



Competition and Markets Authority - “Making Banks Work Harder for You” An Introduction

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Introduction

The aim of the Competition & Markets Authority (CMA) is twofold; to promote business competition and to prevent and reduce anti-competitive activities. However, this could prove to be difficult in the UK retail banking sector as the top four banks control 77 per cent of personal current accounts and 85 per cent of business accounts. In response to this, the CMA recently published a report called ‘Making Banks Work Harder for You’. They have identified a number of factors which, when combined, point towards the fact that competition in the sector is not working as well as it could.

The report aims to address the problem that customers tend to stick with banks for long periods of time and as a result, the established banks do not have to work too hard to retain customers. This then makes it much more difficult for new and smaller banks to attract new customers. So, how will the new proposals impact banks, and how are banks responding to the proposed changes?

Let’s start by looking at the problems that were identified by the CMA:

- Current accounts for both personal and business customers can have complicated charging structures. Customers generally know very little about the charges and service quality provided by other banks. It is therefore hard for customers to know whether they could get better value and service from another bank or a different product with the same bank
- Personal and business current account relationships are open-ended and do not have regular trigger points (such as the annual renewal of insurance policies, for example) which would enable customers to ask whether there could be a better deal elsewhere
- The Current Account Switch Service (CASS) is not widely known about and thus the take-up by customers to switch banks has, to date, been somewhat limited. Customers do not know whether they are getting good value from their existing banks, as only 3% of personal customers and 4% of business customers switch to a different bank each year
- Charging structures for overdrafts are complicated, making it hard to compare providers. In addition, opaque terms and a lack of awareness has inhibited some customers from ‘shopping around’ because they fear not being able to get an overdraft or loan from a new provider.

New Proposals

New entrants have had a positive effect on the market by introducing new business models and innovative products, however the CMA believes the market continues to be dominated by a small number of long-established high street banks. The fundamental problem identified by the CMA is that even when new entrants and smaller banks introduce competitive products it takes a long time to build customer numbers.

The remedies being introduced will mean that more information will be made available to customers to help them find better deals and enable them to switch banks. They will also provide stronger incentives for all banks to compete and make the market more attractive to new banks and other providers, as well as encouraging innovation.

The proposed solution is based on the use of advanced digital technologies. As the CMA points out, Application Programming Interfaces (APIs) are key to the digital services used in smartphones and computers. They make life simpler for millions every day by enabling the sharing of information. For example, they are the hidden technological drivers behind digital applications such as Facebook, Google Maps and Uber.

The CMA believes that requiring retail banks to adopt and maintain a common open standard will accelerate the pace of this change. However, without the intervention of a central and impartial body, the process of developing open APIs cannot be guaranteed and could take a long time, with the effect of denying customers the early benefits of these services.

The development and implementation of an open API standard for banking – referred to by the CMA as the ‘first foundation remedy’ – will permit authorised intermediaries to access information about bank services, prices and service quality and customer usage. This will enable new services to be delivered that are tailored to customers’ specific needs.

The CMA believes that introducing an open banking model, based on digital technology, will allow new entrants to gain more market share. Further changes are also proposed. These include, but are not limited to, the following:

- Ensuring that customers get much better information about service quality. Banks will also be required to collect and publish a wider range of service quality metrics, which they will make available through open APIs for use by intermediaries and providers of comparison services
- Prompting personal and business customers at intervals, through various channels, to encourage them to review their banking arrangements
- Making the switching of accounts easier and extending the scope of current CASS services, such as ensuring that a customer’s incoming payments will be redirected from the original account to the new one for as long as the customer needs it. In addition, current account customers will be able to get a copy of their transaction history after account closure
- Providing customers with clear notice when they are about to go into an unarranged overdraft to enable them to avoid costly fees, perhaps by taking into account a forecast of predicted cash flow
- Supporting small businesses with better information about what banks can offer them in areas such as loan pricing and eligibility criteria, and standardising on the information required by a bank to open a business account
- Allowing customers, through a single application, to manage accounts held with several providers.

Impact on Banks



As a result of the report, banks will have to make radical changes to their existing systems and processes. For example, EY recommends that banks mobilise key stakeholders to look at the potential areas of impact and to develop a strategic response. They believe that the banks will require experienced teams to be put into place to:

- Mobilise key stakeholders across the organisation to create an integrated view on potential areas of impact and actions required to assess them
- Develop a response strategy — e.g. what questions to pose, to answer, and to what levels of depth
- Gather all data required to create a focused response to CMA issues. This will need key data strategies and due consideration of fraud and cybercrime prevention

- Design and get alignment around a response approach, e.g. will you use this as an opportunity to lead the market with new propositions or functionality, or wait to see competitive responses?
- Take an ongoing look into the Mandatory Referrals scheme, in conjunction with the CMA's emphasis on treating customers fairly.

Timetable

The CMA has defined a series of milestones which has been used to create the high level timeline below:

Who is Responsible	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Largest Banks in GB and NI								
Largest Banks in GB	★ Development of a comparison website for SMEs				Development of SME loan price and eligibility tool ★			
All Banks	★ Prompts: cooperate with Financial Conduct Authority (FCA) research and trials ★ Alerts: cooperate with FCA research and trials ★ Business Current Account (BCA) opening procedures				★ Service quality metrics: core measures ★ Transaction history for customers ★ Alerts: cooperate with FCA research and trials ★ Business Current Account (BCA) opening procedures			
Bacs	★ Facilitating switching: Current Account Switch Service (CASS) governance ★ Facilitating switching: CASS awareness and confidence Firm decision to customer prior to switching account provider ★				★ Facilitating switching: CASS redirection			
All Personal Current Account Providers (PCA)	★ Overdraft alerts with grace periods ★ Monthly maximum charge							
All SME Lenders	★ Publication of SME lending product prices							

Responses from Commentators and Banks

With interest rates low, a challenging global and domestic economy, Brexit uncertainty and the burgeoning regulatory agenda, the UK retail banking sector is without doubt under a great deal of pressure at the moment. The Global co-head of KPMG Fintech summed up, in reference to the proposals outlined above: *“implementing it will be a difficult task”* and continued by saying that *“many of the timelines set will be challenging for banks, which are already having to cope with significant infrastructure change, tech developments, regulation and of course, Brexit”*. Both Metro Bank and TSB believe that CMA have not done enough and that the market is stacked against challengers. The CEO of Metro Bank stated *“the CMA’s findings do not attempt to level the playing field for new entrants and challenger banks”*, TSB followed suit with the CEO quoted as saying *“the CMA has played right into the hands of the big five banks and missed a golden opportunity to enable people across the UK to get a better deal from their banks”*.

Summary

UK banks will be forced to provide much more information to their customers, whilst also making it more easily accessible. This will enable personal and business customers to compare price, service and quality and make informed decisions about which bank is best able to service their needs. The CMA believes customers should be able to see all of their financial products – mortgages, savings, current accounts and more - all in one app. There will be caps on overdraft charges, forcing banks to send alerts to customers going into the red. In theory it's good news for customers, as the CMA believe there is considerable money to be saved. However not everyone is happy, as challenger banks believe not enough has been done to bring real transparency and competitiveness to banking.

How Can P2 Consulting help?

The effort required by the retail banks in GB and NI to comply with the CMA requirements and transform their operations, whilst also seeking commercial advantage, will be significant. They will be forced to change and adapt their operating models to meet the new proposals and respond to a rapidly changing market, where threats and opportunities lurk at every corner. As always, effective leadership and management of the transformation agenda will be key to success. P2 Consulting specialises in Programme Management Delivery and operating advanced PMOs, helping organisations to turn their business visions and strategies into reality. With a strong track record in delivering regulatory programmes, P2 Consulting is exceptionally well positioned to partner with our banking clients as they strive to work harder for their customers.

For further information about how we can help please get in touch

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