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Defaqto Ltd
CMA Retail Banking Market Investigation
Response to Provisional Decision on remedies dated 17 May 2016

We refer to your recent request for feedback on the contents of the document “Provisional decision of remedies” dated 17 May 2016, which was published as part of CMA’s Retail Banking Market Investigation.

Defaqto has noted in the work it has undertaken over the last 20+ years that providing clear comprehensive product data to facilitate comparisons of product features and charges has encouraged innovation in product design and more generally an improvement in product offerings. This in turn has led to increased competition. Defaqto welcomes the CMA focus on this area going forward.

It certainly should be easier for consumers to work out if they would be better off switching accounts, and Defaqto welcomes the CMA’s recognition that addressing this is a key priority.

Defaqto agrees that the key areas of focus when customers are considering purchase of any product are:

- Features of the product being offered
- The cost of that product
- The level of service delivered in supporting that product
- The brand of the product provider

While it is difficult to establish any fair measures for the brand of the provider, the first three of these areas are relatively straightforward to measure and therefore compare on.

We welcome the proposal to require providers to make information on PCA and SME banking product available to third parties in a consistent and open manner. Currently, the level of detail available in the public domain varies considerably and this makes meaningful comparisons difficult. Defaqto has experience of collecting detailed product information from providers and would welcome the opportunity to provide input into the scoping of this requirement to determine what product features could and should be included.

Defaqto has extensive experience in providing comparable data to product providers and PCWs who then use it to promote the strengths of products to consumers; in some cases this will include highlighting the differences between competitor products as well. Where the information is also independently verified it has added credibility and can be used more confidently by customers as an important part in the decision making process.

We agree that comparisons of PCAs can be conducted online, and this could be enhanced following the introduction of open API standards for the transfer of data.

We believe that any comparison should include information on the existing product provider, and should highlight in particular any gain or loss of features that a customer might experience in switching account, so they can make a fully informed switching decision.

Product change

Defaqto welcomes the CMA proposals to make material changes in product terms and conditions one of the triggers for a prompt to review the suitability of an account. We have considerable experience in identifying and tracking changes in product terms and conditions and would be pleased to provide input into any further discussions relating to how this proposal might be developed.

Cost/charges

We agree that for PCAs information on charges (product and overdraft) could be presented more clearly to consumers, and only with clear comparable information can a consumer make an informed choice.

It is obvious that not all retail banking customers have access to the internet, or will feel confident in carrying out online comparisons. To support them Defaqto believes it desirable to provide information on charges in a format that is easily comparable. A number of 'summary box' initiatives have already been developed e.g. for Credit Cards and Savings Accounts. Defaqto encourages the CMA to look at how this approach might work for PCA and BCAs, to include key information such as product, service and price ratings and elements of key account charges (such as monthly fees, overdraft costs using a selection of typical overdraft scenarios etc.)

Although a tariff of charges is a good starting point, Defaqto supports the further development of 'model consumer' based charging scenarios to allow for simple 'like for like' comparisons of the overall impact of product charges.

For personalised cost analysis, transaction history will be vital, although we note that there will likely be considerable customer reluctance to allow their personalised account information to be shared with third parties other than their own bank.

Service

Defaqto agrees that service quality is important and has for some years already been measuring proxies for service through comparison of PCAs using service based features such as provision of helplines, dedicated staff for account switching etc. This enabled Defaqto to create a Star Rating for current account switching services ahead of the introduction of CASS.

Any assessments of service though should be approached with caution as perception of service received is often subjective, which makes it difficult to draw firm conclusions, as well as potentially being variable over time.

Defaqto encourages the CMA to include a measure of the **consistency** of service over time to highlight those providers who have built processes and procedures that can provide the expected level of service over the lifetime of product ownership, which for current accounts in particular can be a considerable period.

Defaqto believes that any objective service measures that are published should be both relevant and meaningful. For instance, when assessing telephone call centres measures of call response time are meaningless without information on the outcome of any calls – for instance it is insufficient to know that a call was answered within 10 seconds if the first pick up is from an automated call handling system and the customer then takes minutes to transfer to the point at which their call is being dealt with. What is likely to be more important are measures of how long the overall call took, and whether the issue that led to the call was resolved first time.

In particular any survey on service which asks questions along the lines of “Would you recommend...” must ensure the respondent is answering based on the **service they received**. It is possible that some survey responses might be coloured by the availability of loyalty or new business rewards (therefore the respondent might say they would recommend their bank, but that recommendation might be based on the amount of cashback given when they joined the bank, rather than the actual service received from the bank).

We share the CMA concerns over the usefulness of a single satisfaction score, particularly as it is so subjective. In contrast, Defaqto has developed a Star Rating system (as noted in the CMA document) that compiles an overall rating for a product based on an assessment of a large number of product features, as well as a separate rating for the Switching Service on offer from banks.

Overdrafts

Defaqto welcomes CMA proposals to work with the FCA to encourage PCA providers to include more details of overdraft features and charges as part of the account opening process. This should form an important part of an overall assessment of the cost of ownership for an account.

Our data shows that 10 of the major banks already have monthly overdraft price caps in place (one of the CMA proposed remedies). However the monthly limits vary widely, ranging from £35 to £100 per month. The way banks charge also varies, with one bank limiting charges per quarter and three banks limiting the number of penalty charges each month (each of which attract a fee). Defaqto therefore welcomes the introduction of a simpler Maximum Monthly Charge for overdrafts.

We believe that proposals to get customers more engaged in decisions on the use of overdraft facilities should also take into consideration the availability of ‘Control’ features, which many major banks now offer. Customers facing or approaching an overdraft situation should be reminded that Control is available to them, and provided with information about how to turn Control on/off, the cost of doing so, as well as the risks (such as rejected payments). Customers could be informed about up-coming payments so they can understand what the implications are of using Control, and see which payments might be affected.

Comparison Services/PCWs

Defaqto welcomes the CMA considering an 'at a glance' approach to keeping data comparisons as straightforward as possible. Defaqto has addressed a similar issue in its work to support comparative data in customer facing environments by the use of a traffic light based Compare tool which provides an 'at a glance' comparison of key product features. Defaqto has also developed tools to allow users to filter products based on issues that are important to them, and in so doing drawing up a shortlist of products for further consideration.

For comparison of service features we agree that PCWs should be free to choose which service metrics they choose to include in comparisons, as different aspects of service can often have different importance levels by distribution channel.

Defaqto welcomes the CMA considering using an independent service to act as a Directory of comparison services. This would provide an opportunity for each service to be described in accordance with an agreed set of parameters so that a consumer can determine which service may be most suitable for their needs. Comparison services can register and update their details as required. The CMA may want to consider how a directory might best maintain an impartial position in terms of being as comprehensive as possible and minimise the risk of only the big players being represented. A further development which the CMA could consider is to allow consumers to rate the comparison services they have used.

Impact of Unbundling through APIs

Defaqto welcomes proposals to include product data in the open data API and would be pleased to provide input to the OBWG based on its experience of collecting, maintaining and verifying a product database of product feature and charging data.

The proposals regarding the potential unbundling of products such as overdrafts and current accounts have the potential to create more innovation and competition in the PCA and SME market. Consideration though must be given to how customers will be able to compare their PCA product against third party products which might provide only a selection of elements of the PCA. For instance, customers should be able to compare the benefits, cost and service of their PCA overdraft elements against the same features on offer from say an independent overdraft provider.

We also believe that consideration will need to be given to how this comparison will be overseen, given that some third party service providers might be regulated by different bodies than the FCA.

SME Banking

Defaqto is aware of the challenges currently faced in comparing SME account charges, and welcomes the CMA proposals to address this. Defaqto has experience of collecting data to support comparison tools for a number of personal finance products and would be pleased to contribute to the planning and implementation of an SME comparison tool on PCWs, particularly with regard to ensuring that the data presented is timely, accurate and relevant to the requirements of any comparison service. Defaqto also believes strongly that the data should be independently verified to ensure the credibility of the service and address any concerns about impartiality.

Defaqto welcomes CMA proposals that SME account providers make information on the cost of borrowing available to comparison sites. This is something which we have been endeavouring to achieve for many years, for ourselves and our data partners. As soon as this information is available we will be collecting and using it for our own rating purposes, and for our PCW partners to use in helping customers to compare products in the SME space.

We trust that these comments will be of use in finalising your decision on remedies and would be happy to expand on any points we have raised if necessary.

Yours faithfully

*Head of Insight - Banking and GI
Defaqto Limited*