28 St Andrew Square
Edinburgh
EH2 1AF

Professor Alasdair Smith
Retail Banking Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

7 June 2016

Dear Professor Smith

Virgin Money response to Competition and Markets Authority (CMA) Retail banking market investigation *Provisional decision on remedies*

Thank you for the opportunity to comment on the CMA's Provisional decision on remedies.

It is clear that consumers have been poorly served by UK retail banking for far too long. This will not change until there is genuine competition and choice in the market.

We feel that the CMA's provisional remedies, as they currently stand, will be a missed opportunity to drive the development of a truly competitive market and innovative new banking services.

Specifically, we believe that the PCA market will not function effectively for consumers until there is transparent headline pricing. We feel that the CMA should have gone much further in addressing the competitive distortion arising from free-if-in-credit (FIIC) banking.

We also believe that the introduction of Account Number Portability (ANP) would do much more than an enhanced CASS to overcome consumers' concerns about switching. We are disappointed that the CMA has not investigated this further.

Whilst the development of an Open API banking standard could help to stimulate new products and services of value to consumers, we do not think that this will be enough to create an environment in which competition and innovation is truly driven by consumers.

Our detailed comments on the various elements of the proposed remedy package are set out in the attachment to this letter.

As ever, we would be delighted to discuss our comments with you further if that would be helpful.

Yours sincerely

Jayne-Anne Gadhia
Chief Executive Officer
Virgin Money

Virgin Money response to Competition and Markets Authority (CMA) Retail banking market investigation *Provisional decision on remedies*

1. Virgin Money is pleased to comment on the Competition and Markets Authority (CMA) Retail banking market investigation *Provisional decision on remedies.*

2. We agree with the CMA that there are a number of features of both the personal current account (PCA) and SME banking markets that have an adverse effect on competition. Furthermore, with respect to the PCA market, we agree that the adverse effects on competition arise from a combination of low customer engagement, barriers to searching and switching and incumbency advantages.

3. We support the objective of the remedy package to create an environment in which competition and innovation can thrive and deliver better products, services and outcomes for consumers. However, we have serious concerns with the package of remedies itself, which we do not think will go nearly far enough to overcome the competition problems that currently exist in the PCA and SME banking markets.

4. The CMA's package of remedies seeks to increase consumer engagement by reducing barriers to searching and switching, as well as through the use of customer prompts. This means that the overall shape of the CMA's proposals is influenced by the insights of behavioural economics.

5. However, as the CMA states "the differences between effective and ineffective interventions may be quite subtle". While we support the intention to use randomised control trials to refine the design of these remedies, we are concerned that the CMA's proposals rely so heavily on remedies based upon behavioural economics and designed to change consumer behaviour.

6. We believe the CMA (rather than putting all its eggs in one basket) should give further consideration to developing a broader set of remedies which address other competition problems within the sector. In particular, we suggest that, even at this late stage in the investigation, the CMA should give further consideration to:

   - the simpler and more transparent pricing of PCAs that would be likely to result from a market-driven move away from free-if-in-credit (FIIC) banking; and

   - the introduction of Account Number Portability (ANP), which is likely to give rise to an increase in customer confidence in the ease and reliability of current account switching.

7. We comment on both of these points below before commenting on the CMA's remedies in detail.

8. Given our pro-consumer and pro-competition approach to retail banking, we are encouraged by current developments including the power of new technologies to analyse data, the Treasury's commitment to making the UK a global leader in FinTech, the FCA's wish to address regulatory barriers to innovation and its support for smarter consumer communications and automated advice systems.

9. We believe that the combination of these developments has the potential to support the emergence of a competitive market in innovative, added value services that will work well for customers, enabling them to compare financial products and to manage their financial affairs easily and conveniently.

10. The Open API banking standard (on which we comment in more detail below) is a central enabler of this potential transformation of retail banking. However, it is not possible to anticipate future developments that may be made possible by new technologies. We therefore suggest that, in finalising its package of remedies, the CMA should give consideration to ensuring that none of its remedies have the unintended consequence of creating rules which inhibit future innovation, or require resources to be diverted away from current initiatives relating to the development of innovative products and services.

FIIC banking and ANP

11. We continue to believe that the FIIC banking model is a root cause of the low levels of customer engagement and switching that have been identified by the CMA. We share the view recently expressed by Martin Taylor, external member of the Financial Policy Committee, on this issue:

    'The contortions the industry has put itself through to maintain this over-riding of the price mechanism have been very damaging, not only to the most vulnerable consumers who through penalty charges subsidise the better-off...but also, I believe, to banking in general. Perceived necessity has been the mother of mis-selling'.

12. This mirrors past comments from Andrew Bailey, Deputy Governor of the Bank of England and incoming Chief Executive of the FCA, who said that:

    'The notion of free banking has in my view distorted the landscape. There is of course no such thing as free banking. What it really stands for is that charges are levied inconsistently across products supplied by banks, with the consequence that some appear to be free. It also leads to what in my view are unhelpful and damaging decisions on the supply of products. The philosophy should be, give the public what they want but at a fair price which is transparent to them'.

13. We think that a move away from FIIC banking would lead to simpler and more transparent pricing of PCAs, helping consumers to compare different products more easily while they wait for the sophisticated comparisons that could arise from services based on the Open API banking standard.

14. We note the CMA's agreement with us that a move in this direction, driven by competitive market dynamics, would be welcome. However, we are disappointed that the CMA has chosen not to pursue remedies that more directly encourage such a move.

15. In addition, we continue to believe that ANP would be far more effective than the proposed enhancements of CASS in addressing customers' concerns that current account switching might be problematic. In supporting the latter option, the CMA does not seem to have taken into account the wider benefits of ANP relative to its potential cost. Also, estimates that the cost of ANP could be as high as £2 to £10 billion may reflect broader costs associated with upgrading banks' legacy systems, rather than just the strict costs of ANP.

16. We therefore urge the CMA, in its final report, to encourage the Payment Systems Regulator's Payments Strategy Forum to undertake a thorough cost-benefit analysis of ANP, building on the FCA's review of account switching and ANP last year.

Foundation measures

17. Given the central problem of low customer engagement, we agree that the package of remedies should be based on three cross-cutting foundation measures intended to overcome barriers to searching by making it easier to access comparative information about product pricing and service quality, and by encouraging consumers to consider searching and switching through customer prompts.

Open API banking standard

18. We note that the CMA is planning to take forward Open APIs by requiring the larger banks, as well as a small number of other firms with large market share in BCAs and in Northern Ireland, to adopt and maintain common API standards through which they will share data with other providers and third parties.

19. Open APIs have the potential to transform innovation and competition in retail banking by enabling trusted third parties to offer added-value services which will help to increase customer engagement, education and empowerment.

20. We note that *The Open Banking Standard*, published by the Open Banking Working Group (OBWG), identifies a number of important customer benefits, including current account comparison services and personal financial management which could flow from the development of Open APIs. We think that the Open API banking standard proposed by the CMA should build on the good work already done by the OBWG.

21. The development of Open APIs is central to the CMA's proposed package of remedies. We support the development of an Open API standard and agree with the CMA that it will make it "much easier for both personal and business customers to compare what is offered by different banks".

22. Making current account comparisons easy is important because, as the CMA itself acknowledges, "current accounts for both personal and business customers have complicated charging structures, and the actual cost depends on how the customer uses the account". As noted above, we continue to believe strongly that customers would benefit from a market-driven move away from complex charging structures associated with free-if-in-credit (FIIC) banking to simpler and more transparent charging structures.

23. Open APIs may provide an additional and complementary route for customers to gauge the comparative costs of different current accounts, depending on their account usage, however complex the charging structures.

24. However, the proposed package of remedies places considerable reliance on Open APIs enabling comparison websites based on customer-specific information. The effectiveness of other elements of the remedy package – such as customer prompts, greater service quality information and current account switching measures – is dependent on the development of such comparison websites and the ability to compare products easily.

25. We therefore consider it important that an Open API banking standard is developed and implemented without any delay. Furthermore, we think that this should be done in a way that ensures that large numbers of consumers are aware of the potential benefits of safely sharing data with third parties, understand best practice in this area, and are comfortable and confident about using new products and services based on Open APIs.

26. As the OBWG has said, "the bulk of the work in implementing and promoting the Open Banking Standard is not technical. The critical issues that must be faced, if consumers are to take up the opportunities offered by open banking data, are around governance, security, liability, standards, communications, regulation and legal". For comparison websites based on Open APIs to deliver benefits to consumers, we agree with the CMA that it is particularly important to address likely consumer concerns relating to data security, fraud and redress.

27. The CMA has proposed that the implementation of the Open API banking standard should be done through the establishment of an 'implementation body' in which the large banks would be required to participate. Smaller banks would be free to participate if they wish on the same terms as those large banks.

28. Such an approach could allow the large banks to dominate the development of an Open API banking standard. Our concern is that this could allow the large banks to protect their incumbency advantages by, for example, delaying the implementation of remedies that would fundamentally transform the nature of competition in the PCA and BCA markets and potentially reduce their market dominance, or by agreeing a set of arrangements that would give them a competitive advantage under the new Open API framework.

29. This has happened before. For example, the implementation of Faster Payments was delayed and then implemented in such a way that only scheme members could offer 24/7 Faster Payments. The PSR is now seeking to address the disadvantages faced by non-members wishing to offer 24/7 Faster Payments to their customers. There is already a risk that the cheque imaging initiative may go down the same route.

30. We note and agree with the OBWG's recommendation that "an independent authority should be established to ensure standards and obligations between participants are upheld" and that this independent authority should govern how data is secured once shared.

31. Under the EU's revised Payment Services Directive (PSD2) it will be an obligation, by 2019, for banks and other credit institutions to provide approved third parties with the ability to access customers' payments accounts (with customers' consent) in order to make payments and to confirm sufficient credit is in an account to make payments. The scope of PSD2 includes the current UK definition of current accounts. Significant change could, therefore, occur in the current account market when this legislation is implemented. PSD2 could, for example, allow innovative businesses to build new consumer products and services on top of payments facilities that are enabled by the legislation.

32. In order to provide genuine benefit to the market of Payment Service Providers (PSPs) wishing to make use of these services, it is essential to avoid the emergence of a plethora of different data sharing standards and mechanisms for accessing current accounts. If banks create their own independent systems of access, the ability of PSD2 to open up bank account markets in the UK and across Europe to new forms of business would be diminished.

33. We believe that it would be more efficient and cost-effective for collaboration to take place across the industry to develop and put in place a standard set of APIs that banks and third party providers could use. Such an approach could also be adopted to standardise security aspects of an Open API framework, as well as the technical integration required. This would enable small third party providers and larger banks to systematise access and prevent fraud, which would be of significant benefit both to PSPs and consumers.

34. The CMA's proposed remedies in this area focus on the creation of an Open API framework with the primary aim of facilitating the development of comparison services in the current account market. However, we believe that it would be sensible – in order to ensure regulatory alignment and compatibility – to create one combined API framework that also covers the account access and data sharing requirements of PSD2.

35. We believe that, with suitable governance arrangements, the creation of a common, easily accessible Open API framework for third parties – both to access information for the comparison of banking services, and also to transact payments – would be a much more effective means of encouraging greater competition and innovation in the retail banking sector.

36. We therefore believe that the PSR has an important role to play in overseeing the proposed implementation body. We believe that the FCA and the Treasury also have an important role to play and should be actively involved in taking work in this area forward.

37. We think that customers will benefit from as many banks as possible being properly aware of progress in developing an Open API banking standard and willing and able to participate in services based upon it. However, we recognise that decisions have to be taken about who will pay for the development of the Open API banking standard and how other banks will be able to access services based upon it. This underlines the case for the active involvement of the PSR given its expertise of similar issues in payment systems.

Service quality information

38. We think that there is merit in the CMA's proposal that, when customers are comparing current accounts, they should be encouraged to think about service quality as well as price.

39. We note that the CMA's proposed remedy has two elements:

- requiring PCA and BCA providers to display prominently, in a manner specified by the CMA, core indicators of service quality based on customers' willingness to recommend a variety of bank services; and

- requiring PCA providers to publish additional objective measures of service performance on, for example, interruptions to and unavailability of services, availability of services in branches and complaints handling.

40. The CMA acknowledges that there is a particular risk in overloading customers with information in a market characterised by low levels of engagement. We also note the CMA's suggestion that the additional measures of service performance mentioned above would be aimed at intermediaries and more sophisticated and/or engaged customers. However, we are not sure that there is customer demand for such detailed and granular information about service quality, or that it would have a significant effect in encouraging customers to consider alternative providers, at least until the proposed comparison websites based on Open APIs become available.

41. We therefore think that it might be better to start with simple measures of PCA and BCA service quality that are easy-to-understand, independent and reliable. At Virgin Money, we use Net Promoter Scores. We also think that, in today's world, many customers would value online customer reviews (such as those many people already use when choosing hotels) and that easy access to online customer reviews would enhance customer engagement. In time, especially when comparison websites based on Open APIs become available, it may be appropriate to add additional, more granular measures.

42. For these reasons, we believe that the CMA should reconsider its proposed recommendation that the FCA should require providers to publish additional objective measures of service performance. We think that the costs associated with such granular measures might outweigh the customer benefits - and that customers faced with such granular measures might, in the absence of comparison websites based on Open APIs, suffer from a 'wood from the trees' problem in interpreting them.

Customer prompts

43. Given the 'evergreen' nature of current accounts, we agree with the logic of this proposed remedy, to prompt customers to review their PCA or BCA arrangements at times when they may have a greater propensity to consider switching.

44. Whilst we recognise that the 'evergreen' nature of PCAs means that customers are not prompted to consider searching and switching in the same way that they are, for example, in motor insurance, which must be renewed annually, we do not think that this is the primary reason for low levels of consumer engagement with PCAs or indeed low switching levels. Switching rates are far higher, for example, in credit cards which could also be described as 'evergreen', but where pricing and conditions are easier to understand.

45. We note that the CMA has outlined a list of material changes to the key product features of a PCA or BCA which it believes could represent effective trigger points for prompts and that it has asked the FCA to explore these further. We also note that the CMA has outlined a further list of situations or event-based triggers which it has recommended the FCA should not examine further because the CMA believes that they are unlikely to prompt customers to consider their banking arrangements.

46. While we agree that it is logical to prompt customers to consider searching and switching and, in so doing, to benefit from other remedies in the package – including easier searching – we suspect that the effectiveness of prompts will be limited until comparison websites based on Open APIs become available.

47. We therefore suggest that this remedy should be implemented step by step, starting with a limited number of prompts and testing their effectiveness, as the CMA has suggested, through a research programme including randomised control trials. We agree that the FCA is well-placed lead this work.

48. However, we suggest that the implementation of this remedy might benefit from participation by consumer groups and/or specialists in behavioural analysis. This is because the relationship that customers have with their current account providers may, for whatever reasons, be different from that which customers have with providers of other financial products or of non-financial products. For example, although credit cards are also 'evergreen' and offer broadly similar functionality (although not overdrafts), switching rates in credit cards are significantly higher than in current accounts.

49. We therefore suggest that, if the FCA is to assume responsibility for implementing this remedy, it should have freedom to consider and carry out research on the likely effectiveness of a broad range of possible prompts, rather than only the subset which the CMA believes has merit.

50. We also suggest that the FCA should consider, in the light of learnings from its work on smarter consumer communications and in the context of randomised control trials, whether the design of prompts should be standardised and prescriptive or left to individual firms within the framework of guidance and regulatory oversight. In considering the two alternative approaches, we suggest that the FCA should form a view as to which approach is better for customer engagement and which approach is more effective in prompting action.

Current account switching measures

51. Even after the introduction of the Current Account Switch Service (CASS), current account switching rates remain low. This could simply reflect the lack of customer engagement, caused partly by the practical difficulties customers currently face in comparing current accounts (or actually opening accounts to switch to, given identification and AML requirements) as well as broader issues such as limited consumer understanding of PCAs and a belief that 'all banks are the same'. Or it could be that, despite the introduction of CASS, customers continue to be concerned that current account switching could be problematic.

52. As discussed above, we agree that comparison websites based on Open APIs have the potential to transform customers' engagement and empowerment, including their ability to compare current accounts despite their complex pricing structure. However, we continue to believe that customers would benefit from the simpler and more transparent pricing that would be likely to arise from a market-driven move away from FIIC banking.

53. For an equivalent transformation of customers' willingness to switch current accounts, we continue to believe that Account Number Portability (ANP) would address customers' ongoing concerns that current account switching might be problematic far more effectively than CASS - especially because ANP would be like switching mobile phone providers while retaining one's phone number, a process in which customers seem to have confidence. We comment later in this response on what we believe are the greater benefits of ANP, relative to the CASS redirection service, in dealing with stray payments following a customer account switch.

54. We note the CMA's comments that:

> *ANP could be implemented in a variety of ways, all of which involve substantial changes to the payment systems used by banks. Estimates of the costs of ANP vary between £2 billion and £10 billion, depending on how radical the changes are. While ANP could also increase customer confidence in switching, we think that making CASS work better is likely to be a much more cost-effective and timely approach. The PSR might want to consider ANP at a future date, but we think that it is more sensible at this stage to seek further improvements in CASS.*

55. For the longer term, we urge the CMA, in its final report, to encourage the PSR's Payments Strategy Forum to undertake a thorough cost-benefit analysis of ANP, building on the FCA's review last year. We are sceptical that the costs of implementing ANP could be as high as £10 billion, given that much of the necessary central infrastructure already exists, or will soon exist, to support extended redirection under CASS. We suspect that high estimates of the cost of implementing ANP may reflect costs associated with upgrading banks' legacy systems, rather than just the strict costs of ANP.

56. For the short term, we agree that it is sensible for the CMA to include in its remedy package measures to improve CASS and/or to increase customers' confidence in it.

CASS governance

57. As we said in our response to *Notice of possible remedies*, we believe that CASS governance has worked well to date. That said, we support reforms to governance, such as greater transparency around decision-making and expanding the membership of CASS decision-making bodies to ensure greater diversity and independence of views, to strengthen the voice of consumers and to improve the switching process for the benefit of consumers.

58. We support the proposal for more formal oversight of CASS and, as we said in our response to *Notice of possible remedies*, we think it is logical for this role to sit with the PSR.

Extended redirection

59. The CMA has proposed extending the CASS redirection period so that, beyond the current 36-month redirection period after a customer has switched account, CASS will provide perpetual redirection of stray payments for switching customers from their old account to their new one as long as they have had a redirected payment within the proceeding 13 months.

60. We view the proposed remedy of Permanent Redirection (PR) to be a reasonably useful technique to prevent customer harm where businesses or other third parties have failed to update payments details of customers who choose to switch current accounts. In and of itself, however, we do not believe it will lead to more account switching, or to greater competition in current accounts or banking more widely. Our understanding is that PR is, de facto, already in place, in the sense that banks have already had to account for customer details effectively being permanently blocked in their systems when customers transfer to other providers.

61. We suggest, however, that significant additional benefit could accrue, over the longer-term, if PR is viewed as a stepping stone on the path towards ANP. Under ANP, businesses would no longer have to expend energy on updating their customers' payment details when an account switch takes place, as they could continue to rely on their customers' (and their own) existing account numbers and payments details to continue to work. As such, ANP would allow customers to provide a static set of account and payment details to counterparties and make payments without the risk of confusion. Switching, in relation to both consumer and business accounts, would be made more transparent and safer as a consequence.

Access to transactions history

62. The CMA believes that customers may be deterred from initiating the switching process since, once their old account has been closed, they may no longer have access to their transaction history. They have therefore proposed that banks provide five years of transaction history free of charge to customers after closing their accounts or, at a minimum, that banks should retain five years of transaction history which they could then provide to ex-customers upon request for a small fee.

63. Our belief is that lack of access to transaction history has not been a major factor in explaining low levels of switching in the current account market, and we do not think that providing access to such history would catalyse a significant uplift in account switching. Nevertheless, we understand that the CMA wants to ensure customers do have access to their historic data.

Customer awareness and confidence

64. The CMA has suggested that more might be done to promote CASS. We doubt the benefit of widespread promotion of CASS until customers can take advantage of comparison websites based on Open APIs to select an alternative provider. However, we think that there may be merit in promotional activity with specific messages – focusing, for example, on the ease and reliability of switching using CASS, and the potential material benefits to consumers of switching – as well as targeting specific customer groups, such as overdraft users, that are currently suffering high costs.

65. Depending on the progress made by BACS in developing a partial switching proposition as part of CASS, which the CMA is encouraging BACS to investigate further, there may also be merit in promoting the benefits to consumers of 'trying before you buy' and being able to move their payment arrangements without irreversibly closing their existing PCA. More generally – and consistent with the move towards multi-media engagement with customers – we think that there is scope for more creative promotional activity (rather than just more posters in bank branches) using technology and social media.

PCA overdraft users

Overdraft alerts and grace periods

66. We support the CMA's proposal to require PCA providers automatically to enrol all their customers into an unarranged overdraft alert. We agree that the use of alerts, such as those proposed, to increase customers' awareness of their overdraft usage and to alert them when they are about to face such a charge could be effective in changing behaviour. Indeed we believe they could be more successful than the foundation measure prompts in changing behaviour for overdraft customers.

67. We also agree with the proposal to require PCA providers to offer, and inform customers of the opportunity to benefit from, grace periods during which they can take action to avoid or mitigate the charges resulting from unarranged overdraft usage.

68. We think that both of these measures are likely to reduce charges and consumer detriment resulting from the use of unarranged overdrafts, and may encourage some customers to consider alternative PCAs.

69. Many banks, of course, already offer prompts and grace periods to some or all of their customers. Automatic enrolment should, however, increase the number of consumers who will benefit from them. Given that many banks already operate such policies, we believe that an overly prescriptive approach in this area is unnecessary and would risk cutting across existing good practice.

Monthly maximum charge (MMC)

70. In our response to *Supplemental notice of possible remedies* we argued for the need to improve outcomes for overdraft users and believe this should be a priority area for action by the CMA and the regulatory authorities. CMA research itself shows that:

   Many overdraft users are not fully aware of, or do not give enough attention to their use of arranged or unarranged overdrafts. This can be costly for them, since overdraft users can accumulate high costs from interest, fees and charges

71. We were particularly struck by the CMA's estimate in *Provisional decision on remedies* that heavy PCA overdraft users could make an average potential saving of £260 each year for a service that purports to be 'free'. Despite this, as the CMA correctly notes, overdraft users "have very low switching rates". We strongly agree with the need to improve outcomes for overdraft users.

72. To address concerns about the cumulative costs of overdraft charges, the CMA has proposed requiring all PCA providers to introduce and publicise a monthly maximum charge (MMC) for use of an unarranged overdraft facility. Crucially, however, the MMC would be set by each PCA provider.

73. The CMA argues that this proposal would benefit users of unarranged overdrafts in two ways – firstly, through setting a limit on the total amount a heavy overdraft user would be charged in any given month and, secondly, that increased transparency would constrain charges.

74. The MMC – whilst potentially affording some direct protection to the very highest unarranged overdraft users who would see the level of their charges reduced – is likely to benefit only a very small group of customers. This is because the MMC applies only to unarranged overdrafts and because the CMA has provisionally decided to allow banks to set their own individual MMC. We would expect the large incumbent banks to try, understandably, to limit the potential loss of revenue from the MMC by setting high MMCs.

75. Furthermore, the proposal would offer protection to heavy users of unarranged overdrafts, but not to those who pay, for example, high arranged overdraft charges or incur large costs from a variety of charges. This might encourage banks to increase arranged overdraft charges to offset the impact of capping MMCs.

76. The CMA believes that the transparency of a headline MMC would allow competitive forces to constrain or reduce the level at which unarranged overdraft charges are set by individual banks. This would result from the fact that consumers would be better able to compare rival unarranged overdraft offerings by the banks and switch to lower cost providers.

77. We believe that this is unlikely to happen for a number of reasons:

    - The success of this remedy in mitigating poor outcomes for unarranged overdraft users would depend on switching or the threat of switching by this group of consumers. We believe this is unlikely in the short to medium run given high levels of inertia which characterise the PCA market, including amongst overdraft users. The OFT took insufficient fund charges to the Supreme Court because banks were increasing these charges, above their cost, with little reaction from customers.

    - The barriers to switching for overdraft users, as the CMA notes, are greater than for other groups of consumers given the uncertainty as to whether they will be able to obtain an overdraft facility from an alternative provider. The CMA has, of course, already considered this matter but the complexities of the issue means it has understandably been unable to come up with a particular solution.

78. Additionally, we question whether consumers should be making decisions about their PCA provider based on the MMC. Were consumers to switch based on relative MMC charges, they would be unduly influenced by one charge (and, importantly, it would be the maximum charge rather than the cost to the consumer) rather than considering the full range of charges that consumers pay or indeed other product features. It would be akin to choosing a new car based upon the price of the tyres or other features such as airbags. Our concern is that consumers who make decisions on this basis may end up making incorrect decisions.

79. Although we do not think that MMCs will do much for competition, at least in the shorter-term, we support them because they offer greater protection to this vulnerable group of customers.

80. However, for this remedy to be effective, without leading to unintended consequences such as those mentioned above, we suggest that the CMA should reconsider:

- imposing a regulatory cap on MMCs. This would be equivalent to regulatory caps that have been imposed on credit card interchange fees and on mobile roaming charges; and/or

- prohibiting banks from increasing existing charges or introducing new charges to offset the impact of the cap on MMCs. This would be equivalent to the approach taken in the Interchange Fee Regulations which imposed regulatory caps on debit and credit card interchange fees.

81. More fundamentally, we suggest that the CMA should give serious consideration to extending MMCs to arranged overdrafts as well as unarranged overdrafts. We think that this would make the proposed remedy much easier for customers to understand (and likely to have a greater impact on competition) and would avoid the risk that banks might increase charges on arranged overdrafts to offset the impact of the MMC cap on unarranged overdrafts.

82. Under this broader approach, we suggest that there should be an MMC for each of arranged and unarranged overdrafts. We think that regulatory caps should be imposed on MMCs for both types of overdraft and that banks should be prohibited from increasing existing charges or introducing new charges to offset the impact of these caps.

Additional SME banking measures

83. We think that the proposed additional SME banking remedies address two key aspects of SME banking where normal market practice has had the effect of inhibiting competition by making it difficult for customers to shop around:

- At present, new BCA account opening processes can be very time-consuming and this can discourage SMEs from going through the process with more than one bank. The proposed standard BCA opening procedures should make it much easier for SMEs to shop around when looking for a BCA. The standard BCA opening procedures should also help banks by making it easier for SMEs to provide them with the information that they need; and

- At present, an SME looking for banking services is most likely to approach the bank which provides the owner's PCA. This is because that bank already knows about the business owner from the PCA transaction history. The proposed combination of loan rate transparency, loan eligibility calculator, sharing SME information and 'soft' searches should encourage SMEs to consider seeking quotations for credit from other banks as well as their own bank.

84. We think that the proposed additional SME banking remedies are likely to have a positive impact more quickly and to a greater extent than the proposed additional PCA remedies. There are several reasons for this, including that, unlike PCA banking, BCA banking is not 'free' and that many SMEs use an accountant or financial advisor and/or employ their own finance professionals. This means they may be more likely to compare prices than retail customers. However, the benefits to SMEs arising from lower prices as a result of greater competition may be partly offset by higher fees for advice paid by SMEs to their accountant or financial advisor.

85. The CMA suggests that its proposed remedies will facilitate the growth of intermediary advisors to SMEs. We do not dispute this suggestion. However, if the growth of intermediary-provided services results in the overall costs associated with the sourcing of credit increasing for SMEs, then the changes will not have succeeded.

86. Furthermore, as for PCAs, the full benefits of the proposed remedy package can only be realised when the Open API banking standard is agreed and implemented. This underlines the need for the Open API banking standard to be progressed quickly and in a way that encourages a broad range of providers to be ready and willing to participate in services based on it.

87. We suggest that, before finalising its SME banking remedies, the CMA should consider the following two specific issues:

- Many SME loans are individually negotiated and are priced for risk - as is appropriate for prudential risk management. SMEs' confidence in and willingness to use loan pricing services may be reduced if final quotations are generally higher than initial indications. This suggests the need for standards about the reliability of indicated prices for SME lending.

- We note the CMA's proposal that the larger banks should be required to contribute to and fund the Nesta process and prize fund for a 'one-stop-shop' comparison website for SMEs - or, failing that, an industry funded SME comparison tool. While we note the CMA's finding that there are no effective comparison tools for SMEs and support the CMA's intention to encourage their development, we think that it would be better for the CMA to encourage the development of a competitive market in services for SMEs, which could be market-wide or product-specific, rather than to encourage the creation a 'monopoly' one-stop-shop. We believe that the competitive market approach would be better for SMEs and more consistent with the Treasury's approach to Open APIs and FinTech.

Conclusion

88. Since the Treasury Select Committee's *Competition and Choice in Retail Banking* report was published in 2011, there have been a number of important legislative and regulatory steps to reduce barriers to entry and create a more level playing field between large banks, smaller banks and new entrants. We also welcome the work being done by HM Treasury to make the UK a global leader in FinTech, the FCA's ongoing efforts to address regulatory barriers to innovation and to support smarter customer communications and the PSR's work, in parallel, to open up access to the payment systems.

89. However, we continue to believe that much more needs to be done to increase competition and improve consumer outcomes in retail banking. We fear that the CMA's provisional remedies, as they currently stand, will be a missed opportunity to drive the development of truly competitive market in innovative new banking services for consumers.

90. We therefore think it would be desirable for a broad review of progress towards greater innovation and competition in retail banking to take place in two years' time (at the same time that the CMA is proposing that the Treasury should review certain initiatives aimed at greater sharing of SME data). We would be pleased to contribute to any such review.