

# INTERVENTIONS TO FOSTER AN EFFECTIVE AND COMPETITIVE CURRENT ACCOUNT MARKET

July 2017

A Bacs Discussion Paper





## 1 FOREWORD

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I am delighted to introduce our latest research report on the competitiveness and effectiveness of the personal current account market. This report follows our recent publications which detailed our work to understand the dynamics of the market and the key learnings into what drives consumer engagement. This new report consolidates our findings and provides insight into how a more effective current account market might be created.

As owners and operators of the Current Account Switch Service (CASS), we know that understanding the end-to-end customer journey is essential to tailoring our product development strategy to better satisfy consumer needs. Having pioneered research into consumer behaviour with the University of Bristol, which examines the consumer's complete learning journey and identifies the systemic market dynamics at play, we have now begun to analyse what market changes might influence consumer decision making.

Our Market Dynamics Model demonstrates that product innovation and promotion is a key to prompting consumers to consider whether they should switch accounts. Our research confirms that the CASS brand plays a vital role in lowering the actual and perceived barriers to switching.

This paper identifies how the consumer groups most likely to benefit from switching behave, and comments on how changes in the market, for example the development of Open Banking, will affect consumer consideration. We also use the measures of competition identified in the research we commissioned from the Social Market Foundation to critically evaluate these insights so we can consider what constitutes an effective current account market. Looking ahead we also investigate how further interventions might foster competition.

We are committed to working with the wider community, to share our insights and findings, whilst ensuring that we do everything we can to support a better functioning current account market. Following this report we will encourage debate on what interventions will be most effective in engaging consumers and develop our measurement frameworks.

This work will help us further develop the CASS brand and product as a simple and stress free way for customers to get the best from their financial providers.

### **Anne Pieckielon**

Director of Product and Strategy, Bacs Payment Schemes Limited

## 2 EXECUTIVE SUMMARY

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### BACKGROUND

In September 2013 Bacs launched the Current Account Switch Service (CASS), which was designed to make it quick and easy for customers to switch their current account provider. Despite the continued promotion and operational success of CASS, only around 4% of consumers have switched their account through the service.

Before the launch of CASS, Bacs set out to understand the extent to which consumers were searching the market and switching their current account products. To this end, Bacs and the University of Bristol undertook a thorough review of research into consumer switching behaviour and the complex market dynamics at play. This research drew out two reinforcing feedback loops acting on the market: the Trust loop and the Inertia loop. Both these loops limit consumers' active consideration of switching.<sup>1</sup>

Complementary to the research with the University of Bristol, in September 2016 the Social Market Foundation (SMF) produced a report identifying six measures of competition and how they have changed in recent years.<sup>2</sup> In this white paper we provide some insights from our research looking at various supply and demand side remedies and their likely effect on the market.

### CUSTOMER SATISFACTION AND TARGETED PROPOSITIONS

Despite the regulatory concerns, research suggests that – for most customers – the current account product works well.<sup>3</sup> In fact, 91% of customers stated that they were satisfied with their current account product.<sup>4</sup> However, we have identified certain customer groups that are not getting the best deal and could benefit from switching their current account: these groups exhibit two characteristics:

- **Frequent Use of Overdrafts** – those consumers paying large overdraft fees and interest on debit balances, particularly those using unauthorised overdrafts.
- **High Credit Balances** – account holders with consistently high, positive balances.

A key challenge in fostering an effective and competitive current account market will be to identify the specific segments that are disengaged and are likely to benefit from switching. In addition, refining and developing product propositions for those groups poses a problem of profitability for the account providers.

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<sup>1</sup> Bacs Consumer Engagement in the Current Account Market: A Better Functioning Market  
[https://www.bacs.co.uk/documentlibrary/cass\\_switch\\_report\\_1\\_nov.pdf](https://www.bacs.co.uk/documentlibrary/cass_switch_report_1_nov.pdf)

<sup>2</sup> SMF A Switch in Time  
<http://www.smf.co.uk/wp-content/uploads/2016/09/Social-Market-FoundationSocial-Market-FoundationA-switch-in-time.pdf>

<sup>3</sup> University of Bristol PFRC Personal current account switching  
<http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1604-personal-current-account-switching-report.pdf>

<sup>4</sup> CMA Retail Banking Market Investigation – Provisional Findings Report  
[https://assets.publishing.service.gov.uk/media/563377e8ed915d566d00000f/Retail\\_banking\\_market\\_investigation\\_-\\_PFs\\_V2.pdf](https://assets.publishing.service.gov.uk/media/563377e8ed915d566d00000f/Retail_banking_market_investigation_-_PFs_V2.pdf)

### **A DIVERSE RANGE OF PRODUCTS AND SERVICES**

The CMA identified that the annual gains from switching for overdraft users can be three to four times higher than for customers who do not use an overdraft and, for around 1% of the market, customers could gain up to £540 a year.<sup>5</sup> Our research suggests that, for some, the perceived barrier to switching is much higher; whilst others feel they want to pay off their overdraft to have a 'fresh start'.

Our consumer behavioural modelling suggests that the best method for engaging these frequent overdraft users is through provider innovation and new targeted, customer-focused propositions. Though, without a perception that switching is easy and stress free regardless of their overdraft, these customers are unlikely to switch. Our central product development and promotion has a role to play in engaging consumers as both strengthened customer propositions and a lower perception of risk in the process of switching is required to access the headroom within the overdraft user group.

### **NEW ENTRANTS GAINING SCALE AND MARKET CONCENTRATION**

The SMF report concluded that there have been encouraging signs in the number of new entrants to the current account market in recent years; but whilst the number of these new players is encouraging, we have yet to see any significant growth of market share amongst them.

We have explored what conditions are required for a new entrant to gain scale and what their product offerings might look like. This analysis has revealed that a challenger bank can increase its market share significantly with an innovative product proposition but only with a significant promotional budget.

However, if the more established players respond to this new entrant by improving their own propositions or, in lieu of innovation, simply increase promotional spending they are likely to inhibit the growth of the challenger.

### **CONSIDERATION AND HEADROOM**

Our analysis suggests that the Open Banking initiative is set to be a potential driver of innovation, but our modelling suggests that it is providers developing new propositions that will drive consideration and switching amongst consumers, rather than any central service innovations or promotion.

Providers can target specific segments and, through promotion of their products and services, help customers understand and manage their finances. The challenge for Open Banking is whether it can stimulate new product innovation, or if it simply leads to process improvements in consumers' financial management. While such an outcome would undoubtedly be beneficial for consumers it would not be reflected in changes to the measures the SMF identified, and would be unlikely to lead to an increase in switching levels. But, by providing more effective products and supporting processes for consumers, it can be argued that the overall result is a better functioning market.

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<sup>5</sup> CMA Retail Banking Market Investigation – Final Report, 65million active accounts  
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

THE CURRENT ACCOUNT SWITCH SERVICE (CASS) IS DESIGNED TO MAKE IT QUICK AND EASY FOR CONSUMERS TO SWITCH THEIR CURRENT ACCOUNT PROVIDER



### 3 INTRODUCTION

In September 2013 Bacs launched the Current Account Switch Service (CASS), which was designed to make it quick and easy for consumers to switch their current account provider. Since the launch, Bacs has been committed to driving awareness and confidence in CASS amongst consumers through a series of successful mass advertising campaigns. However, despite the continued promotion and operational success of CASS, only around 4% of consumers have switched their account through CASS.<sup>6</sup> This paper will explore the results from Bacs' research programme, examining analysis from both our own research and external reports.

Before the launch of CASS, Bacs set out to understand the extent to which consumers were searching and switching their current account products. To this end, Bacs and the University of Bristol undertook a thorough review of research into consumer switching behaviour and the complex market dynamics at play. This research revealed two key reinforcing loops that inhibit consumers' active consideration of the market, the Trust loop and the Inertia loop. The Trust loop represents consumer's increasing trust with their current provider, whilst the Inertia loop indicates consumer's confidence in the process of switching and awareness of CASS. This research has led to the development of an agent-based model<sup>7</sup> of consumer choice, which considers the overarching and underlying market dynamics that have been identified and explored. The Market Dynamics Model (MDM) allows us to explore in detail how changes to the market are likely to impact the customer journey and consumer behaviour.

In parallel with this demand-side study Bacs commissioned the Social Market Foundation (SMF) to investigate the supply-side factors and drivers that effect competition in the retail banking market. Its research found that there has been some progress in the level of competition in the current account market but there is still work to be done. With the changing banking landscape and the package of Competition and Markets Authority (CMA) Retail Banking Investigation remedies<sup>8</sup>, we sought to understand further what role CASS plays in an effective market and how we can support innovation and competition. The SMF report revealed six measures of competition which we believe can be used – in combination with the MDM – to help inform our product development and promotion plans. To explore potential changes in the market we have run a large number of scenarios on the MDM and documented their impact on the six identified measures.

This paper will explore the current account market and CASS through the lens of each of these measures, highlighting where simulations on the MDM can help us understand how the demand-side may respond to market innovations, and – critically – suggest interventions that Bacs and CASS can undertake to help support an effective market for all participants. Special attention is paid to the role of Open Banking and the wider package of measures recommended by the CMA. We specifically explore the impact of standardised account information and access to consumer transaction data, to simulate the effect new Open Banking enabled propositions will have on consumer choice and decision making.

Bacs is keen to engage with interested parties regarding our continuing research and this paper is designed to stimulate a collaborative dialogue on how to improve the market for all consumers.

<sup>6</sup> Bacs – Published Current Account Switch Service Statistics (Based on 70 million active personal current accounts – CMA Final Report 2016)  
<https://www.bacs.co.uk/Resources/FactsAndFigures/Pages/CurrentAccountSwitchServiceStatistics.aspx>  
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

<sup>7</sup> A computerised simulation model which is designed to model the actions and interactions of autonomous agents (in this instance consumers and current account providers) which allows examination of the effect on a whole system (in this case the UK Current Account Market).

<sup>8</sup> CMA – Final Report on the Retail Banking Market  
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

4 MARKET ANALYSIS

PRODUCT DIFFERENTIATION AND TARGETED PROPOSITIONS

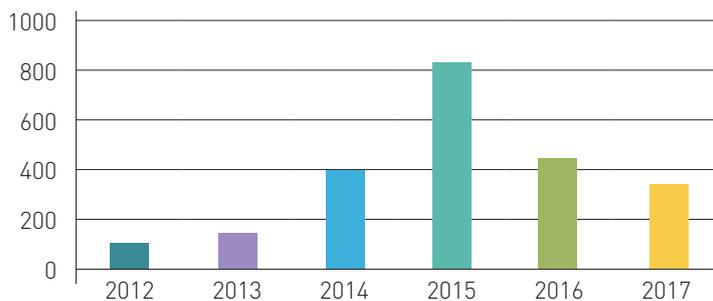
How has the market changed since the launch of CASS?

Since the Independent Commission on Banking (ICB) recommended the development of CASS in 2011 there has been a significant increase in the level of product innovation and differentiation in the market. Bacs has conducted a review of the new entrants; product and consumer service innovations; and operational improvements that have changed the banking landscape since then.<sup>9</sup> This revealed that the number of personal current account (PCA) products has increased by 19% from 120 in 2011 to 143 in 2016; however, there are signs that this level of innovation is declining.

Throughout 2015 there was around one significant product innovation each month whereas in 2016 we recorded only seven significant innovations delivered by market participants. This is mirrored with the decline of ‘switching incentives’ which rewarded consumers for opening a new current account and switching through CASS. Analysis of output from the MDM shows that sustained innovation associated with product improvements is crucial for engaging consumers, and this decrease in innovation is likely to result in fewer people searching and switching their current account.

The reduction in switching incentives can largely be seen as a result of focus moving away from the announcement and subsequent delivery of CASS in 2013. In 2015, when incentive accounts were at their peak, seven providers offered cash incentives for consumers who switched their old current account to a new provider - totalling £725.<sup>10</sup> This supports the premise that the delivery of CASS stimulated significant market activity, particularly in the form of switching incentives. Today, there are only four providers offering these cash incentives and the combined value totals just under half the previous at £335.<sup>11</sup> This decrease highlights that as attention has shifted away from CASS (and onto the other CMA remedies such as Open Banking) use of incentives as an acquisition strategy has declined. However, this reduction does not necessarily signal decreasing competition but perhaps a shift in focus towards consumer retention.

Total Switching Incentives



As switching incentives have become less prevalent the number of reward accounts being opened has increased substantially. In fact, one in three accounts opened in 2015 were classed as reward accounts; unlike switching incentives these accounts offer consumers rewards for actively using accounts and thus encourage loyalty. Consumers may then find themselves in a situation where they may consider their options and decide that the best provider and account is the one they are currently with. This highlights the problems with using switching volumes alone to measure a competitive current account market, as retention products which encourage considered loyalty will lower switching volumes but leave consumers better off.

<sup>9</sup> Appendix 1, Comparative Market Analysis

<sup>10</sup> Defaqto – A review of personal current accounts  
<https://www.defaqto.com/siteassets/corporate-section/2016-releases/current-account-report--06062016.pdf>

<sup>11</sup> Appendix 2, Market Innovation Timeline

Our Comparative Market Analysis revealed that there has been a 19% increase in the number of products offered in the UK current account market between 2011 and 2016<sup>12</sup> and notes that the areas for innovation have largely been in line with the other industries examined. In recent years, there has been a clear trend to develop more mobile app-based offerings which allow consumers to manage their relationship with their provider. These advances have been most effective where technology has been used to try to engage consumers, and where the benefits of adoption are clear for consumers to see. For example, the motor insurance market, one of the most 'disloyal' markets with an annual 27% switching rate, is moving towards the 'gamification' of insurance; using telematics to reward careful drivers and thus encourage people to change their driving behaviour.<sup>13</sup>

To gauge the importance of innovation in the market, we have run scenarios on our MDM to simulate what would happen in a market with no innovation. These scenarios have shown that consumers, when actively considering switching, struggle to find a better deal and thus switching levels decline. We have used the TNS five step switching model<sup>14</sup> to examine if lack of innovation makes it harder for consumers to identify the benefit switching will give them. The absence of differentiation that innovation brings results in consumers halting their journey at the third step: what are the benefits of switching for me?

TNS: Five Steps to Switching



Source: TNS



**CHANGES IN THE MARKET**  
OPEN BANKING WILL IDEALLY FACILITATE EASIER COMPARISON OF PRODUCTS AND COULD POTENTIALLY LEAD TO A RISE IN MULTI-BANKING AND CONSEQUENTLY A DECREASE IN SWITCHING

**What might the future look like?**

The introduction of Open Banking aims to drive innovative product offerings and consumer propositions from the market participants and the implementation of the Second Payment Services Directive (PSD2) into UK law will mean that third party providers (TPPs) will have access to a growing set of payment initiation capabilities, driven by the availability, under correct personal permissions, of transaction data. Implementation of the Open Banking APIs will also allow these TPPs access to standardised product information (including branch locations and overdraft charges) for the main current account providers in the UK. This could allow consumers "even more convenient and bespoke ways to shop around for products"<sup>15</sup> if price comparison websites, for instance, were to exploit the potential of Open APIs.

Whilst we can see similar solutions working in the energy market, where third-party apps even have the capability to automatically switch suppliers on behalf of the consumer, understanding the value of a current account is significantly more complex. One of the key challenges will be to ensure consumers understand the potential benefits of switching, and enable them to search and switch where necessary, potentially utilising tools facilitated by Open Banking.

<sup>12</sup> Appendix 1, Comparative Market Analysis

<sup>13</sup> IIF – Innovation in Insurance  
[https://www.iif.com/system/files/32370132\\_insurance\\_innovation\\_report\\_2016.pdf](https://www.iif.com/system/files/32370132_insurance_innovation_report_2016.pdf)

<sup>14</sup> Tesco Bank/TNS – White Paper  
[http://library.the-group.net/tesco\\_bank/client\\_upload/file/Tesco\\_Bank\\_TNS\\_White\\_Paper.pdf](http://library.the-group.net/tesco_bank/client_upload/file/Tesco_Bank_TNS_White_Paper.pdf)

<sup>15</sup> Faith Reynolds Open Banking: A Consumer Perspective  
<https://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/Research/Open%20Banking%20A%20Consumer%20Perspective%20Faith%20Reynolds%20January%202017.pdf>

Through the MDM, we can explore a market enabled by Open Banking by simulating its direct effect on consumers. When we explore what the impact of availability of consumer transaction data would have on the market, we see that it prompts a noticeable but transitory increase in switching, due to more people making switching decisions. These increased levels of switching are not sustained because the number of consumers considering switching and with a better provider to switch to quickly becomes exhausted. This proportion of consumers who are open to switching and have a better product or provider to switch to can be regarded as 'headroom' in the market: in short, those who have both an openness to switching and a reason to switch.

We have used the MDM to investigate how the market might respond to various supply-side stimuli. The scenario which shows the most significant improvement in the fulfilment of customer needs for all segments is when providers target the 25% of the market defined as 'struggling' or 'over-burdened'.<sup>16</sup> This is in contrast to scenarios where providers attempt to target the whole market or higher value customers, which show limited improvement in terms of aggregate satisfaction with provider. Our previous analysis has shown that these struggling segments are more likely to switch provider based on negative (or push) factors from their old bank or building society, a finding supported by our qualitative studies which revealed persistent overdraft users will generally only take action when absolutely necessary as their preoccupation is largely budgeting from one day to the next.

Our findings also highlight that, in a market with diverse and targeted consumer propositions, switching levels can remain low but consumers can report high levels of satisfaction. Continued promotion of CASS will be significant in empowering consumers to consider and switch, where necessary, encouraging the market participants to continue to tailor their services to all segments. However, in this scenario switching volumes remain broadly stable, oscillating around the 1 million switches per year. This observation strengthens the view that switching volume is not the sole measure of an effective market. Indeed, as Open Banking could enable better comparison of products, new aggregator services exploiting these APIs could encourage more people to move to multi-banking. That effect could, in turn, lower switching levels as more consumers may opt to keep accounts open and allow a TPP to manage their money effectively across several different accounts through an app.

#### INTERVENTIONS

ENABLE CONSUMERS  
TO MORE CLEARLY  
SEE THE BENEFITS OF  
SWITCHING THROUGH  
NEW BENEFIT-  
FOCUSSED CASS  
PROMOTION



#### How can we support an effective market?

The learnings and results from our modelling with the University of Bristol suggest the industry should concentrate on ensuring that consumers are motivated to actively consider switching. The TNS model shows that this engagement can be accomplished by first enabling consumers to recognise the value of their current account. Whilst we must also acknowledge the effect Open Banking and the wider CMA remedies will have on the market, for their full potential to be realised our simulations have shown that work must continue to engage consumers and raise awareness of the benefits of switching, beyond simply providing information on the switching process.

<sup>16</sup> Money Advice Service – Financial Resilience Segmentation  
[https://masassets.blob.core.windows.net/cms/files/000/000/370  
original/Market\\_Segmentation\\_-\\_An\\_overview.pdf](https://masassets.blob.core.windows.net/cms/files/000/000/370/original/Market_Segmentation_-_An_overview.pdf)

We have shown that provider product innovation addresses the third step in the TNS model, addressing the key question “*Can I be sure that I will be better off if I switch?*”. Up to now CASS promotion has only aimed to lower the perceived barriers to switching, the fourth step in the TNS model, concentrating instead on the “simple and stress free” nature of the process. Open Banking enables easier account comparison, but consumers still need to see the benefit of switching. We can incorporate this in our central communications as follows:

1. Promote awareness and confidence in the service to ensure we continue to lower the perceived barriers to switching. This messaging targets the Inertia loop in our model.
2. Additionally, promote and encourage consumers to actively consider the potential benefits that they could achieve through switching. This messaging would target the Trust loop.

#### How do we measure success?

Our analysis suggests that success for the current account market can be represented by greater consumer engagement from the key market segments rather than simply the level of switching. The CMA recognised this view in its market investigation which set out several undertakings for CASS, one of which references raising awareness of CASS amongst those segments which are missing out. We believe that tracking the number of new product innovations in the market will allow us to measure the effort that providers are putting into enhancing their propositions against the backdrop of persistently low savings interest rates and a shift to multi-banking. Analysis of which segments of society are best served by these new offerings will identify where the market is underserved by current providers.

The CMA has highlighted that overdraft users should be taking greater advantage of better deals and using CASS to switch their account. Our research echoes this observation yet relatively few overdraft users stated they were considering switching account. However, our research also shows that of overdraft users who have switched 75% were satisfied with the switching process but only 39% were in a better financial situation afterwards. This suggests that, for most overdraft users, the switching process works well and can enable them to switch to a better product. However, in the current market those products are rarely available. The CMA remedies will drive improvements in the market but we must continue to examine the offerings to consumers and which segments are getting the best and worst value for money.

#### MEASUREMENT FRAMEWORK

- TRACK NEW PRODUCTS LAUNCHED IN THE MARKET
- ANALYSE BENEFICIARIES OF NEW PRODUCTS



### THE VALUE OF A CURRENT ACCOUNT

#### What groups are not getting the best value from their account?

The CMA’s market investigation paved the way to understanding what interventions need to be actioned on all sides of the supply chain to ensure that all consumers are getting a fair deal. The investigation brought consumer engagement into greater focus and suggested measures which enable consumers to take advantage of savings that can be made through switching. However, despite the regulatory concerns, most consumers are happy with their current provider. In fact, 91% of consumers were satisfied with their current account product, with more than half of those consumers reporting very high levels of satisfaction.<sup>17</sup> In the CMA’s final report, they identified four key customer groups which have low awareness of CASS and/or could benefit greatly from switching. These groups are:

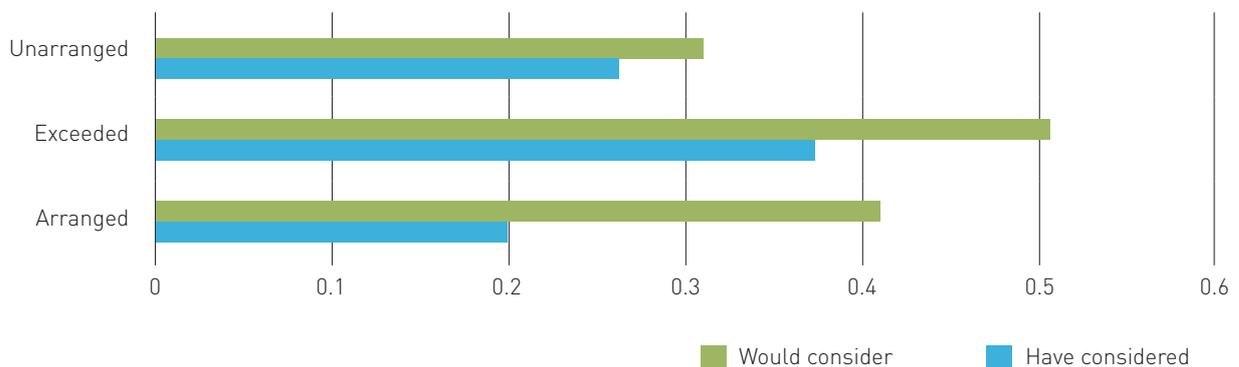
- Overdraft users
- Customers with high credit balances
- The young, and
- The financially disadvantaged.<sup>18</sup>

To ensure that these groups have sufficient awareness of CASS our campaign activity is increasingly targeting the audiences that best map onto these groups; notably those with low incomes and 16-24 year olds. This activity has been carried out as part of an integrated channel and messaging strategy alongside our mass-awareness campaign. However, specific behavioural groups (i.e. overdraft users and consumers with high credit balances) are much harder to identify and reach through conventional communications. It is these groups which we have focused our research on, to understand to what extent they are considering and switching; and what interventions we can offer that may allow them to see the benefits to them of switching.

#### Overdraft Users

There has been limited progress in terms of consumers with overdrafts switching their account through CASS, with our own market research showing lower levels of switching amongst them than in the wider population. Interestingly, of those who have switched, only 3% of overdraft respondents stated they were dissatisfied with their switching experience: this fact indicates that CASS works well for overdraft users when they do switch. This may suggest that the problem must lie earlier in the customer journey.

#### Consideration of Switching



<sup>17</sup> CMA – Retail Banking Market Investigation - Provisional findings report  
[https://assets.publishing.service.gov.uk/media/563377e8ed915d566d00000f/Retail\\_banking\\_market\\_investigation\\_-\\_PFs\\_V2.pdf](https://assets.publishing.service.gov.uk/media/563377e8ed915d566d00000f/Retail_banking_market_investigation_-_PFs_V2.pdf)

<sup>18</sup> CMA – Final Report on the Retail Banking Market  
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

CASS works to remove the friction from the fourth step to switching in the TNS model, how easy it will be to switch, but before consumers arrive at this stage they must be open to the idea of switching. Our research found that consumers who are exceeding an arranged overdraft are much more likely to be open to the idea of switching, followed by those within an arranged overdraft; whereas those consumers in an unarranged overdraft are far less likely to be open to switching. The finding shows that consumers who could benefit most from switching their current account (those exceeding arranged overdrafts) are open to the idea of switching but do not always progress from there. The key barriers cited by respondents were the belief that they could not switch with an overdraft or that they wanted to pay off their overdraft before switching.

The second step in the TNS model is concerned with identifying what value a consumer's current account gives them, and this step may help explain the inertia in the overdraft group. Understanding and comparing the costs of an overdraft facility can be very difficult for consumers as there are many different charging structures. In support of this fact, our qualitative research revealed that there are some sub-groups whose financial situation is so poor, switching will never be a priority despite their current product exacerbating their financial situation through higher fees and charges. These consumers are more concerned with ensuring they have enough money to get them through the next day (and even the next few hours) rather than planning to switch and save in the long-term. For all overdraft users, our modelling research has shown that understanding account costs are vital in engaging consumers and showing them the benefits of switching.

#### High Credit Balances

The situation for those with high credit balances is rather different, although this group could still be missing out on benefits that can be achieved through switching to a better provider. In 2016 Defaqto conducted a study into the potential benefits model consumers could gain if they were to use reward accounts: the average monetary reward available to consumers with high positive balances was £155. For this reason, we must continue to promote awareness of CASS amongst these groups to ensure we continue to break down the perceived risk of switching so consumers will continue to take advantage of these products – but this must be within the context of continued provider promotional activity.

The level of spontaneous awareness in CASS amongst the AB social class group is the highest of all consumers and reached 84% in March 2017 compared to 79% awareness in the service for all consumers; and is likely explained by the higher financial confidence exhibited by these groups. Our modelling work and analysis using the Money Advice Service (MAS) segmentation has shown that these groups respond well to financial rewards and the general increase in the number of reward accounts suggests that these consumers are taking advantage of the many retention products that have entered the market since the launch of CASS.

#### How will the market change in the future?

As Open Banking enabled propositions are expected to allow easier comparison of accounts, use of Open APIs could also help more people understand the value of their current account. Access to consumer transaction data could allow TPPs to analyse a consumer's spending habits and precisely quantify what the cost and benefit of their bank account is to them. Having visibility of this will allow people to move through the second step in the TNS model and be better placed to quantify the benefits that switching might bring.

Indeed, with specific relation to overdraft users, better visibility could potentially break consumers' unconsidered trust of their provider. This can be explained through the feedback loops that form the basis of our MDM: heavy overdraft users create trust in their provider as they agree to continue to increase or maintain their overdraft facility. These consumers also tend to believe the barriers to switching are higher because of their overdraft due to the incorrect perception that consumers cannot switch with a negative balance. Our simulation modelling suggests that the best method for engaging these consumers is through provider innovation and new targeted, consumer-focused propositions. However, without a perception that switching is easy and stress-free regardless of their overdraft, these consumers are unlikely to switch. Therefore, both strengthened consumer propositions and a lower perception of risk in the process of switching is required to access the headroom within the overdraft user group.

#### CHANGES IN THE MARKET

USE OF OPEN APIS COULD HELP CONSUMERS REALISE THE VALUE OF THEIR CURRENT ACCOUNT AND POTENTIALLY BREAK TRUST WITH THEIR PROVIDER IF THEY ARE GETTING A POOR DEAL



Paying specific regard to the second step of the TNS model the remedy set by the CMA mandating capped monthly charges for all overdraft facilities will enable consumers to more clearly understand what they pay for their overdraft. This lack of clarity around charges was something that our own overdraft research identified; we found that 53% of overdraft users who switched accounts did not know how to find out their overdraft charges or where they would find the limit to their overdraft facility. This remedy will allow more transparent pricing and, when coupled with Open Banking, could facilitate more consumers engaging with their finances and ensure they then consider and switch, where appropriate.

The University of Bristol conducted a literature review at the start of our consumer research programme, and this drew out the negative effect our current banking model has on consumers.<sup>19</sup> The current 'free-if-in-credit' (FIIC) model of banking inhibits consumers from seeing the cost of their account if they are not using an overdraft facility. The widespread belief that banking is essentially free is incorrect and masks the fact that the FIIC model leads to cross-subsidisation from other products such as overdrafts and loans. This naturally exacerbates the issues faced by the struggling and overburdened, those more likely to use overdrafts more frequently, as they are supporting free banking for the remainder of the market. Since the growth of reward accounts some have suggested that we are moving towards a 'reward-if-in-credit' banking model, where high balance users are charged for reward accounts which could subsidise a reduction in overdraft fees charges.

#### MEASUREMENT FRAMEWORK

TRACK REVENUE  
COLLECTED FROM AN  
ACTIVE PERSONAL  
CURRENT ACCOUNT



#### How do we measure success?

Our comparative market analysis shows that the current account market continues to have the highest average profit margin compared to the energy, motor insurance and telecoms market. However, the SMF calculated that "over the past eight years the average revenue from an active personal current account has fallen by 17%".<sup>20</sup> The largest fall in revenue came between 2011 and 2013, this was largely due to widespread changes in overdraft charges but also aligns with the ICB report recommending the development of CASS and the introduction of the service suggesting that the new products (including reward accounts) contributed to the reduction in revenue.

In light of these findings we are investigating ways to measure the current account market's value for money through examination of the average revenue collected from an active personal current account. As with the other measures, we must be careful to understand where the benefits to consumers are being seen. Historically, overdraft users have seen a reduction in costs for unarranged overdrafts; but arranged overdrafts have fallen less significantly. As part of our commitment to maintaining awareness and engagement amongst overdraft users we will continue to research the barriers felt by overdraft users and will engage with the Financial Conduct Authority's (FCA) strategic review of retail banking business models. Determining an empirical measure of the value passed onto consumers through their current account is a challenge and we hope that the FCA's investigation will begin to explore the relationship between revenue from current accounts; net margin; and effective, consumer-focused products.

#### What can we do to support an effective market?

By continuing to promote awareness of CASS through more targeted channels and messaging we will tackle the misconception that consumers cannot switch with an overdraft through CASS. Our campaigns have proved effective in increasing awareness dramatically for the consumers within the AB social class (remaining at or around 80% spontaneous awareness), and we will continue to monitor how we can additionally support both the high credit balance and overdraft groups going forwards.

<sup>19</sup> PFRC University of Bristol – Personal current account switching  
<http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1604-personal-current-account-switching-report.pdf>

<sup>20</sup> SMF – A Switch in Time  
<http://www.smf.co.uk/wp-content/uploads/2016/09/Social-Market-FoundationSocial-Market-FoundationA-switch-in-time.pdf>

**INTERVENTIONS**

WE WILL CONTINUE TO BREAK DOWN THE PERCEIVED BARRIER THAT OVERDRAFT USERS CANNOT SWITCH WITH A NEGATIVE BALANCE THROUGH OUR TARGETED COMMUNICATIONS STRATEGY



Our own research suggests that, for overdraft consumers and the aggregate market, CASS works very well and consumers are consistently satisfied with the switching process. However, there are perceived barriers to switching that are not related to the switching process but the account opening process. Through our communications strategy we can continue to exploit social proofing, highlighting the key message that switching is easy and stress-free for overdraft users too, showing that many overdraft users have already enjoyed a successful switch. We will also extend our engagement with PSPs to continue to address consumer issues with account opening as a barrier to switching. As part of our strategy for developing CASS we will also investigate how the consumer proposition can be extended to consider wider elements of relationship switching.

**CONSIDERATION AND SWITCHING**

**Modelling the current account market**

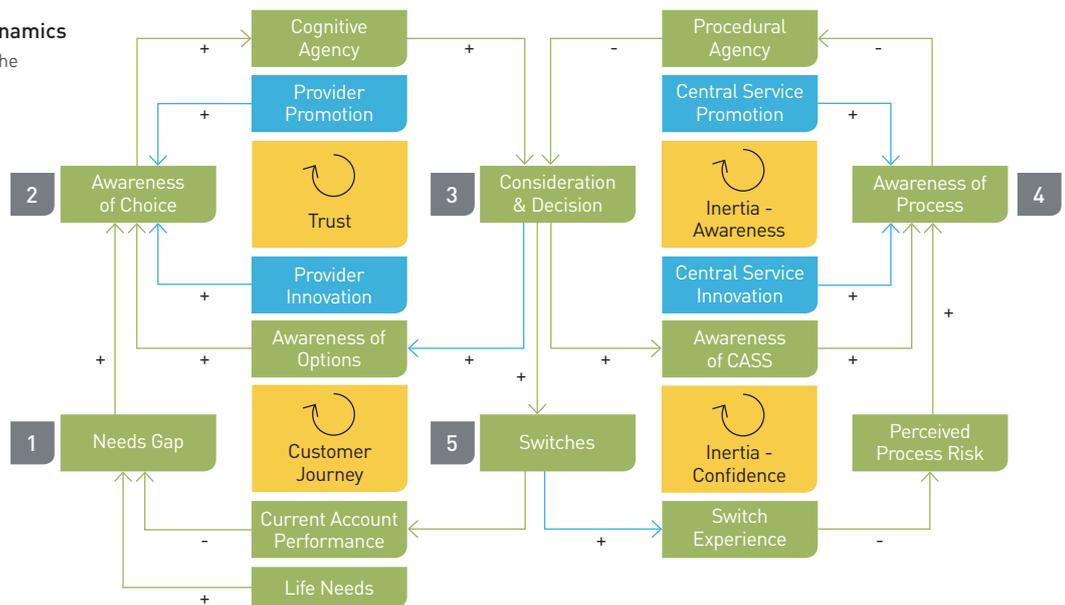
Our comparative market analysis shows that the current account market exhibits significantly lower switching volumes than the other markets studied. The energy, motor insurance and telecoms industries see over 17%<sup>21</sup> switch annually whereas CASS processes just over 1 million switchers per year, around 2% of the current account market. To understand why there is seemingly such little capacity for switching we must understand the customer journey in the context of consumers' financial health and their greater learning journey.

**Current Account Switching Market Dynamics**

[Source: Bacs – Consumer Engagement in the Current Account Market]

**TNS 5 Steps to Switching**

- 1 Openness to Switching
- 2 Value of Current Account
- 3 Benefits of Switching
- 4 Ease of Switching
- 5 Making the Right Choice



The learning journey extends beyond that of the customer journey and encompasses the customer's higher purpose for acting and potentially switching their current account. As consumers become more cognisant of the market and perhaps use CASS to switch their account they in turn become more confident in both their own ability to make an informed decision and that the switching service will work effectively for them. We can measure this confidence and capacity to act as agency, with cognitive agency representing a consumer's capacity to assess their own situation and decide whether to switch and procedural agency representing the capacity for a consumer to believe they can make the switching process work for them.

<sup>21</sup> Appendix 1, Comparative Market Analysis

**WARNING**

AGGREGATE SWITCHING VOLUMES ARE NOT A GOOD INDICATOR OF AN EFFECTIVE MARKET – IT SHOULD FORM PART OF A MEASUREMENT FRAMEWORK



These agent properties are captured in the underpinning of the MDM in the Trust and Inertia loops. These feedback loops capture a model of consumer decision making and explicitly state the drivers which influence consumer choices, specifically around the decision to switch current accounts. The TNS Model's steps to switching can be mapped onto these loops and can be used to explain changes in the six SMF measures of competition. Designing a simulation model around the core customer and learning journey allows us to explore what role CASS plays in an effective market and the likely effect of the CMA remedies on switching and consideration from the consumer perspective.

CASS is an enabler of switching and was designed to address key issues for consumers that were identified during the service design. CASS has consistently met its operational key performance indicators (KPIs), consistently completing around 99% of switches in 7 days and meeting HMT's target of 75% consumer awareness of the service; however, we have had less success in moving consumer confidence in the service through our central campaigns.

The Inertia loop shows that awareness in the service can be directly affected by central communication as it increases procedural agency and understanding of the switching process. However, confidence is only achieved once a consumer has understood and lowered their perception of risk associated with switching since confidence is primarily driven by experience, whereas awareness can be driven by our own communications. This distinction is crucial for understanding the role CASS plays in the market.

**What role does CASS play in an effective market?**

We have seen from our research that CASS consistently works for the consumer with 94% of switchers satisfied with the switching process<sup>22</sup>; however, it is important to remember that aggregate switching volumes are not a good measure of competition or an effective market in isolation. This is because whilst higher levels of switching would indicate that consumers are actively considering their current account and willing to switch to a new provider, an actual switch is not the only good outcome. Consumers who consider switching and decide to stick with their current provider (as they represent the best choice for them) are equally valuable outcomes.

We have concluded that active consideration, where the consumer has taken steps to understand the value and benefits of switching, and the propensity for consumers to make switching decisions are much better measures for gauging the effectiveness of the market. Consequently, we have run scenarios on our Market Dynamics Model to understand how our mass-media paid campaigns and participant communications and promotion can influence these measures.

This research finding has also led us to replace confidence with satisfaction with the switching service as a KPI. Since true confidence in CASS can only be achieved once a consumer has been through the process of switching and it has little impact on a consumer's choice to engage in the market satisfaction is a more appropriate measure of success for the central service.

**How does increased CASS awareness promotion to all segments impact consideration and switching?**

If the level of independent central CASS promotion increased (with no changes to provider promotion strategies) our model predicts that there would be only a small increase in consumer engagement and propensity to consider; and thus decisions on whether to switch accounts. This is due to CASS promotion marginally reducing the level of procedural inertia amongst consumers by breaking down the perceived barriers to switching. However, in this scenario consumer satisfaction with their provider does not increase despite the marginally higher level of consideration. This suggests that there is limited value to be gained from investing heavily in CASS promotion in isolation, as it will not fundamentally alter the propositions on offer. This scenario shows that increasing CASS promotion will have a limited effect in encouraging more customers to switch or consider because those segments with headroom to be used have likely already switched or at least considered. Essentially, without new product offerings, the number of customers with a propensity to switch and who are currently not with their best provider quickly reduces to small numbers.

<sup>22</sup> Bacs Market Research (Conducted May 2017).

### How does increased CASS awareness promotion targeted at those least satisfied with their account impact consideration and switching?

We already target 16-24 year olds and low income groups using specific messaging; however, this scenario explores what would happen if we targeted those who are least satisfied with their current provider in addition to those already targeted. Once again, this scenario only shows a marginal increase in consideration and switching decisions – caused by the reduction in inertia in the targeted segments – with no change to overall consumer satisfaction with their provider. This reiterates the fact that, in isolation, awareness-based CASS promotion (whether targeted or untargeted) has a limited effect on switching and consumer satisfaction with their provider.

### What effect will market remedies have on consideration and switching?

Studying the current account market cannot be done in isolation: the market is constantly changing and ensuring that we have captured all the moving parts is a key challenge with modelling a complex adaptive system. We have explored the effect on switching of a variety of remedies that aim to increase the effectiveness and competitiveness of the market.

One of the remedies we have simulated using our Market Dynamics Model is the widespread availability of consumer transaction data. In this context, it enables consumers to make a more accurate assessment of the value of their account and the benefits they could receive if they were to switch to an alternative product. In this scenario, CASS awareness promotion is used at its current level to promote awareness of the service and there is no change to providers' product development strategy. The output of this simulation shows that consideration and switching decisions increase around 15% above current levels; while the aggregate switching volumes also increase over a two-year period. After this period, consideration and switching reduce to lower levels than previously: this observation is caused by those consumers that had better propositions to switch to having done so and thus the headroom in those segments becoming depleted. Those consumers that were already missing out have not improved their position as the market participants made no changes to the provision of products for those groups and so there were no better products to switch to.

We have also explored the impact of transparency with account information and the opening of consumer data. This simulates the Open Banking capabilities that are mandated to go live by January 2018.<sup>23</sup> These capabilities are likely to prompt new offerings from third parties which allow consumers to assess the empirical value of their account and easily and precisely quantify potential benefits or savings. Whilst this scenario shows consumers' cognition of the market remains unchanged; consumer consideration initially increases as there is a flurry of consumers (those with greater headroom) searching and making switching decisions. It is important to note that there are some consumers who may be excluded from these new advantages if they are not confident with using the internet (i.e. the digitally excluded) or are uncomfortable sharing their data. The availability of account information and transaction history allows consumers to make a clearly informed choice about their new provider and thus switching increases by around 30%; over the period simulated more consumers switch to their most appropriate provider and there is significantly less residual headroom within each segment.

This scenario shows significant improvement in the intensity and level of consideration from consumers who are empowered to make more rational decisions and pick the best provider for them. Whilst this is encouraging, this scenario significantly exacerbates the pattern we see in the market of successful and large providers being able to gain more consumers through sheer size and efficiency of product. This 'success to the successful' model limits the growth of new entrants and therefore we must be careful to temper enthusiasm around Open Banking with the knowledge that strengthened and more targeted consumer propositions from the providers are the fundamental components of an effective current account market.

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<sup>23</sup> CMA – Order on Open banking  
<https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk>

#### MEASUREMENT FRAMEWORK

- TRACK ACTIVE CONSIDERATION OF SWITCHING IN THE MARKET
- MEASURE NUMBER OF SWITCHES THROUGH CASS



#### What does good look like?

We can see from the scenarios we have examined and the transitory effect central service enhancements have on the market that aggregate switching volumes are not a good measure of effectiveness competitiveness in the market. Our emerging findings suggest that central innovation causes dips and peaks in switching volume as savvy consumers wait for the enhancements before using the service. The scenarios above outline two key points around switching volumes:

1. Central innovations generally have a transitory impact on switching levels; however, significant short-term increases can be seen but they do not always indicate a more competitive market.
2. Account provider innovation can increase switching volumes significantly through creating headroom across key segments, but attention needs to be paid to what segments are being targeted and thus the impact on considering and switching. Our modelling has consistently shown that sustained provider innovation is the only means to maintain high levels of consideration.

We have also shown that CASS promotion is necessary to remove the friction in the fourth step to switching (as in the TNS model) but is not enough to drive consideration or switching in isolation.

An effective and competitive market should see greater levels of consideration and switching decisions; regardless of whether the consumer decided to move from or remain with their current provider. To achieve this change in consumer behaviour, all actors on the supply-side must jointly work to ensure there are no perceived barriers for consumer's moving through the customer journey on the demand-side. This will include ensuring that regulation supports a competitive market, there is sustained and targeted innovation from current account providers, and that process concerns are mitigated with central communications.

### CHANGES IN THE MARKET

21 NEW BANKING LICENCES HAVE BEEN ISSUED BY THE BANK OF ENGLAND SINCE 2012 WITH CASS AVAILABLE TO OVER 99% OF THE UK CURRENT ACCOUNT MARKET



### A FAIR SHARE OF MARKET

#### A competitive current account market?

The SMF identified that the growth of mid-size innovative banks is a sign that competitors can enter the market and gain significant market share. There are also indications that the barriers to entry to the current account market have been lowered as 21 new banks have been awarded banking licences by the Bank of England since 2012. However, no bank has entered the market and broken through 5% market share: the point at which it is widely agreed<sup>24</sup> current account provision becomes efficient.

Our own analysis of the top eight (covering over 97% of the market) providers' market share reveals that the current account market exhibits a Herfindahl-Hirschman Index (HHI) of 1679.<sup>25</sup> This shows that the current account market is a moderately concentrated market with a lower level of concentration than both the energy and telecoms market. It is, however; significantly higher (i.e. more concentrated) than the motor insurance market which exhibits and HHI of 697.<sup>26</sup> Less concentrated markets suggest that providers are successfully tailoring their products and services to different consumer segments, but we cannot be sure from examining market share alone. For example, customers in the motor insurance industry who do not actively engage are disadvantaged if they do not assess their insurance despite the provision of many providers and propositions.

For the reasons discussed earlier in this paper, it is important to realise that an effective market means each consumer segment should have an effective and fair proposition for them. Whilst we know that – for most consumers – the current account product works well and is essentially free; this is not always an effective situation. The FIIC banking model leads to an environment in which those who are struggling with high overdraft balances effectively pay for the rewards given to those with higher value accounts. Some argue that new innovative entrants will be the disruptive force that will move us on from FIIC banking, but there are still significant considerations for how a new player can enter the market and generate sufficient revenue to gain scale.

#### What does it take for new entrants to gain scale?

We examined a broad range of scenarios modelling an effective market to show the different effects of competition strategies on the part of the account providers. This drew out that the most effective way to engage consumers also resulted in the largest gain in market share for providers.

However, our model very clearly reproduces the 'success to the successful' pattern we see in the market today. This essentially suggests that there is an incumbent advantage primarily related to scale effects and the strength of established brands. One of the main drivers of this pattern is the importance of provider publicity. Publicity remains an extremely effective means to attract new consumers and the larger incumbent banks, with strong brands and much higher promotional spend, can target and win back consumers through effective advertising. Our model has also shown that, if a new entrant enters the market and an established player responds by increasing its level of publicity without any material change to their product, they can inhibit the growth of the challenger almost immediately.

### MEASUREMENT FRAMEWORK

- TRACK NUMBER OF NEW ENTRANTS TO CURRENT ACCOUNT MARKET
- MONITOR HHI OF THE MARKET



<sup>24</sup> House of Commons Treasury Committee – Competition and choice in retail banking, Ninth Report of Session 2010-11, Volume 1: Report, together with formal minutes

<sup>25</sup> Appendix 1, Comparative Market Analysis

<sup>26</sup> Appendix 1, Comparative Market Analysis

WE REMAIN COMMITTED TO HELPING THE MARKET UNDERSTAND THE BENEFITS OF SWITCHING IN ADDITION TO THE WORK THAT WILL BE DONE THROUGH OPEN BANKING



That being said, in a scenario where a new provider enters the market with an enhanced consumer proposition targeted at a subset of segments – in this case the consumers who are least satisfied with their current provider – the new provider can gain significantly more market share than if it targeted all consumers. This will benefit both the provider and increase consumer satisfaction among the targeted segments. The direct effect on consideration is minimal but actual switching increases dramatically as more consumers move to their better provider, this is due to already engaged consumers being offered a better product and spreading that news through word of mouth channels. This shows that, if the large players do not attempt to buy back consumers through increased promotional spend, a new entrant can improve banking propositions for underserved consumer segments with greater headroom whilst reducing its own outlay per acquisition.

This pattern is also exacerbated through the effect of word of mouth. Intuitively it appears word of mouth should positively impact new entrants with solid product offerings. However, whilst it certainly can benefit small providers, the incumbent players yet again have an established advantage. Providers with large market share have a much larger consumer base and, as a direct result, when something goes well – a lot more consumers can tell their friends and connections. In contrast, a small banking provider only has a limited number of consumers that can recommend them. This pattern does work in reverse, however. Service failures on behalf of the big providers can reach a lot more potential-consumers than newer, smaller providers. Though, as we have seen happen before, incumbent players more often have the infrastructure and capital to give their own consumers financial compensation for their failures – a strategy which can even lead consumers to share their positive experience with their issue being resolved.

#### How do third party providers fit into account switching?

As we mentioned earlier in this report, Open Banking APIs will allow third party providers to have access to standardised account information from Account Servicing Payment Service Providers (ASPSPs), as well as consumer transaction data. This could mean more banking services being sourced from TPPs with the current account simply acting as a place to accept and send payments. The effect of this shift could bring great benefits to society, or indeed lead to greater risks for consumers.

Faith Reynolds<sup>27</sup> suggests that this opportunity will create a new market for alternative financial solutions and thus it is possible we will see significantly lower switching volumes as consumers opt to use TPPs for services they would have traditionally used their current account provider for. As mentioned earlier, this can also be exacerbated by a rise in multiple product holdings enabled by more sophisticated aggregator products but also new, potentially automated, ways for consumers to effectively manage their money. This could lead to a growth in the size of the current account market as more people opt to use a combination of current account products and services that provide them greater benefits. Effectively these customers would choose to switch a service rather than their full account. However, our modelling suggests that Open Banking alone is unlikely to stimulate consideration without promotion of the specific products and services it will enable. This will pose a challenge for new service providers which do not already have established brands with the necessary reach and consumer trust to offer these services.

Whilst these new products and services will arguably be positive advancements in the industry, it is likely that there are large subsets of overdraft users and the financially disengaged that will be unable, through not being financially or technologically literate enough to benefit from access to these new tools. It is for this reason that we, at Bacs and through CASS, are committed to helping these groups understand the benefits of switching in addition to the work that will be done through Open Banking. The MAS segmentation research<sup>28</sup> suggests that there are high levels of smart phone penetration amongst the 'squeezed' segment but work must be done to specifically target those who may be digitally excluded (particularly those 'struggling') to ensure those who are the potential significant beneficiaries understand the value and propositions on offer.

<sup>27</sup> Faith Reynolds – Open Banking: The Consumer Perspective  
<https://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/Research/Open%20Banking%20A%20Consumer%20Perspective%20Faith%20Reynolds%20January%202017.pdf>

<sup>28</sup> Money Advice Service – Financial Resilience Segmentation  
[https://masassets.blob.core.windows.net/cms/files/000/000/467/original/Market\\_Segmentation\\_-\\_Segment\\_infographics\\_-\\_Revised\\_July\\_2016.pdf](https://masassets.blob.core.windows.net/cms/files/000/000/467/original/Market_Segmentation_-_Segment_infographics_-_Revised_July_2016.pdf)

## IMPROVED SERVICE RELATIONSHIPS

### What is the relationship between current account consumer and provider?

Our comparison analysis, which puts the current account market in the context of other comparable markets, has revealed that bank and building societies receive one of the highest levels of consumer satisfaction. Interestingly, it also suggests that the gap between providers is one of the lowest across industry.

Relationships between providers and consumers in the banking industry are unlike those in other areas. Transactional banking is relatively simple to manage and, in recent years, it has become quicker, more efficient, and easier to manage a bank account online or through an app. This shift has led consumers to interact less and less with their branch and, with ultimately very similar propositions, there are only small differences between account provider's online offerings.

Indeed, as banking is not explicitly a paid for service for most consumers – they are not assessing their level of service quality against any explicit cost to them. In fact, as we have seen with the Overdraft User group, often consumers will build a perceived rapport with their bank or building society if they offer them an extended overdraft or loan: this is even though revenue from current accounts is primarily sourced through overdraft interest and charges.<sup>29</sup>

We also note that there are a variety of independent measuring frameworks that aim to quantify UK account provider's consumer service across a variety of dimensions. When comparing with Bacs' 'winners and losers' data, we can see that consistently high levels of service quality do not mean that consumers will realise and switch to that provider. Our own analysis of the Market Dynamics Model reveals that relationship factors<sup>30</sup> among most (but not all) segments are one of the least likely to drive awareness of the market or consideration of their account, this suggests that providers are unlikely to be compelled to improve their service quality by consumer action alone.

### How is the market changing?

The CMA's remedy on standardised service quality metrics is a welcome addition to the current account market. Currently the only empirical measurement frameworks which examine service quality of market participants like for like are those available from third parties. The lack of a centralised, standard measure leaves consumers unsure of which resources to trust and where to find information. Therefore, the regulatory mandate for providers to prominently display their service quality rating will allow consumers to more easily compare provider (rather than product) offerings.

As the industry continues to develop the service quality measures in line with the CMA requirement, we have modelled the effect of improved visibility of actual service quality on the part of the market participants. The outcome from this simulation shows that consideration is likely to remain stable but gradually increase over time as more people begin to use the service quality indicators to assess their account. In this future market, the level of switching decisions being made by consumers is lower but a higher proportion of people switch (largely due to consumers being able to make more informed decisions about their account). This leads to relatively similar switching volumes around 10% higher than there would be without visible service quality metrics. This change is not significant as, for most segments, understanding the level of service they are being offered is not enough alone to make them switch.

#### CHANGES IN THE MARKET

THE BBA IS DEVELOPING A SET OF SERVICE QUALITY MEASURES WHICH CURRENT ACCOUNT PROVIDERS WILL NEED TO PROMINENTLY DISPLAY AS A STANDARDISED MEASURE



<sup>29</sup> OFT - Review of the personal current account market  
[http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.of.gov.uk/shared\\_of/reports/financial\\_products/OFT1005rev](http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.of.gov.uk/shared_of/reports/financial_products/OFT1005rev)

<sup>30</sup> Relationship factors: factors pertaining to a relationship between a current account provider and consumer e.g. offering a personalised service, great consumer service etc.

Whilst it may seem as though the effect of publicised service indicators is very limited the CMA's remedies should be viewed as a package. Against the backdrop of more transparent pricing and availability of consumer data, this part of the whole works two-fold to improve the market for consumers:

1. Consumers can make more rational decisions about different providers. As we have shown, this leads to fewer switching decisions but more people choosing to switch.
2. Consumer segments that care about and respond well to improved service information will be able to quickly and easily compare providers, helping them to understand the potential benefits switching could bring them.

**What can CASS do to help consumers achieve higher levels of satisfaction with their provider?**

Another scenario run on our Market Dynamics Model shows that, if providers were to focus their energy on improving consumer service, it would barely affect the level of consideration and switching in the market. This is the same with any isolated change to the overall proposition offered by a bank or building society. In fact, switching levels even go down as consumers exhibit increased levels of satisfaction with current provider – when they improve their consumer service quality.

There is a risk here that enhanced consumer service will discourage consumers from fully realising the benefits of switching if bad service does not prompt consideration. This emphasises the importance of continued CASS promotion targeted at all segments, which aims to break trust fostered by providers to ensure consumers feel empowered to consider their current proposition.

**What does good look like?**

We will continue to discuss changes to service quality in our market commentary, here we will begin to look at how comparable service quality measures are changing over time and – once the development of the CMA remedies is complete – we will seek to understand to what extent TPPs will disrupt and alter consumer satisfaction with their provider.

**MEASUREMENT  
FRAMEWORK**

— TRACK CHANGES  
TO BBA SERVICE  
QUALITY INDICATORS  
WHEN PUBLISHED



## 5 CONCLUSION

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Since the ICB's recommendation in 2011 that an improved switching service be developed, the market has shown significant signs of improvement; however, decoupling the level of market activity which was prompted by the delivery and launch of CASS from sustained shifts in regulatory and industry focus is not straight forward. Our Market Dynamics Model has shown that provider innovation rather than central innovation is most effective at stimulating the market and engaging consumers but the 'success to the successful' pattern is prevalent in the current account market which makes entry a challenge.

Despite the launch of CASS and the burst of product innovation it stimulated, the current account market still sees consistently lower switching volumes than comparable industries. This outcome is in part explained by the high levels of satisfaction with current account providers and products at around 90% of the market. Consequently we believe that measuring active consideration and engagement from those segments of society who are getting a bad deal represents a better measure of success for the market. We have found that CASS works as an enabler to switching but the journey to a switch starts much earlier, prompted by provider innovation and promotion.

Our communication's campaigns have been effective in increasing awareness of the central service and thus instrumental in meeting our regulatory targets – but these activities will not drive switching levels. All our research points to provider innovation and promotion as the real driver of volume and that without sustained competitive activity volumes may decline. Such activity may be enabled by the wider package of CMA remedies including Open Banking and the implementation of PSD2 but greater market activity in the third party space may lead to further multi-banking and possibly result in a decline in switching volumes. Higher levels of product differentiation might be enabled by these new initiatives and consumer concerns around account opening may be mitigated by the wider CMA remedies including standardised account opening for SMEs, but only time will tell.

We have also explored how these developments may lead to unexpected changes in the market. The FCA's strategic review of retail banking business models is a welcome study into how the model sitting behind personal current accounts can be effective for all consumers in the market. As this work progresses, we will continue our work to study the market dynamics and how future developments impact customer behaviour. Through this work we hope to expand our understanding of the most effective ways to engage consumers and stimulate a dialogue to discuss how the industry can foster an effective market.

In addition to this activity we will look to apply our model of consumer choice and decision making to other financial services and to other industries. What has already become clear from this programme of study is that appropriate levels of investment towards consumer engagement are required both to support and enable an effective market with healthy competition.

APPENDIX 1

Current Account Market Comparison

How does the UK Current Account Market compare to other industries, and which dimensions set it apart?

SMF Measure of Competition	Proxy Metric	1. Current Accounts	Notes	Source
Product Innovation & Differentiation	Number of Products	+19%	Number of PCA products increased from 120 in 2011 to 143 in 2016	Historic Product Audit
Improved Value for Money	Industry Profit Margin	2.70%	Retail Banking Market Investigation 2015, Average bank net interest margins	<a href="https://assets.publishing.service.gov.uk/media/55cdf857ed915d534600002d/Financial_performance_working_paper.pdf">https://assets.publishing.service.gov.uk/media/55cdf857ed915d534600002d/Financial_performance_working_paper.pdf</a>
New Entrants & New Entrants Gaining Scale	Number of New Entrants	21	Number of new providers granted licences to operate by BoE since 2012	<a href="http://www.managementtoday.co.uk/challenger-banks-struggle-overcome-customer-apathy/article/1378831">http://www.managementtoday.co.uk/challenger-banks-struggle-overcome-customer-apathy/article/1378831</a>
Better Customer Service	Overall Customer Satisfaction	79.5	Institute of Customer Service Analysis - Banks & Building Societies, 2017	<a href="https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf">https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf</a>
	Customer Satisfaction Gap between highest and lowest organisation	9.1	Institute of Customer Service Analysis - Banks & Building Societies, 2017	<a href="https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b">https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b</a>
Lower Market Concentration	Herfindahl-Hirschman Index	698	Proxied by 'Banks' sector, ONS Sector Analysis, May 2016 (HHI based on Current Account shares detailed below)	Attachment 1 - ONS Sector Analysis, HHI.xls
Higher Levels of Searching and Switching	% of Consumers Considered Switching	11%	Engagement with current accounts and the switching process - FCA, 2014	<a href="https://www.fca.org.uk/publication/research/cass-qualitative-consumer-research.pdf">https://www.fca.org.uk/publication/research/cass-qualitative-consumer-research.pdf</a>
	% of Consumers Switched	3%	CMA Report reference, 2014	<a href="https://www.ofcom.org.uk/research-and-data/consumer-experience/consumer-experience-14">https://www.ofcom.org.uk/research-and-data/consumer-experience/consumer-experience-14</a>

SMF Measure of Competition	Proxy Metric	2. Motor Insurance	Notes	Source
Product Innovation & Differentiation	Number of Products	18	InsuranceTech start-ups in the UK (2016), global Insurance Technology funding more than quadrupled between 2014-2015 from \$600 million to \$2.5 billion, recent innovations include: gamification, wearables and telematics (for car insurance)  Guevara is a P2P car insurance provider. They pool motorists' premiums so that any unused cash at the end of the year goes towards lowering renewals the following year. It launched in July 2015  Cuwa is an iOS app that enables the user to buy short-term car insurance cover within less than 10 minutes, solely from the smartphone. It launched in Jan 2017	1) <a href="https://www.iif.com/system/files/32370132_insurance_innovation_report_2016.pdf">https://www.iif.com/system/files/32370132_insurance_innovation_report_2016.pdf</a> 2) <a href="http://www.computerworlduk.com/it-vendors/how-uk-insurance-industry-is-embracing-digital-innovation-3637605/">http://www.computerworlduk.com/it-vendors/how-uk-insurance-industry-is-embracing-digital-innovation-3637605/</a> 3) Heyguevara.com 4) Cuwa.co
Improved Value for Money	Industry Profit Margin	-0.50%	Motor insurance profit margins are very cyclical, and the most recent figures across the industry indicate negative profit margins. The exception is Direct Line Group who heavily skew the figures towards the positive (Driving for Profit, A view of the UK Private and Commercial Motor Insurance Markets 2015)	<a href="http://uk.milliman.com/uploadedFiles/insight/2016/Driving-for-Profit-2016.pdf">http://uk.milliman.com/uploadedFiles/insight/2016/Driving-for-Profit-2016.pdf</a>
New Entrants & New Entrants Gaining Scale	Number of New Entrants	23	Since 2012, 23 new insurers have joined the Motor Insurers Bureau. Every Insurer underwriting compulsory motor insurance is obliged, by virtue of the Road Traffic Act 1988, to be a member of MIB and to contribute to its funding.  Motor Insurers' Bureau, Annual Reports (212-2015)	<a href="https://www.mib.org.uk/media/135971/2012-annual-report-and-accounts.pdf">https://www.mib.org.uk/media/135971/2012-annual-report-and-accounts.pdf</a> <a href="https://www.mib.org.uk/media/135968/2013-annual-report-and-accounts.pdf">https://www.mib.org.uk/media/135968/2013-annual-report-and-accounts.pdf</a> <a href="https://www.mib.org.uk/media/182609/annual-report-2014.pdf">https://www.mib.org.uk/media/182609/annual-report-2014.pdf</a> <a href="https://www.mib.org.uk/media/310488/annual-report-2015-final.pdf">https://www.mib.org.uk/media/310488/annual-report-2015-final.pdf</a>
Better Customer Service	Overall Customer Satisfaction	79.4	Institute of Customer Service Analysis - Insurance category, 2017	<a href="https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf">https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf</a>
	Customer Satisfaction Gap between highest and lowest organisation	9	Institute of Customer Service Analysis - Insurance category, 2017	<a href="https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b">https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b</a>
Lower Market Concentration	Herfindahl-Hirschman Index	697	Proxied by 'Non-Life Insurance' sector, ONS Sector Analysis, May 2016	Attachment 1 - ONS Sector Analysis, HHI.xls
Higher Levels of Searching and Switching	% of Consumers Considered Switching	27%	Consumer Engagement and Detriment Survey, 2014	<a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319043/bis-14-881-bis-consumer-detriment-survey.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319043/bis-14-881-bis-consumer-detriment-survey.pdf</a>
	% of Consumers Switched	17%		

APPENDIX 1 (CONT.)

SMF Measure of Competition	Proxy Metric	3. Energy	Notes	Source
Product Innovation & Differentiation	Number of Products		The 'big six' energy companies have been presented with new opportunities to connect with and service customers. British Gas' 'Hive' product (2013) and npower's tie-up with Google-owned Nest (2014) among the examples of connected home technologies in use in the energy market. Flipper (2015) - mobile application that uses customer consumption data from energy providers to find the best deals for its customers and automatically switches to the optimum supplier on their behalf SSE enter the smart thermostat market with a tie-up with Tado, a German maker of smart thermostats PassivSystems offers a mixture of control and automation with its home energy management system. It focuses on physical and environmental factors that affect the need for central heating	1) <a href="https://www.out-law.com/en/articles/2015/july/innovation-in-energy-market-highlights-case-for-principles-based-regulation-says-expert/">https://www.out-law.com/en/articles/2015/july/innovation-in-energy-market-highlights-case-for-principles-based-regulation-says-expert/</a> 2) <a href="http://www.bbc.co.uk/news/business-36683543">http://www.bbc.co.uk/news/business-36683543</a> 3) <a href="http://www.telegraph.co.uk/finance/11403096/Energy-giant-SSE-enters-smart-thermostat-battle-with-Tado.html">http://www.telegraph.co.uk/finance/11403096/Energy-giant-SSE-enters-smart-thermostat-battle-with-Tado.html</a> 4) <a href="http://www.telegraph.co.uk/technology/news/10803338/Nest-v-Hive-v-Tado-tech-firms-tussle-over-UK-energy-market.html">http://www.telegraph.co.uk/technology/news/10803338/Nest-v-Hive-v-Tado-tech-firms-tussle-over-UK-energy-market.html</a>
Improved Value for Money	Industry Profit Margin	4%	Ofgem Retail Energy Markets in 2016	<a href="https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf">https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf</a>
New Entrants & New Entrants Gaining Scale	Number of New Entrants	14	Between April 2015 and March 2016, fourteen new licensed suppliers became active in the domestic segment and nine in the non-domestic segment, Ofgem Retail Energy Markets in 2016	<a href="https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf">https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf</a>
Better Customer Service	Overall Customer Satisfaction	74.4	Institute of Customer Service Analysis - Utilities category, 2017	<a href="https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf">https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf</a>
	Customer Satisfaction Gap between highest and lowest organisation	15	Institute of Customer Service Analysis - Utilities category, 2017	<a href="https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b">https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b</a>
Lower Market Concentration	Herfindahl-Hirschman Index	2684	Proxied by 'Distribution of Electricity' sector, ONS Sector Analysis, May 2016	Attachment 1 - ONS Sector Analysis, HHI.xls
Higher Levels of Searching and Switching	% of Consumers Considered Switching	27%	Consumer Engagement and Detriment Survey, 2014	<a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319043/bis-14-881-bis-consumer-detriment-survey.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319043/bis-14-881-bis-consumer-detriment-survey.pdf</a>
	% of Consumers Switched	13%		

SMF Measure of Competition	Proxy Metric	4. Telecoms	Notes	Source
Product Innovation & Differentiation	Number of Products		O2 Refresh was launched in 2013. It was the first 24 month tariff to decouple the cost of the phone from the cost of calls, texts and data. O2 Refresh was designed for customers to get a new phone at any time, without having to pay out their airtime contract. Instead, customers simply pay the remaining balance for their phone and then start afresh O2 Sharer Plan and O2 Family Sharer Plan was launched in 2014 and enabled customers to use one data bundle, with up to 8GB allowance, either across multiple devices and smart tech or across multiple devices owned by different member of the family. O2's Family Plan comes with a £25 Frankie & Benny's or Chiquito's voucher Vodafone launched its superfast 4G service in 2013 with tariffs starting from £26/month including either Sky Sports or Spotify Premium free for 6 months EE launched the first UK mobile phone contract bundled with Apple Music in 2016	1) <a href="http://news.o2.co.uk/?press-release=o2-launches-new-tariff-allowing-customers-to-get-the-latest-phone-when-ever-they-want">http://news.o2.co.uk/?press-release=o2-launches-new-tariff-allowing-customers-to-get-the-latest-phone-when-ever-they-want</a> 2) <a href="http://news.o2.co.uk/?press-release=o2-launches-shared-data-plans-for-both-individual-customers-and-families">http://news.o2.co.uk/?press-release=o2-launches-shared-data-plans-for-both-individual-customers-and-families</a> 3) <a href="http://www.moneysavingexpert.com/news/phones/2013/08/vodafone-to-launch-4g-tariffs-with-sky-sports-and-spotify">http://www.moneysavingexpert.com/news/phones/2013/08/vodafone-to-launch-4g-tariffs-with-sky-sports-and-spotify</a> 4) <a href="http://www.telegraph.co.uk/business/2016/08/25/ee-launches-first-uk-mobile-phone-contract-bundled-with-apple-mu/">http://www.telegraph.co.uk/business/2016/08/25/ee-launches-first-uk-mobile-phone-contract-bundled-with-apple-mu/</a>
Improved Value for Money	Industry Profit Margin	26%	UK Telecoms Margin Analysis detailed below	-
New Entrants & New Entrants Gaining Scale	Number of New Entrants	10	Attachment III - Telecoms New Entrants	Manifesto Research <a href="https://en.wikipedia.org/wiki/List_of_United_Kingdom_mobile_virtual_network_operators">https://en.wikipedia.org/wiki/List_of_United_Kingdom_mobile_virtual_network_operators</a>
Better Customer Service	Overall Customer Satisfaction	73.6	Institute of Customer Service Analysis - Telecommunications & Media category, 2017	<a href="https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf">https://www.instituteofcustomerservice.com/media/pdf/ukcsi-january-2017-1653.pdf</a>
	Customer Satisfaction Gap between highest and lowest organisation	17.7	Institute of Customer Service Analysis - Telecommunications & Media category, 2017	<a href="https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b">https://www.instituteofcustomerservice.com/research-insight/research-library/downloads/c8325bfb9532ded5b6cce32e9e1d556b</a>
Lower Market Concentration	Herfindahl-Hirschman Index	3495	Proxied by 'Wireless Telecommunications Activities', ONS Sector Analysis, May 2016	Attachment 1 - ONS Sector Analysis, HHI.xls
Higher Levels of Searching and Switching	% of Consumers Considered Switching	28%	Customer Retention and Interoperability Research - Jigsaw Research. 2013	<a href="https://www.ofcom.org.uk/_data/assets/pdf_file/0026/68246/cri_report_final.pdf">https://www.ofcom.org.uk/_data/assets/pdf_file/0026/68246/cri_report_final.pdf</a>
	% of Consumers Switched	13%		

## APPENDIX 1 (CONT.)

### I. Current Account HHI Analysis

Bank	Current Account Market Share	
Lloyds	27%	729
Barclays	18%	324
RBS	18%	324
HSBC	12%	144
Santander	10%	100
Nationwide	6%	36
TSB	4%	17.64
Co-operative	2%	4
<b>Total of Top 8</b>	<b>97%</b>	<b>1679</b>

Source: <https://www.statista.com/statistics/387098/uk-banks-current-account-market-share/> **Implied HHI**

### II. Telecoms Margin Analysis

Provider	Current Account Market Share (2015)	Operating Margin	Source
EE	32.90%	28.2%	2015, <a href="http://ee.co.uk/our-company/financials/2016/02/12/EE-results-for-the-year-ended-31-December-2015">http://ee.co.uk/our-company/financials/2016/02/12/EE-results-for-the-year-ended-31-December-2015</a>
O2	20.90%	24.9%	2016 (OIBDA), <a href="https://www.telefonica.com/documents/162467/51547305/rdos16t4-eng.pdf/acebe77b-bf90-4e68-a2c7-6101be997944">https://www.telefonica.com/documents/162467/51547305/rdos16t4-eng.pdf/acebe77b-bf90-4e68-a2c7-6101be997944</a>
Vodafone	18.20%	20.9%	2016, <a href="http://www.vodafone.com/content/annualreport/annual_report16/downloads/vodafone-full-annual-report-2016.pdf">http://www.vodafone.com/content/annualreport/annual_report16/downloads/vodafone-full-annual-report-2016.pdf</a>
3	10%	31.2%	2015, <a href="http://www.threemediacentre.co.uk/-/media/Files/T/Three-Media-Centre/Three%20UK%20FY15%20Results.pdf">http://www.threemediacentre.co.uk/-/media/Files/T/Three-Media-Centre/Three%20UK%20FY15%20Results.pdf</a>
Other	9.60%	26.0%	Assumed average of other providers
Tesco	8.50%	24.9%	JV with O2 so assume O2 margins
<b>Industry Operating Margin:</b>		<b>26.0%</b>	

Source: <https://www.statista.com/statistics/375986/market-share-held-by-mobile-phone-operators-united-kingdom-uk/>

### III. Telecoms New Entrants

Brand	Host Network	Description	Source
iD Mobile	Three	iD Mobile is a mobile virtual network operator, 2015. It is owned by Car-phone Warehouse and was launched in May 2015	<a href="https://www.idmobile.co.uk">https://www.idmobile.co.uk</a>
Fonome	O2	A mobile phone virtual network operator offering quality national and international calls. It launched in 2013	<a href="https://fonome.com">https://fonome.com</a>
FreedomPop	Three	Freedom Pop is a wireless internet and mobile virtual network operator and provides free IP mobile services including free data, text and VoIP and sells mobile phones, tablets and broadband devices for use with their service. It is powered by Three. It launched in 2011	<a href="https://uk.freedompop.com/uk?experience=organic.default">https://uk.freedompop.com/uk?experience=organic.default</a>
Delight Mobile	EE	Delight Mobile is a mobile virtual network operator service which launched in 2011. It is powered by the EE network	<a href="https://www.delightmobile.co.uk">https://www.delightmobile.co.uk</a>
BT Mobile	EE	BT Mobile is a mobile virtual network operator provided by BT Consumer, a division of BT Group that was launched in March 2015. It uses EE network	<a href="http://www.productsandservices.bt.com/mobile/phones/">http://www.productsandservices.bt.com/mobile/phones/</a>
AfriMobile	Three	AfriMobile is a mobile virtual network operator established in 2012. They specialise in providing low cost international calls to African countries and value added services such as airtime credit transfer, with their main user base comprising ethnic communities within the UK	<a href="http://www.afrimobile.co.uk">http://www.afrimobile.co.uk</a>
The People's Operator	Three, Sprint and T-Mobile	Mobile virtual network operator that provides mobile phone services via Three, Sprint and T-Mobile networks. It was launched in 2012	<a href="https://www.thepeoplesoperator.com">https://www.thepeoplesoperator.com</a>
Tello	Three	A telecom provider launched in the UK in 2014. We allow you to build your own plan, depending on the number of minutes, texts and data you actually use. Also, you can upgrade or downgrade your plan anytime, without penalties.	<a href="https://tello.co.uk">https://tello.co.uk</a>
Sky Mobile	O2	Sky Mobile is a full mobile virtual network operator which uses the O2 radio access network infrastructure	<a href="https://www.sky.com/shop/mobile?DC-MP=knc-GOOGLE-nc-DTH-sky+mobile&amp;gclid=CManzo7o79ICFQwW0wodoeoKkw">https://www.sky.com/shop/mobile?DC-MP=knc-GOOGLE-nc-DTH-sky+mobile&amp;gclid=CManzo7o79ICFQwW0wodoeoKkw</a>
C4C Mobile	O2	A fairer mobile network that allows you to donate 10% of your monthly bill to your chosen charity	<a href="https://www.c4cmobile.com">https://www.c4cmobile.com</a>

## APPENDIX 2

### Market Improvements

List of market innovations that have occurred since 2011, this has been compiled through a comprehensive audit of publically available resources. This list may not be comprehensive.

Name of Innovation	Type of Innovation	Innovation Launch Date	Company/ Participant (CA Provider)	Description of Innovation
Redwood Bank	New Entrant	TBC	Redwood Bank	An SME bank challenger that have recently submitted a banking licence application to the UK regulators. It will offer secured SME lending products to owner occupied businesses, as well as to commercial and residential property investors. It will also provide business deposit accounts
Lintel Bank	New Entrant	TBC	Lintel Bank	A start-up waiting for a licence. The bank will be targeting migrant workers and students in the UK. It will offer paid-for current accounts, money transfers, personal and SME loans, and mortgages. The applicants will be able to set up a bank account quickly, with most of the process (including checking personal information) completed before the person arrives in the UK
Zopa	New Entrant	TBC	Zopa	The world's first P2P lender. The bank will offer deposit accounts over overdraft alternatives to borrowers, in addition to the lender's existing suite of investor and borrower products
Zapp	Other	TBC	Zapp, Vocalink	"Pay by Bank app" provides a simple and convenient way for users to make a purchase online, via an app or in store. Customers are able to see their account balances before they pay, helping to manage their money more easily.
ClearBank	New Entrant	Mar-17	ClearBank	The first new clearing bank in 250 years to enter the UK market. It will be a bank for banks, FIs and fintechs, offering customers access to UK payment systems and core banking technology to support current account capabilities. The bank's tech is cloud-based
Barclaycard loyalty programme	Add-ons/ Benefits	Mar-17	Barclays	Barclaycard & Uber partnership. The deal will see Barclaycard's personal credit card customers benefit from a free Uber ride, up to the value of £15, for every ten that they take and pay for using their Barclaycard until the end of the year
Starling Bank	New Entrant	Mar-17	Starling Bank	Launched in beta. Mobile bank offering a full current account, the ability to view all you transactions in real-time, set up direct debits and on-off payments including Faster Payments and biometric security
Fintech app launches current account features	New Entrant	Feb-17	Revolut	The startup announced a suite of new product features that lets people from 42 countries open what amounts to a UK current account from their smartphone in under 5 minutes. The new features mean customers get a personal account number and sort code, can accept payments including a salary into their Revolut account, and transfer money to any UK bank in approximately 30 minutes
Tandem Bank	New Entrant	Nov-16	Tandem Bank	Mobile challenger bank. The app helps users manage their money and Tandem's own current account, loans and credit cards will also soon follow
Secco Bank	New Entrant	Oct-15	Secco Bank	A 'blockchain-inspired challenger bank aiming to disrupt the sector 'from the outside in'
Monzo Bank launch beta programme	New Entrant	Mar-16	Monzo Bank	Smartphone bank. In its current iteration Monzo is a pre-paid debit card that you can top up with an app. It allows you to track purchases in real time, temporarily freeze your card if you've lost it and help you stick to a strict monthly budget.
Atom Bank	New Entrant	Oct-16	Atom bank	Mobile-only bank with biometric technology and personalisation
Samsung Pay	Product/ Service	May-16	Samsung	Contactless payment for Samsung Galaxy, smartwatch or tablet. Works in more stores than any other mobile device
Cumberland Building Society upgrade	Banking Channels	May-16	Cumberland Building Society	Enhanced internet banking
Loot	New Entrant	Jun-16	Loot	A mobile banking service. Launched a prepaid Mastercard account. The card is linked to a money management app that lets people track their spending and gives them insight into where their money is going. It was initially aimed at students
Nationwide biometric app	Product/ Service	Apr-16	Nationwide	Behavioural biometric app prototype
Reward Account conversions	Banking Channels	Apr-16	RBS & NatWest	One click SMS & email conversions for Reward Account conversions
"Human" artificial intelligence	Product/ Service	Mar-16	RBS & NatWest	Advanced 'human' artificial intelligence helping staff answer customer queries
Android Pay	Product/ Service	Mar-16	Android	Mobile wallet that stores credit cards, debit cards, loyalty cards etc. Just unlock phone and pay
Nudge	Other	Jan-16	HSBC	Monitors spending and provides encouragement to achieve long term financial goals

APPENDIX 2 (CONT.)

Name of Innovation	Type of Innovation	Innovation Launch Date	Company/ Participant (CA Provider)	Description of Innovation
Cash Incentive campaign 3	Add-ons/ Benefits	Jan-16	Clydesdale Bank	Cash Incentive campaign 3 launch
Voice recognition for app	Product/ Service	Jan-16	Santander	Voice recognition launch for app
Internet banking for 11-15 yr olds	Product/ Service	Jan-16	TSB	Internet banking for 11-15 year olds with account, internet and mobile access
Everyday Rewards	Product/ Service	Jan-16	The Co-operative Bank	Everyday Rewards account launch. Pays customers £4 a month. Must opt for paperless statements
Reward Account	Add-ons/ Benefits	Jan-16	RBS & NatWest	Improvements to the Reward Account proposition allowing customers to earn rewards from all their current accounts
Brand refresh	Other	Jan-16	Tesco Bank	Tesco Bank brand refreshed
Civilised Bank	New Entrant	Dec-15	Civilised Bank	New cloud-based bank
Basic top-up current account	Product/ Service	Dec-15	Santander	Basic top-up current account
Business start-up account	Product/ Service	Dec-15	AIB	Business start-up account
FlexBasic	Add-ons/ Benefits	Dec-15	Nationwide	New basic bank account
Enhanced direct card ordering process	Add-ons/ Benefits	Nov-15	RBS & NatWest	Enhanced debit card ordering process to reduce customer complaints
Simply Rewards cashback scheme	Add-ons/ Benefits	Nov-15	Nationwide	Relaunch of Simply Rewards as a cashback scheme
iPads launched in branches	Add-ons/ Benefits	Nov-15	TSB	iPads in branches to enable customers to receive demonstration of mobile app & Apple Pay
Foundation account launch	Add-ons/ Benefits	Nov-15	RBS & NatWest	Foundation account launch
Fintech Innovation lab	Operational	Oct-15	HSBC	Fintech Innovation Lab launch in Singapore
Contactless visa debit cards	Product/ Service	Oct-15	TSB	Contactless visa debit cards to all customers that are eligible for Classic Plus account
Enhanced customer journey	Customer Service Channels	Oct-15	TSB	Improved PCA digital customer journey with Welcome emails for new PCA customers to help guide them through their new account
Debit and savings card	Product/ Service	Oct-15	RBS & NatWest	RBS & NatWest launches the UK's first ever accessible debit and savings card
One Time Passcode for VBV	Add-ons/ Benefits	Sep-15	Cumberland Building Society	One Time Passcode for VBV
New Reward accounts	Add-ons/ Benefits	Oct-15	RBS & NatWest	New range of reward accounts
Monese Bank	New Entrant	Sep-15	Monese Bank	The UK's first mobile bank targeting immigrants and expats
AIB SMS fraud alerts	Add-ons/ Benefits	Sep-15	AIB	SMS fraud alerts launch
New and improved iBusiness Banking online	Banking Channels	Sep-15	AIB	New online platform launch Changes include viewing of 'available funds', payments warehousing, ability to forward date a payment, additional payments on the 'incoming payments log' and an enhanced iBB help centre
Contactless cashback	Add-ons/ Benefits	Sep-15	TSB	Contactless cashback launch. 5% cashback up to £100. Offer ends Dec 2016
Fidor Bank	New Entrant	Sep-15	Fidor Bank	Web 2.0' bank launched. 60 second banking. A subsidiary of a high-profile German digital bank. The bank is consumer-oriented and relies heavily on social media. It uses its own in-house developed technology and also licenses it to other financial institutions (such as Penta Bank).
OakNorth Bank	New Entrant	Sep-15	OakNorth Bank	The first bank in the UK to have its core banking system in the cloud (Amazon Web Services). A start-up focused on lending to SMEs. It has also regulatory approval to accept deposits and make savings products available to individuals and small businesses.
High street bank accepting bitcoin	Add-ons/ Benefits	Aug-15	Barclays	1st UK high street bank to accept bitcoin
Updated overdraft fees	Other	Aug-15	Santander	Updated overdraft fee charges (123 and Everyday accounts)
Online application process for student accounts	Customer Service Channels	Aug-15	TSB	Online application process for student accounts launched
Mobile app capability expanded	Banking Channels	Aug-15	Tesco Bank	Expanded mobile app capability
Recommend a Friend Switch offer	Add-ons/ Benefits	Jul-15	Nationwide	£200 Recommend a Friend Switch offer
KiTTi money management app	Product/ Service	Jul-15	Santander	KiTTi money management app launched. Virtual 'cash kitty' simplifies managing a shared pot of money. First of its kind for UK consumers. Almost limitless uses - gift collections, restaurant bills, group holidays, sports and social clubs and more. Available on iOS and Android to anyone aged 18+ with a debit card from any UK bank

APPENDIX 2 (CONT.)

Name of Innovation	Type of Innovation	Innovation Launch Date	Company/ Participant (CA Provider)	Description of Innovation
Online eligibility tool	Product/ Service	Jul-15	Lloyds	Online eligibility tool allowing customers to shop around for a new current account without affecting their credit file
Proactive contact to customers initiating switch	Operational	Jul-15	TSB	Processing of Business Account switch request moved from operational team to improve accuracy. Introduced proactive contact to customers initiating switch
Spendlytics app	Product/ Service	Jul-15	Santander	A free mobile app for personal banking customers. Help you view, analyse and track your debit or credit card spend in detail and budget more effectively
Apple Pay	Product/ Service	Jul-15	Apple	Contactless payments using iPhone and Apple Watch
Cumberland Building Society mobile banking app	Banking Channels	Jun-15	Cumberland Building Society	Cumberland Building Society mobile banking app
Nationwide app for Apple Watch	Product/ Service	Jun-15	Nationwide	First UK high street bank to release an app for Apple Watch
Online current account applications	Banking Channels	Jun-15	Cumberland Building Society	Online current account applications launched
Reduced overdraft fee caps (Everyday & Student accounts)	Other	Jun-15	Santander	Reduced overdraft fee caps (Everyday & Student accounts)
Current account opening system revamp	Banking Channels	Jun-15	RBS & NatWest	Revamp of the current account opening system
bPay	Product/ Service	Jun-15	Barclays	bPay contactless payment device- wristband, fob or sticker
Business visa debit cards	Product/ Service	May-15	Cumberland Building Society	Businesss visa debit card launch
Lending services on a P2P platform	Operational	May-15	Metro Bank	Metro Bank collaborates with Zopa to become the first bank to offer lending services on a P2P platform
Free banking offer for business customers	Add-ons/ Benefits	May-15	Clydesdale Bank	Extended free banking offer for business customers
Basic current account online	Product/ Service	Mar-15	Santander	Basic current account online launched
Midata	Other	Mar-15	Midata	Midata initiative launched allowing customers greater clarity to judge which bank account is best for them
Post transaction customer needs assessment	Customer Service Channels	Feb-15	AIB	Post transaction customer needs assessment
Current account opening ruleset	Operational	Feb-15	Tesco Bank	Expanded current account opening ruleset
New procedures for all types of switch	Operational	Feb-15	TSB	New procedures for all types of switch - full, partial, credit-only and savings
Current account with no fees or minimum monthly pay	New Entrant	Feb-15	Virgin Money	Current account with no fees or minimum monthly pay launched
New GB website	Customer Service Channels	Feb-15	AIB	New GB website launched
New refund policy and financial process for overdraft fees	Customer Service Channels	Feb-15	Santander	New refund policy and financial support process for overdraft fees launched
Touch ID access for banking app	Operational	Feb-15	RBS & NatWest	Touch iD access for banking app launched
Current account with no monthly fee & £100 M&S gift cards	New Entrant	Jan-15	M&S Bank	Current account with no monthly fee and £100 M&S gift card launched
New FTB personal website	Customer Service Channels	Jan-15	AIB	New FTB personal website launched
Automatic Task Messages	Operational	Jan-15	TSB	Automatic Task Messages to alert customers if their switch has failed
FTB £125 switch 6 -month campaign	Add-ons/ Benefits	Jan-15	AIB	FTB £125 switch 6-month campaign launched
How to fix a failed switch'	Operational	Jan-15	TSB	Colleague Information Site updated with a 'how to fix a failed switch' section
Saveapp	Product/ Service	Dec-14	First Direct	Saveapp launched which helps customers reach their saving goals
Cheque imaging pilot	Product/ Service	Dec-14	Barclays	Cheque imaging pilot launched
Changes to current account charges	Other	Dec-14	Clydesdale Bank	Changes to current account charges
TfL contactless payments	Other	Nov-14	Transport for London	Contactless payments offered by Transport for London

APPENDIX 2 (CONT.)

Name of Innovation	Type of Innovation	Innovation Launch Date	Company/ Participant (CA Provider)	Description of Innovation
Contactless cards on FlexAccount	Product/ Service	Nov-14	Nationwide	Contactless cards on FlexAccount
Video banking service	Customer Service Channels	Nov-14	Barclays	Video banking service launched
Quick Balance' smartphone app	Product/ Service	Nov-14	Nationwide	Nationwide embraces wearable tech launching the 'Quick Balance' smartwatch app for Android Wear
Cash incentive campaign 1	Add-ons/ Benefits	Nov-14	Clydesdale Bank	Cash incentive campaign 1 launch
Santander retail offers	Add-ons/ Benefits	Oct-14	Santander	Retail offers launched
FlexOne fee-free account	Product/ Service	Oct-14	Nationwide	Fee-free account for the youth segment
Smartbank app	Product/ Service	Sep-14	Santander	App allowing customers to pay others using their mobile number
Current Account 7 day switch service extension of redirection service from 13 to 24 months	Other	Aug-14	CASS	Extension of redirection service from 13 to 24 months
Student account offering 5 % interest on credit balances	Product/ Service	Aug-14	TSB	New student account launched offering 5% interest on credit balances
PCA Applications scripting revised via telephony	Operational	Aug-14	TSB	PCA Applications scripting revised via telephony
Enhanced SMS Customer Service	Customer Service Channels	Aug-14	Cumberland Building Society	Improved SMS Customer Service
Customer service messaging service	Customer Service Channels	Aug-14	Tesco Bank	Customer service messaging service updated
Pocket	New Entrant	Aug-14	Pocket	A prepaid MasterCard focusing on the "financially excluded" Britons, who rely on cash in the absence of bank accounts. It takes 2 minutes to open an account. There are no credit checks, just a simple, online form, and a one-off payment of 99p. There are also 99p charges for a contactless Pocket card, paying in with cash and withdrawing money from the UK ATMs
Innoventures blockchain challenge	Operational	Jul-14	Santander	Innoventures blockchain challenge launch
Contactless debit cards on FlexPlus and FlexDirect accounts	Product/ Service	Jul-14	Nationwide	Contactless debit cards on FlexPlus and FlexDirect accounts launched
Customer needs assessment	Customer Service Channels	Jul-14	AIB	Customer needs assessment prior to account opening launched
Clubcard points on debit cards	Customer Service Channels	Jun-14	Tesco Bank	Clubcard points when spending using debit card
Interest on 123 Student and Graduate account	Add-ons/ Benefits	Jun-14	Santander	Interest on 123 Student and Graduate account launched
Accelerator Fintech	Operational	Jun-14	Barclays	Accelerator Fintech start-up accelerator
New Santander public website	Other	Jun-14	Santander	New public website launched
Balance text/ email alerts	Customer Service Channels	Jun-14	Tesco Bank	Balance text/ email alerts launched
Hampden & Co Bank	New Entrant	Jun-14	Hampden & Co Bank	Hampden & Co Bank launch. A new private bank, formerly know as Scoban. The first private bank to launch in the UK in the last 30 years.
Tesco Bank	New Entrant	Jun-14	Tesco Bank	Tesco Bank launch. The financial services arm of Britain's biggest retailer launched its first personal current or checking account
Hampshire Trust Bank	New Entrant	May-14	Hampshire Trust Bank	Hampshire Trust Bank launch. The bank provides asset finance, property finance and commercial mortgages to UK customers. It also offers savings accounts to individuals and businesses
Wyelands Bank	New Entrant	May-14	Tungsten Bank	Previously know as Tungsten Bank launch and before that as FIBI Bank. It will relaunch in 2017 with a new identity and focus as a specialist provider of financial solutions to commodities, steel and engineering enterprises
Pay2Mobile	Banking Channels	Apr-14	Cumberland Building Society	Cumberland Building Society launched Paym under the name 'Pay2Mobile'. You just need a Cumberland Building Society current account with internet banking to register your mobile number
Paym	Product/ Service	Apr-14	Paym	Paym is a mobile payment system provided by banks and building societies. Recipients are identified by their mobile phone number instead of bank details such as sort code and account number

APPENDIX 2 (CONT.)

Name of Innovation	Type of Innovation	Innovation Launch Date	Company/ Participant (CA Provider)	Description of Innovation
Santander 123 Mini current account	Product/ Service	Mar-14	Santander	Santander 123 Mini current account launched. pays 3% tax-free on balances between £300 and £2,000 and is available to children from birth up until they reach adulthood
Classic Plus current account	Product/ Service	Mar-14	TSB	Classic Plus current account (5% credit interest on balances up to £2,000) launched
Youth tiered interest	Add-ons/ Benefits	Mar-14	Santander	Youth tiered interest launched
Recommend a Friend Switch offer	Product/ Service	Feb-14	Nationwide	£100 Recommend a Friend offer launched
Paragon Bank	New Entrant	Feb-14	Paragon Bank	Paragon Bank launch. It offers savings and loans (including development and asset finance) to individuals and SMEs
Yoyo Wallet	Product/ Service	Jan-14	Yoyo Wallet	Yoyo Wallet launched. an app that offers a better experience for retail customers, simplifying and speeding up in-store transactions by combining payment and loyalty in one easy scan. It also provides a marketing platform for retailers that enables digital customer engagement in-store
Current Account Direct	Banking Channels	Oct-13	Clydesdale Bank	Current Account Direct launched
“Stay/ Go” CASS process	Operational	Sep-13	TSB	Stay/ Go’ CASS process launch for customers wanting to move between LBG & TSB following the separation
Barclays app for 11-15 year olds	Product/ Service	Sep-13	Barclays	App launched for 11-15 year olds
TSB brand launch	Other	Sep-13	TSB	TSB brand launch
Current Account Switch Service	Product/ Service	Sep-13	CASS	Current Account Switch Service launched
Cloud It	Product/ Service	Sep-13	Barclays	Document management service launched
Cashback Extras scheme	Product/ Service	Aug-13	Halifax	Cashback Extras scheme offering between 5% and 15% purchases at certain retailers
Student railcard	Add-ons/ Benefits	Jul-13	Santander	Student railcard launched
Clydesdale mobile app	Product/ Service	Jun-13	Clydesdale Bank	Phased launch of mobile app
Voice recognition software	Product/ Service	May-13	Barclays	Voice recognition software launch for Barclays’ 300,000 wealthiest clients
FlexDirect re-priced	Product/ Service	Mar-13	Nationwide	FlexDirect re-priced to 5% AER
Personalised debit cards & free shopping experience	Add-ons/ Benefits	Nov-12	Barclays	Personalised debit cards & free shopping experience
FlexDirect current account	Product/ Service	Nov-12	Nationwide	FlexDirect current account launched
iZettle app & card reader	Product/ Service	Nov-12	iZettle	App and card reader accepts payment on smartphone or tablet
GetCash’	Operational	Jun-12	RBS & NatWest	Allows customers to withdraw cash from an ATM with your mobile
GE Capital Direct Bank	New Entrant	Jun-12	GE Capital Direct	UK launch of bank offering internet-based accounts to savers
Cambridge & Counties Bank	New Entrant	Jun-12	Cambridge & Counties Bank	Cambridge & Counties Bank launch. A bank for SMEs. It uses Phoebus Software’s front-to-back office software
Santander 123 current account	Product/ Service	Mar-12	Santander	Santander 123 current account with monthly cashback on selected household bills launched
Pingit	Product/ Service	Feb-12	Barclays	Pingit launch enabling customers to transfer payments using a Twitter handle
Virgin Money	New Entrant	Jan-12	Virgin Money	On 1st January 2012, Virgin Money acquired Northern Rock from HM Treasury and launched itself as a new kind of bank on the high street through Northern Rocks 75 retail branches.
Shawbrook Bank	New Entrant	Oct-11	Shawbrook Bank	Shawbrook Bank launch. A specialist lending and savings bank that focuses on primarily on SMEs
Nutmeg	Product/ Service	Oct-11	Nutmeg	Online discretionary investment management company launch
Mastercard paypass/ payWare	Product/ Service	Oct-11	Mastercard	NFC tech enables contactless payment
First Direct crowdsourcing platform	Customer Service Platform	Aug-11	First Direct	The UK’s first crowdsourcing platform for the financial sector
OneSavings Bank	New Entrant	Feb-11	OneSavings Bank	OneSavings Bank launch. They provide savings, loans and investments
First Direct app	Product/ Service	Jan-11	First Direct	The first transactional banking app in the UK

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