

7th June 2016

Baringa Partners LLP response to the CMA's invitation to comment on the provisional decision on remedies

To whom it may concern,

We have read with interest the remedies proposed to improve competition within the retail banking market. As a consultancy in the UK financial services industry, this topic is important to many of our clients to ensure their customers receive good outcomes through effective market competition. We are delighted to continue to be engaged with the Retail Banking Market Investigation and have provided our response to the provisional remedies.

Our banking practice has a wealth of experience working in collaboration with a range of clients from established financial institutions to new market entrants, to deliver upon their objectives to customers, investors and the regulators. We have provided our response based on our experience working within the industry, but also our understanding of customer behaviours.

Please find our responses below. Should you want to discuss in further detail then please do not hesitate to contact either of us.

Yours faithfully,

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Head of Banking

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Retail Banking Market Investigation – Baringa Partners LLP response to the CMA’s Provisional Decision on Remedies

June 2016

About Baringa Partners LLP

Baringa Partners LLP is an award-winning management consultancy that specialises in the energy, financial services, utilities and telecoms and media markets in the UK, continental Europe and Middle East. Our banking practice works with a range of clients from established financial institutions to new ‘challenger’ market entrants to deliver upon their objectives to customers, investors and the regulator.

Overall feedback

Our banking practice has keenly followed the course of the CMA’s banking investigation and has welcomed the opportunity to input into and shape the remedies, based on our extensive experience across the banking sector. Rather than significant structural reform across the sector, the CMA’s provisional remedies seek to address lack of customer engagement within the banking market through targeted interventions, focused on increasing transparency and comparison across the industry. We are encouraged that the CMA has endorsed a number of ongoing market developments, including open APIs, as key solutions to improving competition – increasing the mandate to the industry to deliver. We support the additional remedies targeted towards SMEs, who will now be able to benefit from transparent and clear pricing of loans. However, we note that a number of remedies have been transferred to other industry regulators for further consideration, development and implementation. These include further work by the FCA to determine the appropriate type of prompt to customers to consider switching, and the engagement of the innovation foundation charity Nesta to select a firm to provide a SME price comparison website. As a result, we feel that the impact on competition within the banking industry cannot be truly gauged until these solutions have been further developed.

Based on our extensive industry experience and insight, we have made specific comment against the four key elements of the remedy proposals, and, where relevant, suggested points for further consideration to ensure the best customer outcomes.

Foundation Measures

Open API Standard

Baringa’s viewpoint: we have in-depth knowledge and experience supporting innovation across the payments landscape, we welcome the CMA’s endorsement of the Open API solution and the key role it will play in improving transparency across the banking industry. This remedy is pivotal in supporting the recommendations from the Open Banking Working Group (OBWG) to adopt an Open API standard, and safeguards timely and effective delivery through creation of a new funded entity.

One of the first areas of consideration for this newly created entity should be providing assurance to customers around data security and privacy safeguards, which will be critical to the success of this solution. Recent breaches in data security from large firms in other industries, coupled with a number of high profile IT infrastructure failings within the banking sector, may leave customers uncertain about whether to take up this solution, despite the potential benefits. We recommend that the Open API solution be built with the highest levels of security protections, with customer safeguards in place if any breach were to occur. This should be communicated clearly to customers as a fundamental part of the proposition, including through the improved CASS marketing activities.

We note that the CMA’s remedy requires only the largest banks to share data and adopt the Open API standard, and this excludes many of the smaller, new market entrants. As market challengers there is an assumption that these banks will endorse this technology, but without a mandate there is a risk that they may not. This could reduce the effectiveness of this solution, not enabling customers to compare the whole of the market, as well as preventing customers the opportunity to find a better deal via Open APIs. Whilst we agree with the decision to start with the largest banks, we

recommend that the Payments Services Regulator (PSR) re-evaluate this after the PSD2 mandated delivery of account information and payments initiation for all market participants.

Suggested considerations:

- New Open API entity should ensure the solution is designed with the highest levels of security and safeguards to protect customers data and privacy. Equally important is that this is communicated effectively to customers to gain trust in the technology and support adoption.
- Adoption of the Open API standard should be a key requirement for new entrants to the market, we suggest that this should be included as part of the banking licence application.
- PSR commit to review the market after implementation of PSD2 to assess whether smaller institutions should also be mandated to adopt Open API technology.

Service Quality Information

Baringa's viewpoint: We welcome the CMA's endorsement of a key, standard and independently collected metric to enable customers to compare service levels across the industry. In our experience, we agree that advocacy is a key measure of service quality. We believe that metrics around service standards should not be considered in isolation from other metrics, such as price, and agree that they should be provided as part of other comparison tools (price comparison websites, Open APIs).

We look forward to seeing the additional metrics that will be developed by the FCA to support service quality comparison. We would urge the FCA to focus on developing simple supporting metrics that present the customer with pertinent information to enable them to make an informed decision, rather than numerous and complex data that may lead to confusion, especially amongst vulnerable customers.

Suggested considerations:

- Ensure that service quality information is provided to customers as part of a wider comparison to assess the overall value for money. We suggest that the regulators could work closely with price comparison websites to ensure these metrics are available alongside price. In addition, the CMA should mandate these metrics are included in the scope of Open Banking.
- The FCA should develop simple and targeted supporting service quality metrics, informed by customer insight, to enable effective decision making.

Customer Prompts

Baringa's viewpoint: As stated in our previous submissions, we welcome the introduction of prompts as an important step in raising the awareness of switching with customers, particularly the inclusion of periodic as well as event driven triggers. However, we note that further consideration around the types of prompts that should be included has been deferred to the FCA for development and implementation. Therefore, we are unable to comment further on the potential impact of these prompts on customer switching behaviour, but would urge that these are implemented rapidly and subject to ongoing monitoring, review and revision to ensure they are effective.

Suggested considerations:

- As we consider prompts to be an important step in raising the awareness of switching with customers, the CMA and FCA should consider how they can be implemented within short timescales to deliver benefit to customers.
- The FCA should consider the content of these prompts to support the customer in making an informed decision whether to switch or remain with their current bank.
- During development, the FCA should also consider customer journeys when receiving and acting on prompts. This includes ensuring that banks have appropriate processes in place to provide further customer support should they contact them across all channels, and provide consistency in their messaging.

Current Account Switch Service (CASS)

Improving Awareness of the CASS Service

Baringa's viewpoint: In our response we echo our previous comments in welcoming improvements to the awareness of the CASS, but believe any further activities should be informed by the outcome of the current BACs review of the current service and campaigns. This would maximise the value of any new funding and deliver maximum benefit to customers. We specifically endorse the recommendation that additional resources should focus on those customers who have the greatest concern around switching, are least inclined and, or have the most to gain.

Suggested considerations: Reflect on how positive switching messages can become embedded on a longer-term basis, without the need for continued campaigns, and create a more competitive market. For example, including within 'financial education' sessions at schools.

Extension of the Payments Redirection Period

Baringa's viewpoint: We recognise the CMA's findings that the risk of payments going missing after the current 36 month period is a major concern for customers and a barrier to switching. Therefore, we agree in principle with this remedy to look to address customers' concerns, and improve confidence in CASS, through indefinite extension of the redirection service.

However, we recognise that the success of this measure is dependent on the robustness of the payments systems managing the range of redirections over a customer lifetime. For example, if as the CMA suggests, customers switch to find a better deal every 2-5 years, the payments system could have to manage 10-25 redirections for a single customer over their banking lifetime (estimated at 50 years). Failures in the payments infrastructure could lead to significant loss of confidence in CASS overall. We feel to maintain this level of service would require additional investment in the current payments infrastructure. We await further consideration by the Payments Systems Regulator (PSR) to determine how this can be implemented effectively.

Suggested considerations: Ensure that there is sufficient investment in the payments infrastructure to enable an indefinite payments redirection service. The requirements for any changes to the existing infrastructure should be determined by the PSR.

PCA Overdraft Measures

Overdraft Alerts and Grace Periods

Baringa's viewpoint: In our previous responses we described how overdrafts are an important component of many current account propositions, as they support customers to manage their everyday finances. We are pleased that the measures proposed focus on greater communication, enabling customers to retain control over their finances.

We agree with the CMA's decision that all customers should be auto-enrolled in the overdraft alerts (and have to actively opt-out of this service), ensuring this is of benefit to the greatest number of customers. We agree that this should be discussed with the customer at the point of account opening, but recommend that this should be coupled with greater information to support customers' money management abilities. We continue to believe that the benefits from improving customer engagement with their bank account can only be fully realised through enhancing their understanding of banking facilities. For example, a real-time notification where the customer is at the point of overdraft will only be meaningful if options available and their implications are fully understood. We believe that further consideration should be given to ensuring the public better understands their bank account and its facilities, for example through education in schools.

We are also broadly supportive of the implementation of a 'grace period' to enable customers to take action and avoid unexpected bank charges. However, we are not clear from the decisions whether this grace period just avoids or mitigates bank charges and may still result in adverse information being placed on a customer's credit file. This would have longer-term ramifications for customers, limiting the availability of loans or increasing the price. We feel that there is a need for greater clarity around this point. If, during the 'grace period', there would still be an impact on a

customer's credit file, this should be made clear, as customers may not be aware of longer-term impacts if they take action to mitigate any charges.

Suggested considerations:

- Increase investment in financial education to ensure that customers understand their bank account, the implications of going overdrawn and actions they can take to mitigate. Banks should have a responsibility to ensure that customers understand the implications at the outset of opening an account and at key intervals afterwards.
- Further consideration should also be given to the role of banks in supporting wider financial education, including within schools.
- Improve the clarity around the implications to the customer during the 'grace period', specifically whether this mitigates any action being taken on their credit file.

Monthly Maximum Charge (MMC)

Baringa's viewpoint: We strongly endorse the CMA's decision to mandate a monthly cap on charges to provide certainty to customers around total costs, but enabling banks to set their own limits. We believe that this approach will promote competition within the market, resulting in better outcomes for customers, particularly those who are heavier overdraft users. Greater transparency around total costs will enable customers to make more informed decisions, alongside other metrics including service quality, to achieve greater value for money.

Suggested considerations: Ensure that information about the MMC is provided clearly during the account opening process and at regular intervals during a customer's relationship with their bank (not just when they are at the point of overdraft).

Additional SME Banking Measures

SME Comparison Tool

Baringa's viewpoint: We welcome the CMA's endorsement of a SME comparison tool that acts as a 'one stop shop' enabling SMEs to compare all aspects of a proposition, including price and service. Our experience from the insurance industry points to PCWs leading a 'race to the bottom' on price, rather than beneficial proposition features and service quality.

We broadly welcome the refreshing approach taken by the CMA to partner with the innovation foundation charity Nesta to find an innovative comparison tool via the 'challenge prize', and mandating the support (both financially and via data availability) of the major banks. However, due to the importance of this tool on the industry, we believe the key success criteria for entrants should be focused on ability to deliver within relatively short timelines. There is a potential risk that the successful entrant may not ultimately be able to deliver the required functionality within the defined timescales. We acknowledge that the CMA has proposed a safeguard of an industry funded tool, but urge caution as potential failure of the 'challenge prize' may cause significant reputational damage.

Suggested considerations:

- Ensure that the ability to deliver is a key area that is rigorously assessed during the 'challenge prize'.
- Include SMEs within the judging panel of the 'challenge prize' to ensure any tool delivers core functionality that would support the switching process.

Standard BCA Account Opening Procedures

Baringa's viewpoint: We are very supportive of this measure to simplify the account opening procedures and requirements on SMEs to switch bank accounts. We have extensive experience working with banks to simplify and improve account opening processes, which has resulted in significant customer, as well as cost benefits. We recognise that changes are currently being driven by the industry via the British Bankers Association (BBA) but agree with the CMA on the inclusion of the FCA as part of the governance structure. We believe that there should be greater clarity to the role of the FCA in this process, specifically to independently review progress and take action where needed.

Suggested considerations: Clarify the role of the FCA as part of the BBA working group to improve the BCA account opening process to ensure that effective changes are delivered to these customers in a timely manner.

Improving Transparency around SME Loan Charges and Eligibility

Baringa's viewpoint: We are supportive of this measure to improve the degree of transparency around loan charges across the SME market, which will improve customers' ability to select the appropriate product to meet their needs, as well as increase competition between the providers. The effectiveness of this solution should be further increased when coupled with the introduction of Open APIs making this data more readily and easily available to customers, as well as intermediaries.

However, we note that there still remains some uncertainty around the types of BCAs and SME customers that could benefit from Open Banking. We understand that at the larger end of the market this solution may not be as important for improving price transparency, as many of these firms are able to negotiate bespoke deals, but this ignores the broader benefits of Open APIs for SMEs. We believe that the CMA and PSR should include all SMEs within the scope of Open Banking.

Customer uncertainty around their ability to access credit is effectively addressed through the requirement for banks to provide indicative quotes confirming provisional eligibility. However, we would urge that the CMA go further to work with HMT and the Credit Reference Agencies (CRAs) to discuss the implementation of 'soft searches' on a customer's credit record to complement the indicative eligibility tool. This will enable customers to effectively search the whole of the market to find the best deal, without adversely impacting their ability to gain credit through a high number of searches being performed on their file.

Suggested considerations:

- Confirm the scope and eligibility criteria of Open Banking for SMEs. We believe that this should cover all SME clients to enable them to benefit from the broader benefits of Open APIs.
- Work with HMT and the CRAs to implement soft searching on a customer's credit file to complement the introduction of the eligibility tool.