	Equivalent Annual Rate.
FCA	Financial Conduct Authority.
FIIC	Free-if-in-credit.

FinTech	Financial technology.
First Direct	A subsidiary bank brand of HSBCG .
First Trust Bank	The trading name of AIBG in Northern Ireland.
FOS	Financial Ombudsman Service.
FSB	Federation of Small Businesses.
FSCP	Financial Services Consumer Panel.
FSMA	Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012).
Guidelines	Guidelines for market investigations: Their role, procedures, assessment and remedies, CC3 Revised . These Guidelines have, with effect from 1 April 2014, been adopted by the CMA .
Halifax	A subsidiary bank brand of LBG .
HBOS	Halifax Bank of Scotland, a wholly owned subsidiary of LBG , comprising the Halifax and BoS brands having been taken over in January 2009.
HMT	HM Treasury.
HSBC	HSBC Bank, a subsidiary of HSBCG .
HSBCG	HSBC Group: the parent company of HSBC , First Direct and M&S Bank .
ICAEW	Institute of Chartered Accountants in England and Wales .
ICO	Information Commissioner's Office.
JMLSG	Joint Money Laundering Steering Group.
KPI	Key Performance Indicator.
KYC	Know Your Customer.
LBG	Lloyds Banking Group, the parent company of HBOS and Lloyds .
Lloyds	Lloyds Bank, a subsidiary bank of LBG .

M&S Bank	Marks and Spencer Bank, a subsidiary of HSBCG .
MAS	Money Advice Service.
MC	Management committee.
Midata	Part of the UK government's consumer empowerment strategy, a project aiming to help consumers utilise their data (eg bank data, energy bills) to search for suitable products.
MLR	Money Laundering Regulations 2007 .
MMC	Monthly maximum charge.
Nationwide	Nationwide Building Society, the largest building society in the UK.
NatWest	A subsidiary bank of RBSG .
Nesta	Nesta, is an independent charity, considering a challenge prize to identify innovative and sustainable solutions to the problem we have identified as regards SMEs' access to information on banking products.
NPS	Net promoter score.
OBWG	Open Banking Working Group.
Omnibus survey	To guide the development of the measures aimed at improving the account opening and switching process, we appointed BDRC Continental and GfK NOP on 8 December 2015 to conduct quantitative research for SMEs and PCA customers, respectively.
Optimisa Research report	On 25 November 2015, we commissioned Optimisa Research to conduct qualitative research to inform the development of some of the proposed remedies aimed at increasing engagement in the retail banking market.
Overdraft	When a customer has no money left in their account but their bank provides them with a limited extension of credit enabling the customer to continue to withdraw money or make payments. They can be arranged or unarranged .
PAD	Payment Accounts Directive.

PCA	Personal current account.
PCW	Price comparison website.
PECR	Privacy and Electronic Communications (EC Directive) Regulations 2003 .
Provisional findings	Our provisional findings report published on 28 October 2015.
Provisional findings addendum	Our addendum to the provisional findings published on 15 April 2016.
PSD/PSD2	Payment Services Directive and Second Payment Services Directive.
PSP	Payment services provider.
PSR	Payment Systems Regulator.
RBS	Royal Bank of Scotland, a UK retail bank and subsidiary of RBSG .
RBSG	Royal Bank of Scotland Group, the parent company of RBS , NatWest and Ulster . RBSG is used to refer to the RBS Group including RBS , NatWest and Ulster bank brands. However, in many cases RBSG distinguishes Ulster from RBS and NatWest . This is explained in the text where appropriate.
RCBs	Relevant customer benefits.
RCT	Randomised controlled trial.
Remedies Notice	Our Notice of possible remedies published on 22 October 2015.
Sandbox	A sandbox is intended to provide an environment in which software developers can experiment with new products, using live data but free from regulatory risk.
Santander	Santander UK. A retail bank operating in the UK, a subsidiary of Santander Group, a Spanish banking group.

Screen-scraping	Screen-scraping entails a third party being provided by the customer with their online banking log-in details then using them to access their account data on their behalf.
SBEE Act	Small Business Enterprise and Employment Act 2015 .
Secure Trust	Secure Trust Bank, a retail bank operating in the UK.
SIM	Service Incentive Mechanism.
SME	Small and medium-sized enterprise.
Supplemental Remedies Notice	Our supplemental notice of possible remedies published on 7 March 2016.
Tesco Bank	Tesco Bank, a retail bank operating in the UK, and a wholly owned subsidiary of Tesco.
TSB	TSB Bank, a retail bank operating in the UK.
Ulster	Ulster Bank, a subsidiary bank of RBSG .
Unarranged overdraft	A type of overdraft where the customer borrows money when there is no money left in their account (or has already gone past their arranged overdraft limit) which has not been agreed with their bank in advance. An overdraft facility put in place by the bank at the point when a customer withdraws funds that exceed their account balance.
Virgin Money	Virgin Money, a new entrant to the banking market.
Which?	The Consumers' Association, which uses the brand 'Which?' is a registered charity.