Competition and Markets Authority
Final Submission

Wednesday 22 June 2016

Nationwide
On your side

Contents

Key Messages

Overall, we support the CMA's proposed remedies package. However, we are concerned that it will not have sufficient impact as it does not address the issues faced by an important and particularly inert group of customers, who could gain substantially from switching

1. Financial institutions outside the large banks face very limited growth opportunities in the PCA market. The CMA's remedies package will not change this

2. The CMA's remedies package will not target inert customers of larger providers, who are typically on legacy products and would benefit the most from switching

3. The CMA should propose additional remedies that address the incumbency advantages that dominate the industry, including the advantage derived from the large base of inert customers

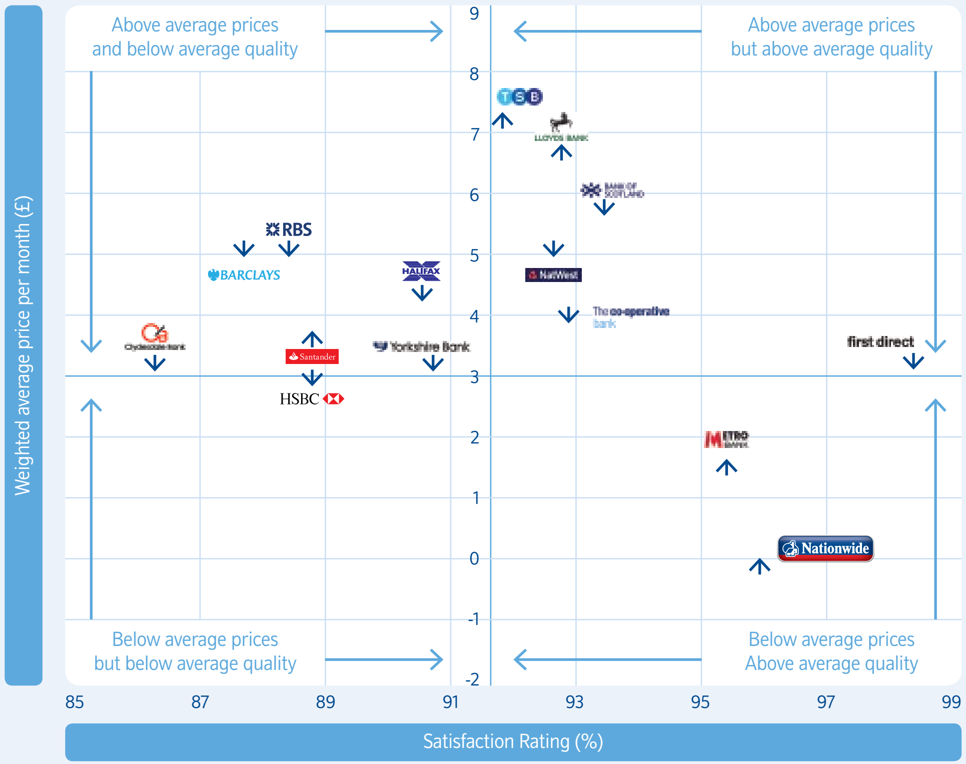
4. The CMA's remedies package will have limited impact on the PCA market unless complemented and enhanced by additional remedies, such as that proposed by Nationwide

Market Growth

1 Financial institutions outside the large banks face very limited growth opportunities in the PCA market. The CMA's remedies package will not change this

- We invest significant amounts of money in our PCA proposition – and have a market leading PCA offer in terms of low cost and high quality products – see Figure 1
- Despite this, we have not substantially increased our share of main/packaged PCAs
- It is therefore clear that the market is not well-functioning, and significant changes are required to improve customer engagement, ensuring that providers making significant investments in low cost high quality products are rewarded with substantial market share growth
- The CMA's current remedies package will not affect incumbent institutions with the highest market shares as the remedies do not target the substantial number of disengaged, inert customers (discussed below)

Figure 1: **Nationwide has a high quality, low cost product**



Incumbency Advantages

2 The CMA's remedies package will not target inert customers of larger providers, who are typically on legacy[1] products and would benefit the most from switching

- The CMA's pricing analysis shows that providers with higher market shares charge higher prices, and these prices cannot be explained by higher quality – see Figure 2
- Analysis from both data rooms shows that:
  - Customers of large banks have more to gain from switching the longer they have been with their bank – see Figure 3
  - There is no relationship between gains from switching and account tenure for small bank customers
  - Large bank customers, on average, have far more to gain from switching than small bank customers
  - Customers on legacy accounts have large gains to be made from switching
- Incumbent providers face very limited incentives to compete to retain these inert, legacy customers

- In spite of this existing evidence, the CMA has not proposed a remedy focused on inert, legacy customers which make up a significant proportion of the largest four providers' customer bases

Figure 2:
Banks with the highest market shares tend to have the highest average prices

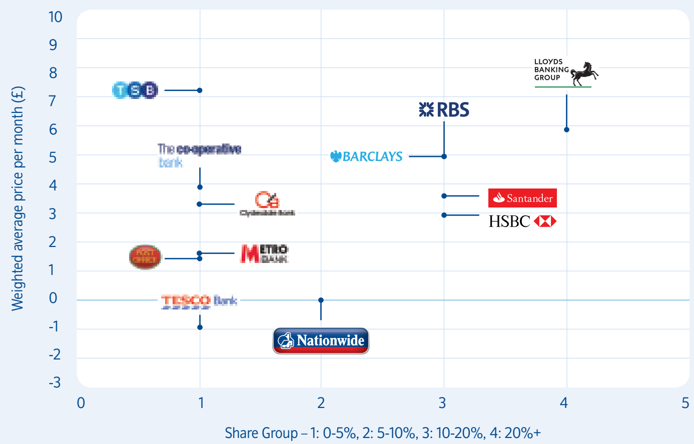
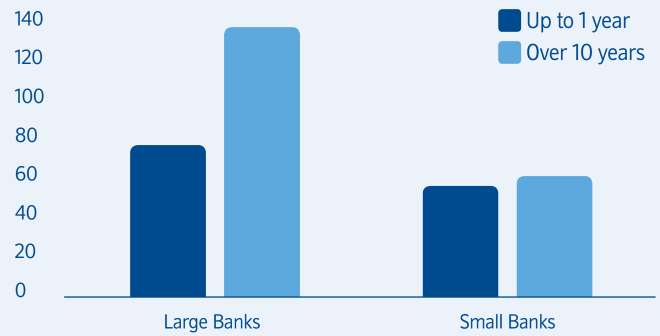


Figure 3:
Customers of large banks have more to gain from switching as bank account tenure with the same provider increases



[1]For these purposes legacy accounts are those which are either no longer on sale or actively marketed

An Alternative to Structural Remedies

3 The CMA should propose additional remedies that address the incumbency advantages that dominate the industry, including the advantage derived from the large base of inert customers

- The CMA states that divestment remedies would not be effective or proportionate because of the associated costs and timeframe
- The CMA believes its remedies package, in combination with technological changes, has the potential to change the structure and operation of the PCA market

- We believe that the time and costs of divestment compare favourably to the results achieved through organic growth
- Accelerating the pace of change and scale of investment will:
  - Not erode incumbency advantages
  - Continue to skew competitive and market dynamics to the detriment of all PCA customers
- Current technological developments have not radically changed the PCA market

- The CMA should implement our proposed remedy, as it would address incumbency advantages, whilst also avoiding concerns that divestitures are a prolonged and expensive exercise

Nationwide's Remedy Suggestion

4 The CMA's remedies package will have limited impact on the PCA market unless complemented and enhanced by additional remedies, such as that proposed by Nationwide

We agree with the CMA that weak customer engagement inhibits competition for PCA customers. However the CMA's proposed remedies will:

- Take significant time to materialise
- Not encourage substantial levels of searching and switching
- Not target a distinct customer group who stands to gain from searching and switching, namely customers with legacy accounts, the majority of whom are not overdraft customers

Nationwide Suggested Remedy

- The CMA should implement further remedies that specifically target inert, disengaged customers
- Our suggested remedy is to impose additional obligations on providers with a market share of 10% or more and require them to periodically prompt their inert customer base, being those customers who are:
  - On a legacy product; or
  - Have not switched for 10 years or more

Our proposed remedy, designed to focus on disengaged customers with the most to gain from switching, will:

- Complement the CMA's remedies package
- Deal with a significant element of incumbency advantage
- Ensure effective competition for the benefit of all PCA customers
- Cause the PCA market to become more dynamic