
MEMORANDUM

TO Retail Banking Market Investigation, Competition and Markets Authority
FROM Anne Pieckielon, Director of Product and Strategy
DATE 7 June 2016
REF Bacs/CASS/CMA

Bacs Response to the Provisional Decision on Remedies

1 OVERVIEW

As owners of the Current Account Switch Service (CASS), Bacs welcomes the CMA's provisional decision on remedies following its investigation into the personal current account and small business banking markets. We are extremely supportive of the CMA investigations objectives and value the regulator's active engagement with us during its information gathering activities. We are keen to continue that engagement in the next stages of the review.

We are pleased to note the CMA's comment that there is "now a reliable and efficient Current Account Switch Service (CASS), which makes it easy for customers to switch current accounts from one bank to another." Bacs has the capability, industry knowledge and expertise to continue to successfully deliver CASS however, despite the operational success of the Service, we know that more needs to be done to promote it to consumers and businesses across the UK. This is why Bacs, with full backing and involvement of the industry, is committed to running a prominent and long-term promotional campaign specifically to raise the profile of, and confidence in, the Service. We aim to reach as many eligible users of the Service as possible, making it clear that switching is simple and stress-free.

In September 2015, we launched a major new multi-million pound communications drive to coincide with the second anniversary of the switch service. Following this, awareness of the Service rose to 77%, exceeding the 75% target set by HM Treasury for the first time. We are committed to ensuring that these levels of awareness are sustained.

Following the launch of further promotional activity at the start of the year, March 2016 saw the highest number of monthly switches (124,615) since the Service launched in 2013. This growth, built on the momentum created at the end of 2015, with 11% more switches taking place in the final quarter than the preceding three months, which was driven by the September 2015 advertising campaign activities.

We further note your proposals on CASS governance and can confirm that the process to appoint an independent chair for the CASS Management Committee (the Service governing body) has already been initiated. This move is in line with wider developments in the governance of Bacs itself and the payment schemes it operates. Our approach to stakeholder engagement is also under active consideration, specifically how we ensure that the needs and views of end customers are reflected in the governance of all our schemes and services including CASS. We would like to take this opportunity to record our thanks to Andrew McComb of Danske Bank who has most ably chaired the CASS Management Committee since its inception in 2013. He has provided wise counsel on the development of the Service and brought a clear focus on achieving the wider aims of enabling effective competition through the operation and promotion of the Service.

We set out below more detailed comments on a number of the proposed remedies where Bacs is directly concerned or might play an active role in responding to your remedies.

2 PROPOSED REMEDIES

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

The question of what drives customer behaviour in considering their banking needs has been central to the Bacs research programme with the University of Bristol. Our partnership with the University has led to the development of a market dynamics model which analyses amongst other things what triggers may be most effective in shaping customer behaviour and resulting decision to switch or stay with their current account provider. We believe that this work could help inform the proposed FCA-led research on what triggers consumers to consider different banking products with current accounts. To that end we have already briefed the FCA on our research programme and will continue our dialogue with them to see what assistance we might provide, working with the Bristol research team.

2.2 Reform to CASS governance

As noted earlier we have already initiated the process to recruit an independent chair for the CASS Management Committee. It is anticipated that the process could be completed as early as the end of 2016 and we would hope to give an undertaking on the process and timescale, also including publication of minutes and reviewing CASS KPIs, ahead of the publication of the final CMA report in August.

Bacs is reviewing its approach to governance of both Bacs Payment Schemes Limited and the schemes and services it offers. This review will ensure that the needs and interests of end users of all our schemes and services are addressed in our governance and decision making processes. We are happy to confirm that the proposals outlined in your remedy will be reflected in that work and we will continue to keep you informed of our progress.

We note the CMA's proposal that the Payment Systems Regulator (PSR) be given additional powers to provide oversight over the implementation of remedies associated with governance. Whilst Bacs has an established oversight relationship with the PSR, and the PSR has been nominated to have regulatory oversight for the designation of alternative switching services under the Payment Account Regulations (PAR) we note that many of the performance issues around CASS are related to participant conduct and consumer interests and thus believe that the FCA may also have a role to play in CASS regulation.

We confirm that the cost of this remedy would be met from within the existing operational budget for CASS.

2.3 Length of the redirection period

Bacs welcomes the CMA's proposed remedy to extend the CASS guarantee from 36 months, for those customers who have had a redirected payment within the preceding 13 months, to indefinite redirection.

Bacs has been working with the CASS Participants to implement the indefinite redirection for impacted customers. Customers will benefit from redirection for a minimum of three years, after which customers who still require redirection will continue to be supported until such time as it is no longer required. After three years redirection will only cease when a 13-month period has passed without any centrally redirected payments being actioned.

Bacs is continuing to work diligently with service users to improve service user compliance as part of the wider Scheme issue, which will have an added benefit to CASS of reducing the redirection concerns.

We have also worked with our legal advisors on the amendments to the customer facing documentation to ensure that the CASS Guarantee is strengthened providing clarity and reassurance to all users. These include changes to remove of all mentions of a specified time of redirection. It is believed this change will significantly strengthen the Guarantee in the eyes of the customer since it removes any concern over what happens when the redirection period ends and does not raise doubts that there may be some persistent long term problem with CASS.

Bacs has agreed with the Participants that all new customer documentation will be implemented across the industry in time for September 2016, at the three year anniversary of the service. This approach will help to avoid customer confusion around inconsistent messaging between Banks. On this basis Bacs would be happy to agree an appropriate undertaking to deliver this remedy. From a central perspective the cost of these changes has already been reflected in the 2016 and 2017 CASS budgets, although we cannot comment on the implementation costs incurred by individual participants.

We note that the CMA has not proposed that any form of Account Number Portability (ANP) be pursued at this stage. Recent analysis of the potential impact of ANP using the Bristol market dynamics model suggests that it would have only a small and transitory impact on switching volumes, and no significant impact on consideration. As such we believe that the substantial implementation costs associated with ANP would better be used to foster innovation and product enhancements by market participants which the market dynamics model shows would likely have a greater effect on customer engagement. We have engaged with the PSR Strategy Forum's Horizon Scanning Workstream which has been considering the case for ANP to outline our research findings.

2.4 Measures to facilitate account searching and switching

Bacs is pleased that the CMA has recognised that CASS and the associated partial switch facility might be developed to address the needs of customer segments currently not fully met by the current service, notably customers with overdrafts and SMEs.

Prior to the CMA publishing its provisional decision on remedies, Bacs had begun to investigate the potential Partial Switch customer journeys which were presented to the CMA. In order to continue development Bacs organised a workshop on the 25th May 2016 to discuss the partial switching service with representatives from the CASS Management Committee and CASS Strategic Communications Working Group. At this meeting it was noted that effective positioning of the partial switch can also contribute to promoting multi-banking, thereby enhancing customer choice in the market. Following on from that meeting further research is being undertaken to understand the needs of the specific customer segments and identify how these might be addressed including looking at how elements of the account opening process might be standardised. In the light of this activity we welcome the CMA's decision not to require development of a partial switch guarantee with the potential adverse impact that might have on the CASS service brand development.

We also note that the CMA considered the possible role that Bacs might have in facilitating exchange of transaction history between participants. Given that Bacs is a trusted third party with secure communications links between all participants and has a wealth of experience in developing shared central services we would be happy to discuss further what role we might play in future developments in this area. However, we would stress that we believe this activity should be aligned to other industry

initiatives delivering against for example Open Banking Standards and to some extent PSD2 in order to ensure co-ordination and to avoid duplication. Equally this could be facilitated by participants giving this information directly to customers.

2.5 Measures to increase awareness of and confidence in CASS

We note that the CMA intends to seek the following undertakings from Bacs:

- *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 (e.g. 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 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.*

To deliver the above, Bacs, and participant banks and building societies, are committed to delivering a fully integrated communications campaign for CASS. This activity must address our key targets for the service – 75% awareness and 75% confidence – as well as the issues addressed by the CMA in its report. This includes building higher mass awareness and confidence in the service across the UK population. It also involves targeted communications activity directed at specific audiences with specific needs – particularly overdraft users (notably low income groups, younger people and students) and SMEs.

We also recognise that confidence in the service is an area for further development. If consumers and businesses believe that switching bank accounts will cause them difficulty or inconvenience, then they are not going to be persuaded to switch at all. If we are to continue facilitating greater choice and competition in the current account market, then we have to ensure that consumers and businesses are confident that a switch will be simple, secure and stress-free.

To meet these challenges, Bacs is working with all participant banks and building societies to address any concerns (real or perceived). Furthermore, the industry has already committed to a significant increase in marketing activity designed to further raise awareness and confidence levels.

To achieve these goals, communications activity is divided into three core areas that work together:

1. ***Paid Media:*** *Campaign activity directly from CASS using paid advertising. This can include, but is not limited to, prominent promotional activity on TV, radio, digital and social media*
2. ***Owned media:*** *Communications channels that are the property of CASS or the participant banks and building societies. This includes the CASS website, participant websites, apps and – vitally – existing current account acquisition and retention activity from participants*
3. ***Earned media:*** *Campaign activity directly, and indirectly, from CASS to extend the reach and resonance of the campaign. This can include, but is not limited to, public relations, public affairs, stakeholder engagement, third-party influencer recruitment and strategic partnerships*

We are currently developing our detailed plans and associated budget for our communications activities in 2017 and beyond. In doing this we will build upon the research into effective measures of confidence

and consideration, undertaken by TNS on our behalf. We also intend to build on our market dynamics research with the University of Bristol to identify how best value can be created from our investment in communications judged against wider measures of the effective functioning of the current account market. To that end we have also commissioned further work from the Social Market Foundation (SMF) to assess the economic contribution of current accounts, and from Manifesto, a product development and innovation company, to consider the level of product innovation in the market. The attached annex provides information on our additional activities. We would be happy to discuss further the findings of this research and its implications for our communications work with the CMA, FCA and PSR as appropriate.

3 ADDITIONAL COMMENTS

In respect of the CMA's parallel reviews of the 2008 Northern Ireland (NI) Banking Order, and the 2002 SME banking undertakings, Bacs welcomes the decision to revoke the Northern Ireland PCA Banking Order in its entirety because this paves the way for CASS to become a single focal point for account switching right across the UK, delivering a quality service for all customers. Similarly, we welcome the provisional decision to revoke the 2002 SME banking undertakings leaving only the prohibition from compelling a customer to open or maintain a BCA as a condition for granting, maintaining or servicing a loan or deposit in place.

ANNEX

Integrated campaign activity runs across all the workstreams, but we have highlighted some core elements below to help illustrate the scope of work underway:

September 2016: Launch of a major and prominent integrated communication campaign using Paid, Owned and Earned media to reach the mass market, SMEs and Overdraft users

A new, fully integrated marketing campaign will launch in September 2016 to coincide with the third anniversary of the switch service. This aims to further raise awareness and confidence among the UK population and key sub audiences – notably SMEs and overdraft users. It has a paid media value of £3.6 million and will reach over 98% of the UK population an average of 13 times each.

The September campaign will see the launch of a brand new creative approach, designed to foster consideration of switching for the first time. It follows on from detailed discussion with participant banks and building societies, HM Treasury as well as the lessons from previous campaigns.

The campaign is founded on research conducted by TNS and Optimisa on behalf of Bacs to understand the most effective ways of increasing confidence. It features a memorable, likeable character and song which is catchy and grabs attention. The new route has been created in consultation with the industry and has been tested in eight focus groups across the UK, covering a wide variety of ages and demographics. Specific research was run with small businesses and financially unconfident individuals to ensure that the messages worked with these groups.

Importantly, the closing message on all new creative will now specifically reference both Personal Current Account users and Business Current Account Users for the first time.

Audience specific communication campaign: SMEs

Over 50,000 SMEs have switched through CASS, but awareness levels amongst this key audience sector needs to be higher. Between April and June 2016, we have been running promotional activity focussing on SMEs with a series of key messages that speak to their specific wants and needs. This burst of activity also targets youth and low income audiences (as a proxy for overdraft users), as we know this audience stands to benefit the most from switching their current accounts.

The campaign runs across paid and earned media channels and includes a series of advertorials with key news partners – including the *Guardian*, *Times* and *London Evening Standard*. It also features activity across LinkedIn, Twitter and other digital networks to target small business owners and other key financial decision makers.

SME specific activity also involves work with key influencers – including the Federation of Small Businesses, Forum of Private Business and British Chambers of Commerce – to tailor activity and ensure information is passed on through the most appropriate and trusted channels. These third parties help amplify the campaign and are particularly vital when it comes to engendering confidence amongst SMEs in the same way that Martin Lewis and Which? do for consumers.

Once this burst concludes, the lessons learned will be built into the major promotional activity taking place this September to coincide with the three year anniversary of the service.

Continued use of CASS Trustmark in participant communications

Use of the Trustmark is fundamental to increase the ubiquity of the service and thereby growing awareness and confidence in CASS. Participants have committed to use the Trustmark in 60% of all their marketing communications relating to personal and business current accounts. Use of the Trustmark is monitored by Bacs on a quarterly basis and this is then used to report on service compliance and increase use among participants. Currently the Trustmark is used on 99% of trackable media spend.

Redevelopment of the CASS website

The website has not been significantly updated since launch. As a result, it was not found to positively contribute to confidence and consideration rates. After detailed work to understand contemporary best practise, activity is currently underway to evolve the current website from a campaign page to a long-term solution for CASS. It will become a customer first solution that focusses on helping consumers and small businesses feel more confident and willing to consider switching. This will also equip the website with flexibility for the future – the site will be able to align with current campaign creative, but also with any future changes in priorities and content.

The new site will build in interactivity, use social proof from influencers and feature key statistics around service satisfaction levels. It will also continue with the simple, confident tone of voice of the service to bolster confidence and consideration. The new site is expected to be live in Quarter3, 2016.

Showcasing the success of the service

CASS has had a significant impact on retail banking. By the end of this year, well over three million people will have used the service to switch their bank account in three years. Even those who have not switched feel the benefits. Almost all of the major high street banks have significantly refreshed their current account offers since CASS was introduced. Influential price comparison websites have said that the service has driven banks to be more innovative and keen to offer attractive incentives.

A core element of increasing awareness and confidence levels is contingent on influential third parties. Whilst prominent paid advertising helps raise awareness, broader communication plays an essential role in building confidence and understanding. Strategic partnerships with influential third parties – including consumer champions like Which? and MoneySavingExpert, price comparison sites such as MoneySuperMarket, uSwitch and GoCompare, as well as consumer and business trade associations, enhance our ability to inform all eligible users about switching and saving money. We will continue working with, and building relationships, to broaden the impact of the campaign.

Understanding switching behaviour and prompting active consideration

It is crucial that consumer and business needs continue to be the driving force behind future innovation, and Bacs has already begun a wide-ranging programme of research to better understand switching behaviour. The research will be used to improve the way we target our communications to achieve greatest impact in promoting an effective marketplace.

Although awareness and confidence remains fundamental, our research programme has shown that ‘consideration’ of the options can also be a key driver of a competitive market – providing consumers with chances to “access and assess” their switching options on a more regular basis. Future communication will therefore also seek to encourage active consideration of switching.