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Personal current accounts and banking services to SMEs

This is the Financial Services Consumer Panel response to the Competition and Market Authority (CMA)'s consultation on the potential launch of a market investigation into the UK markets for personal current accounts (PCAs) and banking services to SMEs. It should be read in the context of our independent research into cross-subsidisation of the PCA market in the UK, which I have enclosed.

Reference for a Market Investigation

The Panel believes that the CMA already has enough information on many aspects of the PCA market to justify action without further investigation.

In particular, the CMA in its consultation paper has already identified some underlying causes for the absence of effective competition in the PCA market, including high barriers to entry for new providers, access to payment systems, lack of transparent information to consumers and low levels of account switching. These issues are exactly the same as those which have been identified in a string of market investigations, stretching back to the Cruickshank Report in 2000. The Panel believes action could be taken on many of these now, rather than let consumer detriment mount while further work is done.

Cross-subsidisation in personal current accounts

Although the Panel does not see the need for a full market investigation, it does believe that the issue of cross-subsidisation in PCAs warrants further analysis. The attached Panel discussion paper raises a number of questions about the extent and impact of cross subsidisation that we think the CMA should address. This includes both vertical (within PCA) and horizontal (across product) cross-subsidies.

The Panel is agnostic about the existence of cross-subsidies. Consideration needs to be given to the potential anti-competitive impact, for example through predatory pricing. But we would acknowledge that cross-subsidies may be a sustainable way for banks to offer a wide range of services, in particular the provision of basic bank accounts to vulnerable consumers. This is a wider public policy question, and we would like to see debate in this area.

We do believe that the lack of price transparency inherent in the widely used 'free if in credit' banking model inhibits switching as consumers are unable to judge the true value

of the deal they are getting from their PCA provider, nor if they could do better elsewhere.

In order gauge whether the PCA market is efficient and competitive, we believe it is imperative that the CMA examine the cost and profitability of PCAs and related products offered by providers.

The Panel's response to the consultation refers only to personal current accounts, and we have not looked at the SME banking market in detail. We would observe, however, that many of the problems found in this market have also been known and documented for a decade or more, and would hope that any CMA investigation in this area would focus on issues where such an investigation clearly adds value.

If you have any further questions about the issues raised in this response or the discussion paper, the Panel would be happy to provide more information.

Sincerely,

Sue Lewis
Chair
Financial Services Consumer Panel