



Retail banking market investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

By email to: retailbanking@cma.gsi.gov.uk

7 June 2016

Dear Sirs,

Retail banking market investigation: Provisional decision on remedies

Thank you for the opportunity to provide feedback on the measures to improve competition in the personal current account market and retail banking services for small and medium-sized enterprises (SMEs) that you have proposed in your provisional decision on remedies.

This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC network. In the UK, we are the auditor of and provide advisory services to many retail banks and SMEs. We also have a team of dedicated specialists focusing on the impact that new regulatory developments have on the financial services sector. This letter is not intended to represent the views of our clients, but rather to identify and to comment on certain aspects of the provisional decision on remedies which we believe to have particular significance.

While we broadly support a number of the proposed remedies, we believe the package of proposed remedies will not be enough to materially increase competition in the interests of consumers and SMEs. The remedies fail to address a number of fundamental market issues which we consider are key to promoting competition, including a lack of transparent pricing for current account services and barriers to entry and growth for challenger banks. We believe this represents a missed opportunity to consider potentially radical solutions to the current competition issues.

We also have concerns that the cost to banks of implementing some of the initiatives may not be proportionate to the resulting benefits. Further, we believe more careful consideration needs to be given to the inter-relation of the requirements of PSD, PSD2 and PAD with the proposed remedies to avoid duplication, inconsistency and confusion.

We offer comments on specific areas of the provisional decision on remedies in the Appendix to this letter. We hope that our response will be helpful to you and we would be pleased to discuss our comments further with you. If you would like to do so, please contact Laura Cox at the address below on +44 (0) 207 212 1579.

Yours faithfully

Laura Cox

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Appendix

Foundation remedies

Open API standard

We support the principle of an open API standard as a way of achieving a more connected environment and improving consumer engagement. But we believe the CMA's proposed timeframe may not be achievable. The timeframe should also take greater account of similar work already being done by the firms to comply with PSD2, and other regulations which impact technology, such as ICB and IFRS9.

We believe the risk analysis and cost benefit analysis for the open API standard needs to be very thorough. The security risks must be given careful consideration and firms taking advantage of this access will need to demonstrate that they have appropriate security measures in place. Consideration should also be given to the liability of banks where third parties use customer data that they disclose through the use of APIs. Further, the CMA makes an assumption that an open API will stimulate innovation from FinTech companies. We believe the CMA is placing too great a reliance on this assumption in its overall strategy for stimulating competition in the retail banking sector, because it cannot be certain whether and to what extent FinTech firms will enter this market.

The CMA should set out plans for monitoring how successful this remedy is (and defining success) over the first few years and plan for a follow-up review to consider additional measures that may be necessary. This remedy is also dependent in part on customer take up and customer willingness to share private and confidential information. Any promotion of this remedy may need to be accompanied by a careful marketing campaign to demonstrate the benefits and encourage customer engagement.

The CMA has proposed creating a new entity, funded by the banks but with an independent chair, to ensure the timely delivery of the open API standard. We suggest the CMA may wish to consider making use of the working groups that form part of the PSR's Forum. These groups could be used to test the viability of the remedy before committing to the development of a dedicated entity, thus preventing an additional cost burden on banks.

We support the principle of requiring banks to share information on service quality, but caution that the cost involved to firms must be proportionate to the resulting benefits to consumers. We also question whether some of the suggested quality facets (e.g. willingness to recommend a particular branch to family or friends) will be helpful to customers, particularly given the decreasing use of branches in the digital age. It may be helpful to speak to consumer groups to gain a customer perspective on the benefit of proposed remedies.

Prompts and reminders

We believe customer prompts might be effective and appreciate the concept aligns well with the FCA's focus on backbook customers. We also agree that the FCA should carry out further research to identify which prompts would be most effective. We believe prompts are more likely to be effective if they are linked to an event (e.g. a reminder prompted by the fact a customer has gone into their overdraft) or are tailored to a change in a consumer's spending/income. But we question why the proposal to require providers to alert customers when they start using an unarranged overdraft does not also apply to arranged overdrafts. Timely reminders for users of arranged overdrafts could help prevent customers from incurring charges or interest for longer than necessary.

Reminders on annual statements might also be effective if statements include pre-defined behavioural information such as: the number of times a customer has gone into their overdraft, average balance



maintained, number and type of payments in, number of foreign exchange transactions and the total charges paid for each service over the year. For overdrafts, the statement could also include data on how the bank's offering compares to other overdraft arrangements which are available in the market. The CMA could require banks to submit overdraft charging data on a quarterly basis, and present the information in an easily accessible format (similar to energy efficiency ratings on white goods in a red, green, amber format). But we note there are several downsides to using annual statements as a medium for prompts: many customers may not read them, and statements may not be timely enough. A range of ways to deliver the prompts should be considered, particularly given the move towards digital banking.

Current account switching remedies

We question whether the Payment Systems Regulator is best placed to regulate the Current Account Switch Service (CASS), as proposed by the CMA. We believe that the regulatory activities proposed would be more effective if they were undertaken by the FCA in conjunction with its powers of enforcement in respect of competition. We are not convinced that the CMA's other proposed measures to reform CASS governance will be meaningful to consumers.

The proposal for banks to commit to holding and providing a transaction history could be challenging, given that many banks have legacy back office IT systems which may not readily accommodate this requirement. This proposal may require a significant investment from the banks.

Overdraft remedies

We suggest the CMA considers more radical proposals to help address the prevalence of customers, often in vulnerable circumstances, repeatedly incurring overdraft charges and fees. For instance, the CMA could explore the practices of other countries where overdrafts are much less common than in the UK, such as the US and France. Or it could look at imposing a maximum size on overdrafts to help prevent consumers from taking on excessive debt.

In its proposals for a monthly maximum charge, the CMA has to tread a fine line between promoting competition in the interests of consumers, and becoming a product regulator. We believe requiring banks to set their own monthly maximum charge is preferable to having an industry-wide charge determined by a regulator, and that greater transparency over charges is ultimately a good thing. But we believe that the CMA should specify disclosure requirements and monitor how this additional information is communicated to customers.

We are supportive of customers being able to establish 'in principle' overdraft eligibility for their new bank account at an early stage of the switching process and well before their original account has been closed. We believe the more of the application that can be done online and pre-populated, the more bank account switching will be seen as the norm.

SME banking remedies

We believe loan rate transparency and a loan eligibility indicator would be beneficial for SMEs and lenders when taken together with the API foundation. But the measures and the means of displaying these would need to be carefully designed to ensure that like-for-like comparisons were possible. To address concerns over how helpful the representative rate is when in reality each loan will have a variable risk and rate, we suggest a metric could be agreed that indicates the range of rates offered and the percentage of loans falling in each range.



We support the proposals to standardise, where possible, the application process for SMEs and believe this could support competition and user experience as providers seek to differentiate themselves beyond the core switching process.

While we are supportive of the idea of running an independently-administered competition to encourage innovation in designing an SME account price comparison tool, we would encourage any guidance to the competition entrants to include and encourage non-traditional banking participants to ensure a wide range of service and quality facets are included.

We also note the publication of the FCA's Discussion Paper 15/7: Our approach to SMEs as users of financial services in November 2015. The FCA is considering introducing further protections for SMEs and will publish its feedback in due course. We suggest the CMA takes the FCA's work into account, given that any proposals to increase regulatory protections for SMEs could increase the cost to banks of providing services to SME customers, thus potentially reducing competition.