

CLIFFORD CHANCE LLP

10 UPPER BANK STREET
LONDON
E14 5JJ

TEL +44 20 7006 1000
FAX +44 20 7006 5555
DX 149120 CANARY WHARF 3

www.cliffordchance.com

Our ref: 70-40554404

Direct Dial

E-mail:

[REDACTED]
Robin Kunduchaudhuri
Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

7 June 2016

Dear Robin

Retail Banking Market Investigation - the CMA's Cost/Benefit Analysis and Switching Analysis

We are writing further to Barclays' response to the Provisional Decision on Remedies and Brattle's report on the CMA's updated pricing analysis.

We would like to highlight the following points relating to the CMA's cost/benefit analysis and switching analysis:

- The CMA has stated that over a five year period the benefits of the proposed remedies will accumulate to a sum in the region of £1 billion, compared with costs of around £75 – £110 million which are one-off and will largely occur upfront. The benefits are expected to be ongoing and spread out across five years and longer, with some benefits not realized until all the remedies have been fully implemented, i.e. starting from mid-2019. However, the CMA has not discounted benefits that occur in future, which we consider would normally be required in any cost/benefit analysis.
- We also consider that without a rigorous bottom-up analysis there is a material risk that the CMA's estimate of the total cost of remedies may be conservative. For example:
 - The costs of implementing open APIs are only considered as incremental costs over and above those incurred to implement the changes under

140527-4-714-v0.6

70-40554404

PSD2, but it is not clear that the benefits have been treated in a similar way.

- Some cost estimates, such as the estimated £25 million incremental cost of changes to the operation of CASS, are based on a rough rule of thumb.
- Other cost estimates show a significant range: for example, the CMA estimates that remedies for implementing loan price eligibility tools for SMEs could range from between £1 million to £16 million across eight banks.
- The CMA's estimated benefits largely accrue from estimated gains from switching and assume a doubling of the switching rate from 3% a year currently (under CASS) to 6% a year within three years. Brattle has queried whether an increase in switching volumes is the most appropriate output measure and whether this artificially sets a switching target for the industry which incorrectly represents the measure of competition and the desired customer outcomes. Equally, at this point in time, and without detailed customer testing of many of the remedies, it would be difficult to estimate the customer impact and switching volumes with any real degree of accuracy.
- The CMA's analysis of gains from switching is also sensitive to the inclusion of an outlier which is at a significant distance from the other price observations (see confidential report from Brattle). If the outlier is excluded, the gains from switching fall by half from the CMA's estimate. The resultant figure falls well below the £100 per year that consumers say they would need to be willing to switch.

As such, there is a risk that the CMA's view of the total cost of remedies could be materially underestimated and that many of the assumed benefits and customer outcomes need to be affirmed through the proposed customer testing. A more detailed assessment of the costs and benefits of proposed measures, as well as further consideration by the CMA of the package of remedies as a whole, may point towards the need to revise certain measures in order to reflect a more proportionate approach.

Yours sincerely



Clifford Chance LLP