Nationwide Building Society
Response to Provisional Decision on Remedies

1. Introduction

1.1 Nationwide has offered low price and high quality personal current account ("PCA") products for many years, but this has been insufficient to drive growth in its market position. Nationwide's experience therefore supports the CMA's finding that acquiring new customers is costly and difficult, giving rise to advantages for larger banks.[1]

1.2 Although Nationwide is supportive of the CMA's remedies which aim to promote customer engagement in PCAs, it is concerned that they will not have sufficient impact on the market unless they are complemented and enhanced by additional remedies which directly address the incumbency advantage identified by the CMA.[2] Nationwide is of the view that such targeted remedies would help increase the overall effectiveness of the CMA's remedies package.

1.3 Nationwide provides its views on the CMA's proposed remedies in relation to the supply of retail banking to PCA customers below. It also suggests an additional remedy to complement those proposed by the CMA. We have not responded to the CMA's remedies in relation to the provision of banking services to small and medium sized enterprises as Nationwide does not provide such services.

2. Measures focussing on larger banks' inert customer base are required and would complement the CMA's proposed remedies package

The CMA's evidence

2.1 The CMA has presented evidence that there is a tendency for customers of larger banks[3] to face higher prices than those of small banks in both the PDR and the updated working paper entitled Update on Personal Current Account Pricing (the "Working Paper").[4]

(i) *Customers of larger banks have more to gain from switching than customers of small banks:* Larger providers tend to have above average prices and below average service quality.[5] In other words, providers with higher market shares

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[1] Summary to the CMA's Provisional Decision on Remedies published 17 May 2016 ("PDR"), paragraph 13(f).

[2] PDR, paragraph 1.4(d).

[3] In this response Nationwide defines "larger banks" as the brands belonging to each of the banking groups of Lloyds ("LBG"), Barclays, HSBC ("HSBCG") or RBS ("RBSG") and "larger providers" as the following brands: Lloyds, Barclays, HSBC, RBS, First Direct, Marks & Spencer, Bank of Scotland, Halifax, Natwest and Ulster. This is consistent with the CMA's assumptions in the searching and switching analysis carried out in Provisional Findings.

[4] Published 24 May 2016.

[5] Working Paper, Figures 5 and 6.

charge higher prices.[6] Given customers of larger banks face higher prices, they have more to gain from switching. For example, customers with standard accounts at large banking groups could benefit by up to £12 a month.[7]

(ii) *Customers of larger banks with longer account tenure have more to gain from switching than customers of the same bank with shorter account tenure, i.e., it is not the case that customers of large banks choose to hold an account for a long period of time as it is a low priced (high quality) account:* Customers of larger banks typically hold PCA products for longer and customers who have held a PCA for longer face higher prices.[8] Given these customers face higher prices, they have more to gain from switching.[9] The same is not true of small banks - i.e. longer account tenure at a small banks doesn't necessarily mean higher gains from switching, suggesting that customers of small banks may hold accounts for long periods of time because the account is good value.

(iii) *Back book customers have more to gain from switching than front book customers:* Customers on back book products (i.e. products no longer on sale), and those who have not searched nor switched for a considerable period of time - i.e. customer groups that are particularly prevalent at larger banks[10] - also have the most to gain from switching.[11] They are a distinct group of customers – and a significant proportion won't hold overdrafts – and so won't benefit from the CMA's remedies on overdrafts.

(iv) Longer-established providers benefit from a larger customer base (many of whom may be less engaged) and are likely to have a higher proportion of inactive customers who have held their accounts for a longer period of time.[12] This gives them a competitive advantage.

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[6] Working Paper, paragraphs 45 - 46.

[7] Working Paper, Table 13. Additionally, these results confirm the analysis carried out by Nationwide's advisers in the first Data Room. See the Attachment to Nationwide's response to the CMA's Provisional Findings and Notice of Possible Remedies, submitted to the CMA on 20 November 2015.

[8] Working Paper, paragraphs 43 - 44.

[9] The CMA finds that the longer the product is held the greater the gain from switching. See Figure 1 of the Working Paper. Please also see Nationwide's Data Room Report for an extension of this analysis.

[10] Many customers of larger banks with longer account tenure are likely to be on back book accounts.

[11] Further, evidence put forward by Nationwide – which the CMA has failed to engage with in detail – shows a statistically significant relationship between the size of a customer's bank and their propensity to search and switch. For further details see the Attachment to Nationwide's response to the CMA's Provisional Findings and Notice of Possible Remedies, submitted to the CMA on 20 November 2015.

[12] PDR, paragraphs 7.18 and 7.21.

The CMA's remedies package will not induce sufficient searching and switching, particularly amongst the high proportion of inactive customers at the longer-established banks

2.2 *The CMA's remedies package needs to focus on those customers with most to gain from switching:* Nationwide agrees with the CMA that weak customer engagement inhibits competition for PCA customers and leads to adverse outcomes.[13] However, Nationwide is concerned that, while engagement remedies will provide some benefits, they are not sufficient to induce significant customer searching and switching as they do not engage those customer groups who stand to gain the most from searching and switching.

2.3 *Back book customers have the most to gain from switching:* As set out above, the CMA's own pricing and gains from switching analysis in the Working Paper indicates that there is a significant differential between large and small banks. Analysis from the first Data Room also indicates that customers on back book products (typically at large banks) have the most to gain from switching.[14]

2.4 *And yet they are not specifically addressed by the CMA's remedies package:* The CMA's remedies package does not address these customer groups directly or effectively and therefore risks having little impact on a significant number of customers who would benefit most from searching for, and switching to, alternative PCA products.

2.5 *As it is, the CMA's remedies package risks impacting smaller banks disproportionately*: Active customers are more likely to react to information and prompts than inactive customers. Given the CMA's finding that there is a higher proportion of inactive customers at longer-established banks with higher market shares, there is a significant risk that the CMA's proposed remedies package, by increasing transparency and facilitating switching, is likely to disproportionately impact smaller banks, as these providers are more likely to have a higher proportion of active customers who have held their PCAs for a shorter period of time.

2.6 *And any impact will be slow – particularly for back book customers:* As acknowledged by the CMA, any material impact from the proposed remedies will take significant time to materialise, such that they will not induce significant searching and switching in the near term.[15] Inactive customers react more slowly than active customers – therefore the slow impact of these remedies will specifically be observable within the high proportion of inactive customers at longer established banks, who are already statistically less likely to search and switch, yet have the most to gain from switching.

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[13] CMA Provisional Findings, paragraphs 62 - 64.

[14] See the Attachment to Nationwide's response to the CMA's Provisional Findings and Notice of Possible Remedies, submitted to the CMA on 20 November 2015. We note that this analysis has also been reproduced in the second Data Room, and the results continue to hold.

[15] For example the CMA notes in paragraph 9.57 PDR that "*the full initial impact of our proposed remedies will likely start to emerge from mid-2019*".

Nationwide's remedy proposal

2.7 The CMA puts forward a series of remedies specific to PCA overdraft users in its PDR, stating that overdraft users are a *"group of customers who suffer particularly from the competition failures in the PCA market".*[16] Nationwide believes that the CMA should also consider additional remedies that specifically focus on those customers that have been with larger banks for a long period and/or are on a back book products. Nationwide considers this to be a distinct customer group that makes up a significant proportion of larger banks' customer base that, as noted above, have more to gain from switching. Such additional remedies would complement the CMA's proposed engagement remedies and would ensure the overall remedies package adequately covers all customers thereby better addressing the adverse effect on competition ("AEC") identified by the CMA in the PCA market and the significant differential (observed both in terms of higher prices and lower quality) in the offerings of larger banking groups and small banks.

2.8 Nationwide therefore suggests the CMA implements a remedy which imposes additional obligations on providers with a market share of 10% or more to engage with their customers, in particular those on back book products or those who have not switched their PCA for more than 10 years. Providers should be required to make their customers aware if:

(i) they are on a back book product or they have had their PCA for more than 10 years; and

(ii) there may be products better suited to their needs, with the existing provider and more generally in the market.

2.9 The remedy should be structured as a periodic (automated) prompt which specifically focuses on these customer groups. Such prompts could be triggered by a PCA going off sale or by a customer's length of tenure on a PCA, and could encourage customers to consider their banking needs by pointing them to relevant comparison tools such as price comparison websites ("PCWs").

2.10 Nationwide believes that this remedy would complement the CMA's proposed remedies package and deal with a significant element of incumbency advantage (evidenced by the CMA's findings and further analysis carried out by Nationwide in the first and second Data Room). Only through mandating a remedy specifically focused on the larger inert customer base from which large banking groups draw a significant competitive advantage will the PCA market become more dynamic, to the benefit of all PCA customers.

[16] PDR, paragraph 19 (c). Nationwide's views on the CMA's evidence in relation to this customer group is covered in further detail in the second Data Room Report, submitted to the CMA on 7 June 2016.

Nationwide's proposed remedy is effective, proportionate and addresses some of the issues with structural remedies identified by the CMA

2.11 Nationwide's proposed remedy complements the CMA's remedies package and addresses its concerns with structural remedies to reach the most inert customers:

(i) The CMA argues that it is not the size or the number of banks which is the problem.[17] The main competition issue is weak customer engagement, which results in longer-established banks with larger market shares benefitting from a larger customer base and a higher proportion of inactive customers.[18] Our proposal seeks to engage these customers directly.

(ii) The CMA argues that divestitures would be sensible only if the CMA had strong evidence that such a remedy would make the retail banking market work better, and the CMA has not found the evidence to support such an intervention.[19] In particular, it argues that:

(a) While divestments might induce some additional customer engagement on a transitional basis, this may be the result of some customers effectively being transferred to a "*new*" provider against their will.[20] Our proposal avoids this and would engage those customers on a more permanent basis.

(b) A structural remedy could be ineffective because breaking up the larger banks would just result in two smaller banks, each with high proportion of inactive customers – which would not address the AEC.[21] Our proposal would target the underlying issue of the disengaged customer base thereby directly addressing the AEC.

(iii) Our proposal would also avoid the CMA's concern that divestitures are a prolonged and expensive exercise.

2.12 The CMA says that its remedies package, in combination with technological changes, *could* or has the *potential* to bring about change to the structure and operation of retail banking markets.[22] Nationwide notes the tentative language used by the CMA in its conclusions on the effect of its remedies package on the market. Nationwide believes its proposal would strengthen the CMA's remedies package and improve the chances of

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[17] Summary to the PDR, paragraph 8.

[18] PDR, paragraph 7.18.

[19] Summary to the PDR, paragraph 8.

[20] PDR, paragraph 7.21.

[21] PDR, paragraph 7.18.

[22] PDR, paragraph 7.23.

meaningful change occurring in the structure and operation of the PCA market to the benefits of all PCA customers.

2.13 Furthermore, Nationwide would caution the CMA against relying too heavily on technological changes to erode incumbency advantages:

(i) The experience of technological developments to date, such as mobile and internet banking, should inform the CMA's position. While these developments have improved engagement, they have not radically changed the market and many customers remain disengaged.[23] The advent of open application programming interfaces ("APIs") will help to improve the relevance of PCWs for customers' individual needs, but only for those customers that engaged and are confident using the internet and trust PCWs. The CMA's own evidence indicates that a significant number of customers do not fall into this latter category.[24]

(ii) The CMA's assumption that anticipated technological changes have the potential to alter a market relies on a well-functioning market where investment by providers, whether through technology, service quality, or low pricing, leads to increased business. The evidence shows that this is not the case in retail banking. As recognised by the CMA, despite lower prices and superior quality, smaller providers have been unable to substantially grow market share. There is no evidence to suggest that this situation will change without substantial behavioural change. The current CMA remedies package goes some way towards enabling this behavioural change, however, Nationwide considers that the package needs to be supplemented with additional remedies that address inertia specific to back book customers. As it stands, technological changes will only serve to further entrench the market position of larger providers, as inert customers become further embedded with them.

<u>The CMA has ruled out structural remedies too hastily</u>

2.14 Nationwide disagrees with the CMA's conclusion that a divestment remedy would not be effective or proportionate because of the associated costs and timeframe. In particular Nationwide notes:

(i) The CMA should not simply assume that the divestments of TSB and Williams & Glyn from LBG and RBSG respectively are representative examples of the time and cost of structural remedies.

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[23] CMA Provisional Findings, paragraphs 47 – 49.

[24] See Optimisa Research and the Deloitte Report "The Impact of Innovation in the UK retail banking market", which state that 26% of customers do not trust price comparison websites at all. A PCA survey conducted on behalf of the CMA found that 11% of customers were not confident using the internet (see GfK Consumer Survey published 21 May 2015, paragraph 55).

(ii) Organic growth is neither quick nor cheap. When the time and costs of divestments are compared to those for organic growth, there is less justification for the conclusion that the time and costs of divestiture are particularly high.[25] In comparing the two, the CMA should also take into account the fact that the CMA's remedies package is not expected to have "*full initial impact*" until mid-2019.[26]

(iii) As acknowledged by the CMA, only merger and divestment activity have significantly impacted the market share of larger banks over the last decade.[27]

3. Foundation remedies to make PCAs work better for customers

Adoption of open API standards and data sharing

3.1 Nationwide is in favour of remedies that aim to facilitate price and non-price comparisons between PCA providers and therefore supports the adoption of open API standards to achieve this. The CMA should however recognise that there are existing work streams on API and that its remedies need to be implemented in a timely manner within a harmonised framework – with a view to achieving the optimal outcome for the customer.

3.2 Specifically, Nationwide believes that the introduction of an open API standard has transformative potential but notes that, if its implementation is not administered correctly, the impact of the development will be severely diminished and an important opportunity wasted. In particular Nationwide is concerned that:

(i) the CMA's indicative timetable for implementation is unrealistic for such a large and complex development;[28] and

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[25] To demonstrate the very slow pace of organic growth, Nationwide provides the following illustrative example of the time it would take to achieve its target market share of 10%. According to recent figures, 12.5% of customers switching through CASS select a Nationwide PCA. Despite the high number of switchers selecting a Nationwide PCA, Nationwide's market share of main/packaged current accounts is just 7.1% (as at February 2016). If Nationwide were to attract 12.5% of all switchers, and PCA switching rates remain at 3% per annum, it would take Nationwide until 2023 (i.e., 6 years) to grow its market share by 3 percentage points to the target rate of 10%.

[26] PDR, paragraph 9.57.

[27] The time and cost of organic growth is evident to Nationwide which has been active in the PCA market for nearly 30 years and has a share of main/packaged current accounts of 7.1% (as at February 2016) despite (i) significant investment in product propositions and supporting infrastructure that deliver both high value and high service, and (ii) offering low price and high quality products (as highlighted by the CMA's own analysis) and ranking 1st on the high street for PCA customer satisfaction in 2013, 2014 and 2015.

[28] Each step of the development requires careful and complex planning, for example, a central infrastructure is likely to be required to exchange messages between different entities across banks and TPPs. This will need to consider monitoring, dispute resolution, fraud resolution and agreed security standards all of which will take time. The CMA itself notes that the "*process envisaged is complex*" – see paragraph 3.93 of the PDR.

(ii) the CMA's remedy does not adequately take into account other related and important developments and proposals in the payments and banking industries.

3.3 Nationwide believes that, if imposed un-amended, the CMA's remedy risks the following poor customer outcomes:

(i) *Loss of efficacy and customer confidence*: In order to maximise customer take up and to ensure that the full benefit of the remedy is achieved, a fully functioning and integrated service that delivers a comprehensive customer experience needs to be delivered at the first attempt. If the industry is not given sufficient time to develop and deliver a fully functioning product, customer confidence that a good service is achievable will be lost and take up of later iterations will be significantly reduced as a result.

(ii) *Lack of industry support*: Given open APIs are central to the CMA's remedies package[29] and are an important innovation in the industry, it is important that their development receives cross industry support. Rushing adoption of the remedy without the input and full support of all stakeholders, including new entrants and smaller providers who are not subject to the order, is more likely to result in public criticism. Any negative commentary could jeopardise customer confidence which, as detailed above, could impact customer take up of the service and thereby substantially reduce the effectiveness of the remedy.

3.4 Nationwide therefore advocates the development of an overarching API Governance framework that ties together proposals relating to APIs from: (i) the Open Banking Working Group;[30] (ii) the second EU Payment Services Directive ("PSD2"); and (iii) the objectives outlined by the CMA. The CMA's proposed Implementation Entity ("IE") would be created to set up the overarching API governance framework with customer outcomes as its top priority. It should be further tasked with ensuring all stakeholders are properly managed and that the APIs developed are suitable for supporting the propositions required by PSD2 and the CMA's objectives. Nationwide acknowledges that such a harmonised approach may take longer than the CMA's proposed timetable to implement, but believes that it is the only way to provide a solution that will prove useful and popular with customers, and will avoid the poor customer outcomes outlined above.

3.5 [REDACTED].

3.6 If, despite the clear risks outlined above, the CMA proceeds with the timetable proposed in the PDR, Nationwide considers that the CMA should provide: (i) specific deadlines for

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29 PDR, paragraph 29.

30 The Open Banking Working Group reported to HM Treasury in December 2015 setting out how an open API standard could be developed in UK banking.

the establishment of the IE and appointment of the Implementation Trustee ("IT");[31] and (ii) clear guidance on the role and scope of the IE and IT.

3.7 Setting up an entity such as the IE and appointing an IT could take considerable time. Nationwide considers that in the ordinary course it could be expected to take up to nine months alone to appoint the IT.[32] Asking the six relevant providers to propose the composition, governance arrangements, funding and budget of the IE and a suitable candidate for the IT[33] without any further guidance will delay the implementation of this remedy. Even once operational, it may prove difficult to ensure that the IE's discussions remain productive and decision making timely, as the CMA envisages that a large number of stakeholders will be represented in the IE,[34] each of which is likely to promote a slightly different interest. CMA imposed key milestones and a clear role for both the IT and IE from the outset would aid the implementation process, helping to focus discussions and to meet deadlines.

3.8 For similar reasons, Nationwide believes that the CMA should set out a properly specified (but reasonable) delivery plan for implementation of the remedy. This would help to manage expectations and serve as an early warning if any one stage of the process begins to hold up implementation. This will also enable the necessary resources to be deployed at the relevant time to keep the project moving forwards. Leaving the project plan and timetable to be decided by the IE, as envisaged by the CMA,[35] will only delay progress as it will not only take considerable time to set up the IE (as detailed above) but also for the IE then to agree on a project plan and a reasonable timetable.

Service quality comparisons

3.9 Nationwide considers service quality to be an important factor in overall customer satisfaction and agrees with the CMA that key measures of service quality are not readily available to all customers.[36]

3.10 Therefore, while Nationwide broadly supports the CMA's remedy to require PCA providers to present, in an easily digestible form, comparable measures of their

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[31] PDR, Figure 3.1.

[32] As an example, the appointment of the Independent Chair and Board members to oversee the audit of high cost and legacy defined contribution ("DC") workplace pension schemes took 5 months, following the publication of the OFT's report on the DC workplace pensions market published in September 2013.

[33] PDR, Figure 3.1.

[34] See paragraphs 3.90 - 3.91 of the PDR which state that in addition to the six providers to whom the requirement to adopt and maintain open API technology would apply, smaller providers would be free to participate in the IE and that it should also include representatives from the FinTech sector and representatives from HM Treasury and the FCA, at least as observers.

[35] PDR, Figure 3.1.

[36] PDR, paragraph 3.134.

performance, it has concerns with the proposed scope of the remedy, as well as the manner in which the underlying data will be collected and conveyed to customers.

Scope

3.11 Nationwide notes that the CMA has not included – in either the Core Indicators of Service Quality or Additional Service Quality Indicators (to be considered by the FCA) – several quality indicators which it considers to be key considerations for customers searching for the best PCA product to suit their needs:

(i) ease of account opening;[37] and

(ii) availability of banking channels such as internet banking, mobile apps, telephone banking, contactless cards, Apple Pay etc.

3.12 Nationwide looks forward to discussing the scope of the remedy with the FCA to ensure that all relevant indicators are made available to customers.

Data collection

3.13 Nationwide agrees with the CMA that the survey data for the Core Indicators of Service Quality should be collated by one independent survey agency to ensure it is collected on a standard and common basis. In order to ensure cross industry support for the remedy, Nationwide believes PCA providers should be consulted during the survey design process (e.g. adopted definitions,[38] sample sizes,[39] phrasing of questions, etc.) to ensure that there is agreement that there is no implicit bias, and that robust sampling techniques and data collection methods are being adopted.[40]

3.14 Given customers use different channels to carry out their banking needs (e.g. in branch, online, by telephone etc.) Nationwide considers it important that the survey be administered through a range of different channels to ensure that data are collected for a representative sample of PCA customers.

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[37] Unlike the CMA, Nationwide considers this to be relevant to PCA customers as well as SMEs. See, for example, paragraph 3.156(c)(ii) of the PDR.

[38] For example, while Nationwide agrees that a distinction should be made between 'regular' and 'occasional' overdraft customers in the survey, care will need to be taken when defining such terms.

[39] For example, while Nationwide agrees that smaller providers should be included in the survey, it notes that their sample sizes could be very small if calculated as a percentage of their PCA customer base. In order to ensure that the survey results are as reliable as possible, Nationwide therefore suggests that the CMA imposes a minimum threshold of the absolute number of customers to be surveyed from each provider.

[40] As noted in paragraph 3.163 of the PDR, the CMA's preference is for the survey data to be "*collected on a standard, common basis with robust sampling techniques and data collection methods.*"

Data dissemination

3.15 Nationwide also agrees with the CMA that information on all service quality indicators should be disseminated to customers through PCWs which have a proven track record of altering customer behaviour in other markets, particularly with respect to switching. However, given customers have little trust in PCWs, Nationwide considers it important that the CMA develops this remedy further and imposes a regulated accreditation[41] for PCWs that adhere to a set of criteria, to provide reassurance to customers that the information is accessible, accurate, transparent and comprehensive. In the alternative, the CMA could mandate a regulatory body such as the FCA to run a comparison on their website.

3.16 As set out in our previous submissions to the CMA, it is important that service quality indicators are published alongside – and are given as much prominence as – pricing data by PCWs. The CMA's remedy proposal however is silent on this point, meaning there is a real risk that PCWs will publish pricing data in isolation or more prominently than service quality indicators; in such instances customers would not receive the information they need to make an informed comparison based on both price and non-price factors.[42] Nationwide therefore suggests that as part of this remedy the CMA should consider mandating equal prominence of quality indicators alongside price when PCWs present products for comparison.

Prompts

3.17 Nationwide agrees with the CMA that a remedy requiring banks to prompt customers to review their PCA provider is likely to contribute to increasing customer awareness of the potential benefits of switching. Nationwide looks forward to assisting the FCA in its research programme to identify which prompts are likely to be most effective in changing customer behaviour.

3.18 In Nationwide's view, for such a remedy to be effective it must seek to include the large number of PCA customers that are currently disengaged. The most effective way to do this would be through periodic prompts, given that they are sent to all customers regardless of whether they have experienced a problem or change of circumstances.[43] This will ensure that the remedy has as broad a reach as possible, and will not simply be received by customers who may have been more likely to switch in any event.

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[41] We note that the CMA has announced its intention to undertake an analysis of price comparison websites during 2016. Among the issues that will be considered will be whether there is a case for a common accreditation framework.

[42] In a PCA customer survey the two most important features of a bank account were identified as "*quality of staff and customer service*" which 83% said was essential or very important, and "*quality and speed of handling problems*" (82%), GfK Consumer Survey published 21 May 2015, paragraphs 24 and 140.

[43] As noted in the PDR, paragraph 3.206(a) event-based prompts are "*only likely to reach any individual customer on an irregular basis*". Further, in Nationwide's view, event-based prompts could result in customers making a snap decision and changing provider on the basis of a single event rather than considering whether their existing provider continues to be the most suitable one.

3.19 Importantly, such prompts would be received by inert back book customers that may trigger event-based prompts less frequently than more engaged customers. As noted in section 2 above and in our previous submissions to the CMA,[44] this is a particularly relevant consideration given that such customers are likely to have higher gains from switching than other customers.[45]

3.20 In Nationwide's view, the effectiveness of such periodic prompts would be enhanced by certain event-based prompts also being sent to customers, for example where a PCA product is taken off-sale and where one or more appropriate products might be available to customers.[46] However, in Nationwide's view, such event-based prompts should be kept to a minimum as there is a risk of further disengagement and "information fatigue" if customers receive too many prompts. In addition, event-based prompts are more complicated to implement than periodic prompts as they require human intervention, e.g. to determine what is sufficient to constitute a "trigger point" and are therefore more costly and time consuming to implement.[47]

3.21 Nationwide agrees with the CMA that providers are best placed to deliver prompts to their own customers.[48] In terms of their content and presentation, as noted in our previous submissions to the CMA, it is essential that Nationwide continues to be able to communicate with customers using its own "tone of voice" as this is an important differentiator of Nationwide's customer proposition and service quality – while there is a role for the FCA to have oversight of the content and presentation, Nationwide should not be prevented from communicating in its own style. Nationwide looks forward to assisting the FCA with the design of the prompts in due course.

4. PCA switching measures

Provision of transaction history

4.1 Nationwide agrees with the CMA that providers should retain and provide ex-customers with historical transaction data on demand and notes that providers are already required to do so under section 7 of the Data Protection Act 1998 ("DPA").[49] Nationwide considers that this alone is sufficient to overcome customer concerns that they may lose

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[44] See, for example, Attachment to Nationwide's response to the CMA's Provisional Findings, submitted to the CMA on 20 November 2015, paragraph 2.25.

[45] This is also supported by Nationwide's Second Data Room Analysis.

[46] Such a prompt could be sent, for example, when the terms of a customer's account change or a new account becomes available.

[47] Periodic prompts on the other hand are much easier to implement as they can be sent out automatically at set intervals and do not require any additional human intervention.

[48] PDR, paragraph 3.315.

[49] Nationwide therefore provides transaction data on demand to customers for a fee of £10.

such information as a result of the switching process (and therefore find themselves unable to satisfy documentary requirements, e.g. for mortgage applications).

4.2 Nationwide believes that requiring providers to automatically provide transaction data upon account closure would impose a disproportionate burden on providers in terms of the costs and time involved in producing and providing such data as a matter of course, especially for customers who hold multiple accounts with one provider. Nationwide notes that CMA's objective is to make the switching process as simple and easy as possible for customers. It therefore seems counter intuitive to add an additional step in the process which could create delays and provide customers with information they have not requested and may have no use for without compelling evidence supporting the position that it would benefit customers, which Nationwide does not consider to be the case:

(i) There is no evidence of significant customer demand for this service:

(a) Customers do not generally require transaction history dating back five years. For example, customers only require three months' transaction history for applications for personal financial products such as loans and mortgages.

(b) Nationwide's experience is that few customers use the existing DPA process.

(ii) The CMA has also not provided strong evidence that this service would encourage switching:

(a) The CMA refers to a customer survey conducted by LBG (the results of which have not been publicly disclosed) noting that the loss of transaction history was only seen by customers as a "*potential barrier*" to switching and that LBG did not conduct behavioural research to test the results.[50]

(b) The CMA refers to its Omnibus survey and notes that, while the perceived benefit of having such data is low overall, for certain customers, including those who have switched recently (or considered switching) and overdraft users, the perceived benefit of these data is higher.[51] However, Nationwide considers this evidentiary base – namely the Omnibus survey – to be weak given the results are mixed (and at times counterintuitive) and are not always consistent with other evidence collected by the CMA.

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[50] PDR, paragraph 4.132.

[51] PDR, paragraph 4.139.

4.3 Nationwide instead would support a measure requiring providers to actively inform customers of the procedures that are already in place.

5. PCA overdraft customers

Unarranged overdraft alerts

5.1 Nationwide supports the CMA's decision to require PCA providers to offer unarranged overdraft alerts, i.e. informing customers when they have exceeded, or are at significant risk of exceeding, an arranged overdraft limit and agrees with the CMA's proposition that PCA providers would be able to tailor the alerts to their specific PCA offer.[52]

5.2 Nationwide however has the following concerns with the CMA's proposal that providers would be required to auto-enrol their customers onto such alerts:

(i) There are inherent practical issues surrounding auto-enrolment. The CMA will require providers to collect a customer's mobile phone number during the account application process and whenever an account holder updates their account details (unless the customer has already opted out of receiving such alerts).[53] As the CMA recognises, practical issues could arise, for example, if certain customers are unwilling (or unable) to provide their mobile numbers. Nationwide suggests that the remedy should ensure providers are not penalised in circumstances where reasonable endeavours have been made to obtain the necessary contact details.

(ii) Because it is a measure imposed on customers rather than an active opt-in by them, auto-enrolment risks further customer disengagement as customers may have actively chosen not to receive alerts (because, for example, they feel that they already receive enough information from their provider). As noted above, there is also the risk that additional communications could lead to "information fatigue" if the number of prompts received by customers is excessive.

5.3 Nationwide is also concerned that the CMA's proposed timetable – namely six months from the date of its order – is unrealistic given the investments and time needed to implement such prompts. The CMA should consider holding-off implementing this remedy until the FCA has conducted its RCTs and is ready to implement its broader prompts package (expected in the summer of 2018). This would allow all prompts to be tested as part of a broader package (and would enable the FCA to consider how they interact) thereby reducing the risk that the overall remedies package results in "information fatigue", which would reduce their effectiveness.

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[52] PDR, paragraph 5.47.

[53] PDR, paragraph 5.68.

Measures to facilitate account searching and switching

5.4 Nationwide does not agree with the CMA's suggestion that the FCA should consider requiring providers to offer online tools that indicate whether a prospective customer may be eligible for an overdraft following the adoption of APIs. Nationwide continues to believe that indications of overdraft eligibility will not provide the certainty required by customers and could lead to bad customer choices.

5.5 As previously noted,[54] and consistent with the CMA's own evidence,[55] Nationwide believes that prospective customers who require overdraft facilities are looking for certainty in relation to their overdraft eligibility, not an indication of what might be available to them.

5.6 An indication of eligibility, even one based on a customer's personal historical usage following the adoption of open APIs, will at best be of limited use to the customer and at worst could lead to bad customer outcomes as:

(i) there are still likely to be differences between the indicative offer, which the CMA envisages will be based on a soft credit check, and the actual offer, which is based on a full credit check. The indicative offer therefore fails to provide the certainty required by customers meaning it cannot be used to make an informed decision; and

(ii) customers may also be frustrated if they are refused an overdraft following a full credit check where a PCW has previously indicated they would be eligible.[56] This could also further undermine customer confidence in PCWs more generally.

5.7 The CMA concedes that the evidence base for the overdraft eligibility tool is mixed[57] and notes that parties had raised concerns around such a remedy.[58] Nationwide suggests that from this evidence base the CMA chooses to rely upon the weakest evidence in reaching its conclusion, and that the CMA should place greater weight on the LBG trial, which indicated that an overdraft eligibility tool did not have a positive impact on switching and account opening.

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54 See paragraph 5.4 *et seq.* of Nationwide's response to the CMA's Supplemental Notice of Possible Remedies, published 31 March 2016.

55 For example, while it is based on a very small sample, the Optimisa Research does suggest that overdraft customers value certainty. For further details see "*Informing the development of communication tools designed to increase consideration of switching among PCA and SME customers*", published by the CMA on 07 March 2016.

56 The CMA suggests that the eligibility tool could be based on a quotation search (i.e. a 'soft' credit search), see PDR, footnote 487.

57 PDR, paragraph 5.226.

58 PDR, paragraph 5.224.

5.8 The CMA notes that the Optimisa Research Report[59] (the "ORR") suggests that the availability of the overdraft facility was seen as something important to check prior to application by overdraft customers. In relation to the ORR Nationwide notes that:

(i) Optimisa received very low response rates to the questionnaire which formed the basis of the ORR. In fact, Optimisa explicitly notes that the ORR's "*findings cannot be generalised to the whole of the individual target audience populations, or to all PCA and BCA holders*";[60]

(ii) the ORR finds that customers were more in favour of such an eligibility tool if it provided a *firm* confirmation rather than an indication of eligibility;[61] and

(iii) it is not clear that the ORR in fact supports the CMA's conclusion that the availability of an overdraft facility prior to application is important to customers. For example the ORR states that a customer would *"need to know [about overdraft eligibility] at the beginning of the switching process"*.[62] Nationwide notes that this is not prior to application (only prior to switching), and is in fact the service it currently provides to customers. Similarly, the ORR states that customers want to know "*for sure*" what their overdraft limit would be. However, again, it is not clear if customers want to know for sure prior to the pre-application process or only prior to the switching process starting.

5.9 Rather than relying only on this weak evidence, Nationwide believes that the CMA should instead place greater weight on the LBG trial which tested the implementation of an online overdraft tool. The trial suggested that:

(i) the tool did not increase the rate of account opening for customers visiting the PCA application pages on the Lloyds or Halifax websites;

(ii) the tool discouraged some customers who would be eligible for an overdraft from applying for an account; and

(iii) Halifax customers seeing the overdraft checker (the treatment group) were less likely to successfully open an account than the control group with fewer completing the application process.

5.10 The CMA notes that the results are based on a one-off trial which tested a specific implementation of the tool, and that refinements could be made to the treatments used to identify more effective ways to implement the tool. However, Nationwide considers that the trial represents the best evidence available in relation to customer demand for

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[59] Qualitative report of findings prepared by Optimisa, published 07 March 2016.

[60] ORR, page 16.

[61] PDR, paragraph 5.225(b),

[62] ORR, paragraph 6.1.

such a tool, and clearly shows that it would not encourage (and could even reduce) a customer's likelihood of switching.

6. Remedies which the CMA does not propose to take forward

6.1 The CMA has decided not to pursue a number of other remedy options despite receiving comments from third parties that were in favour of such remedies being introduced. Nationwide agrees with the CMA's decision and sets out below its views in relation to Free-if-in credit ("FIIC") accounts and Account Number Portability ("ANP").

Measures to address perceived distortions arising from widespread use of FIIC accounts.

6.2 Nationwide agrees with the CMA's decision not to propose measures to end or restrict the use of FIIC accounts. As explained in our previous responses to the CMA,[63] Nationwide expects a significant proportion of its members to be in favour of such accounts and, as such, would only support any measure to end or restrict the FIIC model if the CMA could demonstrate that it would be both effective and proportionate. As noted in the PDR, the CMA has not found that the FIIC model distorts competition and reduces customers' propensity to change PCA provider.[64]

ANP[65]

6.3 Nationwide supports the CMA's conclusion that the extension of the current CASS redirection period is effective in addressing switching barriers and would be a more proportionate, cheaper, and less onerous remedy to implement than ANP.[66] Although ANP could achieve the same result, the costs for the industry (which the FCA has estimated at between £2bn and £10bn)[67] would outweigh any material gains in switching activity, particularly as the current CASS process includes compensation measures to reassure customers that they will not lose money from the switching process.

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[63] See Nationwide's responses to the Updated Issues Statement and Provisional Findings.

[64] PDR, paragraph 7.12.

[65] The CMA suggested that the Payment System Regulator ("PSR") may revisit this at a later stage, if required.

[66] Further, the extension of the CASS redirection period is capable of being implemented much more rapidly.

[67] See further Nationwide's response to the Updated Issues Statement, footnote 14.