

## **BGL Group Limited**

### **Retail Banking Market Investigation**

#### **Response to CMA's Provisional decision on Remedies (PDR)**

#### **1 Introduction**

- 1.1 This document sets out BGL Group Limited's (**BGL's**) response to the CMA's Provisional Decision on Remedies (**PDR**) published for consultation on 17 May 2016 in respect of its Retail Banking Market Investigation.
- 1.2 As explained in previous submissions, BGL operates Comparethemarket.com (**CTM**), one of the UK's most popular price comparison websites (**PCWs**). CTM offers comparison services in respect of various personal lines insurance products (motor, home, life, travel etc.) as well as energy, credit cards and current accounts.
- 1.3 BGL has a particular interest in the outcome of the present investigation as the majority of the remedies proposed by the CMA (while focusing on access to data) rely on or involve greater participation by PCWs in the comparison of personal current accounts (**PCAs**) and business current accounts (**BCAs**).
- 1.4 In BGL's view, while the success of these remedies in driving greater competition in this particular market will be contingent on a number of other factors, the CMA's approach, which places PCWs at the centre of the solution, highlights the benefits that PCWs can continue to deliver and develop for consumers and SMEs.
- 1.5 BGL may contribute further comments and feedback following this submission.

#### **2 Executive summary**

- 2.1 BGL agrees with most aspects of the PDR. At its heart, the PDR considers the most effective ways of fostering greater customer engagement.
- 2.2 This places emphasis on the need to facilitate access to provider and (subject to appropriate consents) customer data as well as the role played by common Application Programming Interfaces (**APIs**) in anticipation of forthcoming regulatory change (namely the second Payment Services Directive or **PSD2**). The API remedy also addresses some of the shortcomings of the original Midata initiative.
- 2.3 Given that this development (access to data) for the retail banking market is inevitable, BGL does not comment in this submission on whether, in principle, measures which mandate access to data can be justified in all instances, as opposed to allowing markets to self-regulate, particularly in light of rapid technological change. That said, in the circumstances, the retail banking market is characterised by long-term customer inertia and specific challenges which hamper comparison services. With this in mind, BGL welcomes the initiative on the basis that it should make current account comparison services more meaningful and reliable. It also places more control and convenience in the hands of the customer (whether consumer or SME), which is a positive development.
- 2.4 The CMA has also considered how data relating to service quality should be presented to customers in a way that is useful and informative, without overloading the customer with information. This is an essential feature of the remedy given the capacity for excessive or irrelevant information to disengage customers. BGL considers that further research is needed in this area to ensure that 'quality indicators' (customer recommendation scores) as identified by the CMA are clearly understood by customers, are relevant to their actual priorities (i.e. not overly generalised) and do not disadvantage certain providers (e.g. online only banks by placing emphasis on branch services).
- 2.5 BGL also notes the CMA's positive focus on customer 'prompts' and that specific measures are necessary to remind customers of the opportunities for switching and getting a better deal. BGL is pleased that the CMA's proposal places greater onus on banks to support clearer and more frequent messaging to customers in terms of the

possibility, mechanics and advantages of switching; however, it would urge the CMA (or the FCA based on the CMA's present proposals) to engage with other service providers, such as PCWs, as well as banks, in its research in this area (as such service providers have an incentive to engage customers and encourage switching).

- 2.6 As regards current account switching and improvements to the Current Account Switching Service (**CASS**), while reforming governance measures is important, as is engendering greater customer awareness of and confidence in the service, BGL is disappointed that the CMA has not explored to a greater extent the merits of more fundamental change to the switching process, notably Account Number Portability (**ANP**). The reasons given by the CMA relate to costs and security; however, while not able to comment on the former, as regards the latter, the challenges do not seem any more pronounced (and indeed would seem less pronounced) than those associated with the development and use of APIs. Moreover, unlike CASS, ANP is already a concept that most customers are familiar with and so presents less of a challenge in terms of customer understanding and engagement, which is a core principle behind many of the CMA's remedies.
- 2.7 As regards overdraft customers, the CMA has rightly identified that these customers have the lowest switching rates of all PCA customers and that specific measures should be adopted, especially in relation to an effective comparison of the complex overdraft charges and to facilitate searching and switching. In particular, BGL welcomes the introduction of a monthly maximum charge (**MMC**) by PCA providers and its disclosure to PCWs, who play an important role in communicating this information effectively to overdraft customers who wish to switch. In addition, BGL is encouraged by the CMA's proposal that an online overdraft eligibility tool integrated in a PCW is likely to be an effective measure to facilitate switching. However, such tool would only be effective if the information provided by PCA providers is accurate and comprehensive. If PCWs have access to different information, then this could lead to different eligibility offers for the same PCA and result in confusion.
- 2.8 Finally, BGL in principle agrees with the CMA's decision that specific measures are required to address the specific features on the supply of SME banking services. A new commercially sustainable SME tool through the Nesta challenge prize (rather than an industry-funded comparison tool or an existing SME focused website like BBI) could facilitate comparison and switching for SMEs. However, for this to work, existing commercial PCWs should be able to participate. For an effective and sustainable comparison there needs to be on-going innovation in a competitive market where more than one PCW is offering suitable price comparison services for SMEs.
- 2.9 The transaction structures of different accounts are all completely different and vary based on the number of transactions and the particular industry a provider is operating in. Comparison for SMEs is virtually impossible without actual data, making the current framework for comparison fairly pointless.
- 2.10 In summary, BGL considers that the CMA's remedies are more likely (than structural change) to encourage greater competition, however, data access aside, a number of the remedies still seem to be at an early stage, requiring further research and development. In some instances, such as current account switching, they do not go far enough.

### **3 Foundation measures**

- 3.1 The CMA's research (conducted by GfK) reveals that customers appear to be satisfied with their bank accounts. Customers seem broadly happy with their current bank or see no reason to change. Despite apparent variations between banks in prices and quality, the market shares of the largest banks have remained broadly stable, which suggests a lack of responsiveness by customers to such issues.
- 3.2 The key question is whether customers are making a properly informed decision given the potential savings identified by the CMA as being available to customers who choose to switch; the CMA's research would suggest they are not. It therefore makes sense for the CMA to focus a number of its remedies on:

- 3.2.1 making comparison easier by improving access to data and the development of open APIs;
- 3.2.2 improving transparency and making better information available to customers through the collection and publication of data on service quality;
- 3.2.3 increasing customer engagement via customer prompts.

#### **APIs**

- 3.3 While PCWs already offer some valuable comparison services in the current account space, in the context of PCAs and BCAs, the complexity surrounding interest, fees and overdraft charges (and the difficulty in accessing this data) means that, currently, the recommendations provided by a PCW are of more limited value (than, say, in the context of insurance products).
- 3.4 The underlying lack of data to facilitate more accurate and representative comparisons persists. This, in turn, is exacerbated because PCWs continue to face consumer concerns about data security. Consumers are reluctant to share their bank details with third parties, including PCWs.
- 3.5 The adoption of an open API ought to address this shortcoming to some extent (albeit engendering customer understanding of and trust in this facility will be absolutely critical to its success). It will also enable PCWs to reflect other metrics in their returns, for example, branch access, the quality of customer service provided and the quality of online and telephone banking services.
- 3.6 Midata has the potential to be used to enable the comparison of account costs (e.g. overdraft charges); however, its take up has been limited.
- 3.7 One of the key challenges associated with the Midata initiative, as acknowledged by the CMA, is overcoming customers' reluctance to download and upload their personal data. This is not an inconsiderable challenge given customers' desire for user-friendly processes and wider concerns with regard to data security and misuse.
- 3.8 Other shortcomings of the initiative are that Midata only included 12 months' worth of data and is specific to current account information only, whereas banking relationships can be much wider e.g. transactions on credit cards etc.
- 3.9 It follows, as regards the development of open APIs and in light of changes required by PSD2, the CMA's focus on this remedy is important. Without improved access to data, the benefits of price comparison services, while present, are insufficiently exploited.
- 3.10 The adoption of open APIs, which would enable PCWs to access, process and assess the relevant data on the customer's behalf – easily, swiftly and reliably – could remove a key barrier to customer switching (or at least to undertaking the comparison exercise to make sure they are getting the right deal for them).

#### **Service quality**

- 3.11 BGL agrees that service quality is important to PCA and BCA customers. Measures to require providers to make available reliable, rigorous and comparable performance indicators should assist such customers in evaluating the quality of service offered by providers.
- 3.12 BGL would also agree that survey data indicating the willingness of customers to recommend their bank to friends, family and colleagues is a valuable indicator; as regards some of the other metrics advanced by the CMA, BGL considers that further research, as proposed by the CMA, is necessary.
- 3.13 As a point of principle, while some degree of generalisation is necessary, BGL considers that clear/definite customer priorities (call centre response times) may be important.

#### **Prompts**

- 3.14 The CMA has rightly identified the need to remind customers of the possibility of change on a periodic and event-based basis.

- 3.15 Unlike other markets, such as private motor insurance, where higher switching rates can, in part, be attributed to an annual renewal event (which prompts customers to evaluate, if not switch, their existing provider, the CMA has noted previously in its findings that PCAs (and BCAs) are evergreen products. There is no pre-determined contract end date, which means that there are few, if any, natural trigger points for customers to consider searching for and switching PCAs (or BCAs).
- 3.16 BGL therefore welcomes the CMA's focus on introducing switching prompts to supplement any natural trigger points. These reminders would possibly be more effective than certain natural triggers because it would specifically draw customers' attention to the possibility of searching and switching.
- 3.17 While BGL notes the CMA's suggestion that the FCA should undertake further research (which should be with service providers, such as PCWs, as well as banks), any notification would need to remind customers – in clear and unambiguous terms - of the potential benefits of switching (and address potential misconceptions regarding the risks).
- 3.18 While not wanting to overload customers with data, such prompts could bring to customers' attention the cumulative costs to them of unarranged overdrafts taking into account a particular pattern of account usage over a defined period (e.g. the previous year).
- 3.19 Finally, such prompts should also remind customers of the availability of price comparison services in respect of PCA or BCA propositions and the ability of PCWs (as potentially enhanced by other remedies considered by the CMA) to compare the specific attributes of different accounts based on individual customer preferences.

#### **4 Current account switching and CASS**

- 4.1 The CMA has rightly identified that there are barriers to switching PCAs and BCAs. Even when customers decide to switch accounts, the lack of confidence in the switching process discourages some of them from taking the final step.
- 4.2 BGL supports the CMA's proposal to introduce reforms to the governance of CASS and to adopt measures to improve specific aspects of the switching process, which would increase customer confidence in the service. BGL welcomes the changes to CASS governance through greater transparency around its decisions and its performance; and the introduction of regulatory oversight by the PSR. In particular, the introduction of measures to ensure that relevant stakeholders' interests are properly represented in the CASS decision-making process (CASS' board – MC) through full membership rights of the MC to PCWs is encouraging as it will ensure that the service is developed in the interests of customers and there will be a better representation of views.
- 4.3 In relation to improvements to the switching process BGL acknowledges that the extension of the redirection period under CASS will provide further assurance to customers that their payments will not go missing after switching accounts. In addition the facility for customers to receive their transaction history at the time of and after account closure will increase their confidence in switching.
- 4.4 However, BGL is disappointed that the CMA decided not to pursue further a number of other remedies regarding changes in the switching process and in particular the introduction of Account Number Portability (ANP). While the CMA notes that ANP is generally easier for customers to understand and customers tend to respond to it positively (through customer surveys), it decided that the extension of the redirection period would be effective for not missing payments and would achieve similar benefits at a lower cost. In addition, the CMA notes that the ANP raises some concerns about security and account fraud, which BGL believes are no more pronounced than the risks associated with the development of open APIs, as proposed by the CMA.
- 4.5 BGL is of the view that a more fundamental change to the switching process through the introduction of ANP would have a greater impact on customers and would increase their confidence that payments would not go missing once they could effectively take their account number and possibly sort code when switching banks. It is encouraging though that the PSR might be considering this change in the future.

## 5 Remedies targeted at PCA overdraft customers

- 5.1 BGL is encouraged by the fact that the CMA has identified the specific problems in relation to overdrafts, in particular the fact that overdraft customers have the lowest switching rates of all PCA customers.
- 5.2 The CMA has rightly considered that additional remedies targeted at overdraft customers are necessary to address the relevant issues and to reinforce the effectiveness of the other remedies for these customers, who represent 44% of PCA customers.
- 5.3 BGL has previously noted that a key challenge faced by PCWs in the context of PCAs is the complexity surrounding overdraft charges. While PCWs already are a useful and user friendly means to compare competing PCAs, they cannot currently offer the same ease and depth of comparison as for other certain products. This is because PCA providers, such as banks, are not geared up to compete in the same way as, say, insurers, and access to the information necessary to conduct effective comparison of PCAs is not sufficiently understood or used by customers.
- 5.4 With this in mind, BGL attempts in this section to provide the CMA with some principle-based insight in respect of the measures proposed in its PDR in relation to overdraft users.
- 5.5 In particular, BGL is more interested in the CMA's focus on overdraft eligibility and the accessibility of overdraft eligibility information for PCWs that could empower overdraft customers to search for better value and to switch as well as increase transparency that would help these customers to take more control of their overdraft usage and enhance competition between banks.

### ***Measures to increase customer awareness of and engagement with their overdraft usage and charges***

- 5.6 In relation to the CMA's proposals to increase PCA customer awareness of, engagement and management of their overdraft usage and charges, BGL is in principle in favour of these measures, namely:
- PCA providers informing customers through an alert when they have or are about to exceed an arranged overdraft limit;
  - PCA providers offering grace periods to customers in order to mitigate charges from unarranged overdraft use;
  - BACS working together with CASS to ensure that PCA providers offer a firm decision on the overdraft offered after the completion of the application process but before the actual switch;
  - increased use of prompts;
  - improve existing CASS to make current account switching even better.

### ***Measures to limit the cumulative effect of unarranged overdraft charges***

- 5.7 In relation to the measures aiming at limiting the cumulative effect of unarranged overdraft charges, in particular the introduction of a **monthly maximum charge (MMC)** and its disclosure by PCA providers, BGL would like to make the following comments:
- 5.7.1 Considering how complex overdraft charges are and the low level of engagement by the heavier overdraft users, setting and publicising an MMC for each PCA provider would increase transparency, engagement and stimulate competition. This requirement to specify a MMC will put PCA providers under greater competitive and reputational pressure to reduce these charges;
- 5.7.2 BGL agrees with the MMC figure being provided to PCWs on a monthly basis in order to help customers understand the total charges each month that they are at risk of incurring if they use an unarranged overdraft facility;

- 5.7.3 BGL welcomes the CMA's proposal that in order for the MMC to be effective it needs to be visible and understood by customers. Therefore it is encouraging that the CMA notes PCWs' important role in this respect and it enables them to choose to communicate and display the MMC in the way each PCW considers most useful to customers and does not seek to restrict the PCWs' ability to do so;
- 5.7.4 BGL agrees with the CMA that it is not necessary or proportionate to introduce, as a remedy, a regulated upper limit on the MMCs that PCA providers set or any other form of price control. Such a cap could reduce incentives to compete on the level of the cap while if the upper limit was too low it could constrain some customers from using unarranged overdrafts.

***Measures to facilitate account searching and switching***

- 5.8 In relation to facilitating account searching and switching, BGL welcomes in principle the CMA's proposed measures which can address the additional switching barriers faced by overdraft customers, in particular in relation to the uncertainty surrounding acceptance and timing of an overdraft approval and the uncertainty around the amount they would be offered if customers were to switch to a new PCA provider.
- 5.9 In addition, in order to address the above issues, BGL welcomes the CMA's proposal to require PCA providers to offer overdraft eligibility tools to help potential customers assess whether they were likely to be granted an overdraft facility of a particular size and for a particular period. With this in mind, BGL would note the following in relation to PCWs' role in giving an indication of overdraft eligibility to potential PCA customers:
  - 5.9.1 As noted in previous submissions to the CMA, it seems logical that a customer, when comparing PCAs, would see some benefit in receiving an indication of his/her likely overdraft eligibility from each PCA provider;
  - 5.9.2 An indication of overdraft eligibility should include more comprehensive information on costs so that customers do not end up with a more expensive PCA. A remedy, such as an overdraft eligibility tool, that encourages further customer debt should be designed in a way that customers engage more in considering all overdraft features and their potential relevance and impact. BGL therefore welcomes the CMA's provisional decision to recommend that the FCA looks at ways for PCA providers to improve their engagement and communication with their customers.
- 5.10 BGL is encouraged by the CMA's analysis in its PDR and its provisional conclusions that an online overdraft eligibility tool integrated in a PCW is likely to be an effective measure. If implemented and incorporated in the right way with PCWs, such a tool would be more appealing to customers. However, BGL would note the following:
  - 5.10.1 The CMA needs to be aware of the need to drive investment, innovation and product differentiation between PCWs. An important element of competition between PCWs is the way each comparison website differentiates their offering from rivals – and makes their customer proposition different and interesting – and the way each PCW targets the information they think their customers want and to negotiate individual deals with the supplier of the information (e.g. banks);
  - 5.10.2 For PCWs to offer comprehensive PCA comparisons including an indication of overdraft eligibility, depends on the accuracy and adequacy of the relevant customer data shared by PCA providers. Without the necessary information, a representative and effective comparison is not possible.

- 5.10.3 The relevant information provided by PCA providers should not be a mere indication but be based on actual customer data where possible.
- 5.10.4 An overdraft eligibility tool depends on the effective implementation of the CMA's foundation measure (as analysed in the PDR) of open APIs, as these have the potential to improve the accuracy of overdraft eligibility indications by removing any asymmetries on information between PCA providers. If different PCWs have access to different information, then this could, in principle, lead to different eligibility offers for the same PCA and result in confusion.

## **6 Comments on additional SME remedies**

### ***Introduction***

- 6.1 BGL agrees with the CMA's provisional decision that in addition to the three foundation remedies and the current account switching measures which will in themselves make a significant contribution to addressing the AECs identified in SME banking, additional remedies are required to address the more specific features in the supply of SME banking services.
- 6.2 Although some pricing information is available, it is difficult for SMEs to compare pricing across banks. This is because information on business loan prices and eligibility is not readily available and there are no effective comparison tools serving the needs of the various business customers. To facilitate SME banking comparison, open APIs and Midata are critical elements without which comparison of products available across the market will be virtually impossible.
- 6.3 In BGL's view access to comprehensive, accurate, relevant and standardised data, especially through open APIs could facilitate comparison for SMEs through the commercial PCWs. This could lead to effective switching and building customer engagement and confidence. This could be achieved through the effective implementation of the proposed foundation measures. However, BGL understands that there are more tailored measures that need to deal with the specific needs of BCAs and SMEs.
- 6.4 With this in mind, BGL sets out below a few comments in relation to the various measures that the CMA proposes to adopt, with particular focus on the measures that could facilitate comparison of SME banking products and improve the switching process.

### ***Measures to facilitate comparisons of SME banking products and improve the switching process***

- 6.5 BGL agrees with the CMA's provisional finding that the ability of SMEs to make price comparisons between BCAs and between lending products is limited and that there is a lack of comparison tools for SME banking services.
- 6.6 BGL in principle welcomes the proposed measures to facilitate comparison of SME banking products by creating one or more commercially sustainable SME comparison tools through the Nesta challenge prize. With this in mind, BGL notes the following:
  - 6.6.1 The main advantage of the Nesta challenge measure is that it will arise from a competitive process and potentially a number of sites could develop to meet the needs of different SMEs;
  - 6.6.2 BGL considers that existing commercial PCWs have a key role to play in a competitive SME solution. BGL (through the CTM platform) does not currently offer price comparison services enabling SMEs to compare BCAs and associated lending products. However BGL acknowledges that more can be done to assist SMEs to compare financial services and products available to them. As such, BGL is of the view that the Nesta challenge

- prize should be open to existing commercial PCWs as well as completely new entrants;
- 6.6.3 For an effective and sustainable comparison that would be appealing to customers in the future, there needs to be on-going innovation and development of the platform. BGL believes that such innovation can be created in a genuine competitive market where more than one PCW is offering suitable price comparison services for SMEs;
- 6.6.4 Apart from the development of an effective comparison tool, it is important to focus on customers' engagement and willingness to engage with the new SME comparison platform. BGL notes that existing PCWs already offer certain benefits in this regard, in particular in relation to brand awareness, marketing expertise to reach out to relevant customers, as well as solid infrastructure that can be further developed over time to become more user-friendly and offer more security regarding data transfer for customers.
- 6.7 BGL welcomes the CMA's provisional decision not to focus on adopting measures to widen the scope of existing SME-focused websites to include price comparison websites. In particular:
- 6.7.1 BGL has previously stated that such measures cannot guarantee that customers would really engage. Even with more investment and innovation, it is not clear whether these platforms (SME-focused websites with enhanced comparison services) would transform competition in the SME market. Even with a more attractive and user-friendly proposition, it would take time for customers to become aware of, and willing to engage with them;
- 6.7.2 On the contrary, BGL welcomes the CMA's proposal, as a transitional measure, to require that existing supporters of Business Banking Insight (BBI) ensure that BBI continues to collect and publish survey information which permits comparisons between providers on the basis of their service quality, by continuing its funding.
- 6.8 BGL also welcomes the CMA's provisional decision not to create an industry-funded comparison tool (whereby the CMA would specify its content and functionality and make arrangements for its funding and governance). A new PCW for SMEs set up through regulation could not be as innovative and sustainable as a commercial PCW which has a financial incentive to compete with other PCWs and private funding to enable it to continue operating. In addition, an industry-funded website might not be perceived as independent and therefore would be unlikely to succeed.

## **7 Conclusions**

- 7.1 In general, BGL is encouraged by the CMA's proposals on remedies and its willingness to enhance customer engagement and switching for PCAs and BCAs. These remedies are more likely to encourage greater innovation and competition between providers of the relevant services, including PCWs, in particular as a result of the access to data measures and the introduction of open APIs. However, as noted above, there are a number of measures that need further development and consideration, in particular in order to have an effective impact on customers' switching behaviour.
- 7.2 In particular, BGL welcomes the CMA's recognition of PCWs' important role in the switching process and increasing customer confidence and engagement. With this in mind, BGL would urge the CMA to engage further with PCWs for additional input on the design and development of the proposed measures.