

Nationwide Building Society

Comments on LBG's response to the update on PCA pricing working paper – 22 June 2016

We have reviewed Lloyds Banking Group ('LBG')'s submission in response to your updated pricing analysis. LBG argues that flaws in the CMA's methodology have made the results from the analysis unreliable, and the CMA should therefore not present them or draw conclusions from them in its Final Report. Nationwide does not consider LBG's conclusions to be valid.

Nationwide acknowledges that there are some limitations to the CMA's methodology, and in fact Nationwide itself has highlighted some of these points in previous submissions to the CMA. Nationwide has had very limited time to review and comment on LBG's response. However, Nationwide considers that a number of the points LBG makes are either repetitions of its previous arguments which the CMA has already addressed, or are points that are not directly relevant to the robustness of the CMA's pricing analysis. For example:

- Nationwide continues to believe that the CMA's weighting methodology for average prices across providers is valid. It is reflective of how competition has evolved in the market over time.
- While the CMA may have made an assumption regarding M&S vouchers that could overstate aggregate gains from switching, this assumption is likely to have a negligible impact on pricing. While the value of the benefits for the M&S accounts will have reduced the HSBC Group average price, a comparison of Table 5 and Table 6 of the Update on Personal Current Account Pricing working paper shows that the overall impact on the HSBC Group price is not likely to be material.
- LBG puts forward a number of explanations for differences in prices which are unrelated to the alleged errors LBG identifies in the CMA's model. For example, LBG states that providers may charge lower prices due to lower costs. Nationwide does not agree that a provider charging lower prices due to a lower cost would indicate that the CMA's estimation of prices is flawed. Further, LBG's arguments on smaller operators using an "acquisition" pricing strategy are not relevant to the CMA's ability to estimate current price levels.

In light of the above, Nationwide does not consider LBG's points prejudice the results in such a way as to prevent an informative comparison of pricing and gains from switching across providers in the PCA market.

Moreover, despite suggesting that the CMA's analysis cannot be relied upon and should not be presented in the Final Report, LBG states that the CMA's analysis rightly identifies that many customers, particularly overdraft customers, have the most to gain from switching. This would appear to undermine LBG's argument that no weight should be placed on this analysis.