

## Summary of key points made at Emerging Thinking hearings

### Strategy

#### *General*

- Bol said that [REDACTED].
- Bol said that the number of customers on its Clear range of products had increased from [REDACTED] in 2004/05 to [REDACTED] in 2005/06. [REDACTED] Bol said that over [REDACTED] per cent of its customers did not pay any fees in a particular quarter, and [REDACTED] per cent in a year, [REDACTED].
- Northern said that its current market share in the PCA market was 20 per cent [REDACTED].
- First Trust said that [REDACTED]
- Abbey said that its current marketing strategy focused on three key product areas: mortgages; banking; and savings. It also sought to drive new account openings.
- Abbey said that the bank account was extremely important to it in managing the customer relationship. If you managed a customer's bank account well, confidence was instilled in the customer and other products followed.
- Abbey said that [REDACTED].
- A&L said that about 17 per cent of its customers held their accounts as secondary current accounts. Their main accounts were held either with A&L or elsewhere.

#### *Cross-selling*

- Abbey said that PCAs were an important source of information for cross-selling products. PCAs facilitated a better understanding of customer needs, enabling more focused marketing and more informed decision-making regarding credit-type products. Abbey said that it was difficult to get comparable data between banks on cross-product holdings.
- Nationwide said that its strategy was to build as many cross-holdings of Nationwide products as possible. As a relative newcomer to the PCA market its marketing strategy was to target existing Nationwide customers and seek to cross-sell products that they did not currently hold such as PCAs.
- Nationwide said that the driver of its business was its mortgage product. It did not see PCAs as a driver but a desirable product it wished to sell across its membership.
- Halifax said that it aimed for customers to hold three of its products, a PCA plus two others.
- Halifax said that mortgages provided some opportunity to cross-sell its PCA, but around 60 per cent of its mortgages were sold via intermediaries.

## **Segmentation**

- BoI said that it did not segment the market as such, but sought to service customer needs appropriately.
- One clearer [X] said that it was looking to attract young professional switchers in particular.
- Northern said that Northern Freedom was a departure in strategy in that it did not focus solely on the student and graduate market. By targeting all customers aged 18 to 27, Freedom would apply to [X] potential customers [X].
- Ulster said that it did not segment the marketplace. It sold different PCA products to different customers depending on need. There were no restrictions in terms of turnover on the account, minimum balance, or similar.
- Abbey said that [X].
- Abbey said that it did not have any particular PCAs specifically aimed at high net worth individuals.
- One non clearer [X] said that it currently did not target students as this was an expensive market to enter. Students often shopped around, opening two or three accounts, took the promotional offers and then did not actually become a primary customer.
- A&L said that it regarded the market as being segmented. In Great Britain it concentrated most on adult switchers from the Great Britain 'big four' banks. There was a big youth market, and A&L attracted custom with a Young Worker account, but it did not actively compete in the student and graduate market because of the well-established campus networks of the Great Britain 'big four'.
- Nationwide said that segmentation had never been part of its marketing strategy; it had attempted wherever possible to provide products that were available to all, subject to criteria based upon creditworthiness.
- Nationwide said that segmentation was becoming more a differentiator of products, with products pointed at particular market segments; that could be expected across the whole range of personal financial products.
- GCCNI said that the clearers were vigorously targeting the student population, which was a valuable market. Queen's University received sponsorship from First Trust, BoI, Ulster and Barclays. Ulster had recently taken over from BoI as the main sponsor of Queen's University, guaranteeing Ulster a presence in many of the University's publications. The University of Ulster received a range of sponsorship, primarily from First Trust and BoI.
- GCCNI said that exchange students at Queen's University were, for example, told only about the clearers as an option for opening a bank account. Sports and student awards were also sponsored by the clearers. Documentary evidence of this was provided.

## **Marketing**

- Northern said that [X].

- Northern said that [X].
- Ulster said that it had increased its marketing spend on PCAs since the launch of the new pricing proposition. The advertising was heavily focused on ease of switching.
- A&L said that it had no Northern-Ireland-specific marketing.
- Halifax said that its marketing campaigns were predominantly UK-wide. Local marketing campaigns had been run in certain areas including Northern Ireland, targeting local competitors, but these were exceptions rather than the norm.
- Halifax said that its current national campaign advertising its current account as paying 25 times more interest than Barclays would not be appropriate in Northern Ireland. Likewise a campaign highlighting that customers were not charged for standing orders and direct debits would not be run in the UK as the big four did not have these charges.
- GCCNI said that the market for the clearing banks was only Northern Ireland whereas for the non-clearing banks, Northern Ireland made up only a small proportion of their geographical market. The clearers, therefore, could be more geographically focused with their marketing budget.
- GCCNI said that the term ‘fee-free banking’ was being abused in Northern Ireland. First Trust had promoted a ‘fee-free’ account that actually had an £8 monthly charge and the Advertising Standards Authority (ASA) had upheld a complaint by GCCNI that this was misleading. If the clearers were vigorously competing against each other, it would have expected other clearers to have reported this to the ASA.

### ***New products***

- Bol said that [X].
- Bol said that [X].
- First Trust said that [X].
- Northern said that the five new products it offered [X] compared ‘very favourably’ in terms of credit interest and were very competitive in terms of authorized and unauthorized overdrafts.
- Ulster said that its new PCA proposition was very successful—in the first 22 weeks of 2006 net new business was up [X] compared with the same period the previous year.
- One non clearer [X] said that it had not noticed any measurable impact on its switching rate as a result of the new Ulster and Northern offers. *[only if not obvious]*
- A&L said that it would expect a time lag of three to six months before an impact would be seen from the changes by Ulster and Northern. The key effect would be likely to be the retention of existing customers by Ulster and Northern rather than attracting customers from the non-clearers.
- A&L said that there was a general feeling that the market in Northern Ireland had changed, although A&L had not seen a change in the rate of switching to it.
- Halifax said that heavy marketing by Northern and Ulster of their new products had made it more difficult to illustrate its competitive advantage with regard to its own PCA

offering. Nevertheless, it believed that it still had a competitive advantage over Northern and Ulster and it was looking to combine these advantages into a package. For example, on charges, Northern's new 'fee-free' offering incurred fees if you exceeded a specified number of cash withdrawals or wrote too many cheques in a given quarter and Ulster's new products did not offer credit interest.

- Halifax said that it believed that changes witnessed in the Northern Ireland PCA market were permanent. A combination of new product offerings, such as in credit interest, and the supercomplaint had made the consumer more aware and unlikely to settle for a poor deal.
- Which? said that it welcomed the improvements it had seen in the market but was not convinced that the recent moves by some of the banks in Northern Ireland would signify a permanent improvement in competition.
- Which? said that even with the new PCA offers from Northern and Ulster, the clearers were offering a considerably more expensive proposition than their Great Britain rivals.
- Which? said that it did not see any real suggestion that the structure of the market was changing fundamentally or that barriers to entry had been addressed by competitive activity. Nor did it see any demand-side factors changing.
- GCCNI said that the changes had not addressed all the issues raised in the original supercomplaint. Credit interest levels offered by the clearers in Northern Ireland, compared with those offered by parent companies in the UK, remained low. GCCNI said that it was still not satisfied that the issue of potential price leadership had been addressed.
- GCCNI said that it would expect to see greater penetration by the non-clearers if the PCA market in Northern Ireland was fair and competitive. Though the non-clearers had made inroads in the market shares of the clearers, this might not necessarily be the direct result of a good competitive market, more that consumers had become aware of their choices, through efforts by the Consumer Council, Which? and the media among others. Although progress was being made, the Consumer Council queried whether this would continue without specific intervention by the CC.
- GCCNI said that competition in the Northern Ireland PCA market was improving, largely because of the inquiry as well as the entry of Danske Bank to Northern Ireland.
- GCCNI said that Northern had cited money-laundering regulations as the reason for not moving customers automatically to its new accounts. They did not readily understand or accept this as Ulster was not restricted when it moved all its existing customers to the new pricing structure. GCCNI questioned if this practice allowed Northern to select and retain the higher-value customers: the CC identified evidence in its report that Northern had increased the value of the accounts held with it even though volume had decreased.

## **Branch network**

### *Size of network*

- BoI said that a small number of branches gave you access to the Northern Ireland market. [✂].

- First Trust said that it had rationalized its branch network from over 90 branches when it first acquired TSB to 56 branches today. This had largely been through the removal of overcapacity and repositioning of existing branches.
- First Trust said that [REDACTED].
- Northern said that the size of its branch network went back to the merger of Northern and Belfast Banking Company, which created a network of around 105–106 branches. It now had 95 branches. [REDACTED]
- Northern said that there had not been any recent branch closures, [REDACTED].
- Northern said that the size of its branch network did not give it a particular advantage in opening new accounts. The Local Market working paper seemed to indicate that customers had access to both clearing and non-clearing banks, and given the increasing number of people who did not have to return to a branch after opening an account, Northern's branch network did not give it a disproportionate advantage.
- Northern said that the size of its branch network led it to have a higher cost/income ratio than its competitors. It believed that, irrespective of the size of the branch network, there was an opportunity to take cost out of the business.
- Ulster said that, even if the branch network were an advantage to the clearers (and this was far from clear), it was not a significant barrier to entry. HSBC, for example, had said that it would open a number of branches in Northern Ireland, and in the Republic of Ireland HBOS took over a network of former electricity showrooms.
- Ulster said that the non-clearers had managed to grow market share significantly with very small branch networks.
- Abbey said that [REDACTED].
- Abbey said that [REDACTED].
- One non-clearer [REDACTED] said that even though the Northern Ireland clearers had an advantage with their larger branch networks, and [REDACTED] had no plans to increase their presence, this larger network did not cap its ability to attract customers from the clearers. Performance within branches could reasonably be increased by 10 to 20 per cent year-on-year, but this would not translate into large market share numbers in terms of PCAs. It would take significant investment to make a step change in performance.
- One non-clearer [REDACTED] said that its business banking operation was primarily a remote one and would not on its own justify new branch openings.
- A&L said that it was not part of its strategy to expand the number of branches either in Great Britain or Northern Ireland. It had a well-publicized strategy to be a direct bank with a high street presence, and that it would drive growth through direct banking. It achieved a significant proportion of account openings via the Internet.
- Halifax said that the clearers' branch networks gave the clearers a competitive advantage in areas where Halifax had no presence, but they could also have a structural disadvantage by operating branches in areas where business levels did not justify it.
- Halifax said that in the vast majority of towns in Northern Ireland, it had a presence alongside the clearers, via agencies, and also competed with them.

- Halifax said that it was well represented in many of the bigger locations in Northern Ireland. Of its 15 branches in Northern Ireland, 12 were located east of the Bann River, where the major industrial centres were found. The clearers had 75 per cent of the PCA market and it believed that with the better products Halifax offered, there was still scope to increase its share of the market without opening further branches.
- Halifax said that it involved a major financial commitment to open a new branch. The decision to open the hundred branches in London and the South-East had been taken on the basis that it was under-represented with regard to market share by location. It had no plans to open further branches in Northern Ireland.
- Halifax said that London and the South-East had very high population concentrations with regard to where people lived and worked. The business case for expenditure in these areas was easier to justify because of the potential returns from attracting new customers and incremental business to existing customers.
- Nationwide said that the branch network (including agencies) was an extremely valuable part of its overall distribution strategy. Some of its competitors had focused instead on direct banking.
- Nationwide said that while it had no plans to close or open particular branches, it maintained a very flexible approach to location planning. It currently had a programme of upgrading all its branches, looking at the appropriateness of the location, and sought wherever possible to locate at the centre of largely retail-based locations.
- Nationwide said that it did not believe that any increase in the branch network would necessarily mean it would grow PCA market share. It was a relative newcomer to the PCA market and that was why its market share was quite low overall but it was significant in terms of growth.
- A&L said that customers could service their accounts at the Post Office, which helped to overcome some of the issues it might have with a relatively small UK branch network, particularly for customers without access to town centre branches and ATM facilities.
- A&L said that [✂].
- Halifax said that it had two types of agency agreements in Northern Ireland. The first sat within its chain of estate agents and the second arrangement involved independent agencies such as mortgage brokerages and accountancy firms. Both offered its full product range and a counter service and were located in the Belfast suburbs or in smaller towns where a full branch was not warranted.
- GCCNI said that the clearers' branch networks gave them an additional advantage over the non-clearers. Their physical presence near the universities gave them better access to students.
- GCCNI said that the branch was the main recruiting point for new customers.
- GCCNI believed that there were business reasons behind the positioning of a branch and did not accept the picture presented by some banks that they were taking on a burdensome cost out of a sense of social responsibility for rural dwellers.
- GCCNI said that if the banks wanted to, they could come to arrangements with credit unions or the Post Office to supplement their network coverage, but GCCNI believed that even in doing this, branches would still be a vital component to their strategy.

- GCCNI said that the branch network gave greater access to business customers as well as allowing for cross-selling and marketing activity.
- Which? said that the clearers' more extensive branch network gave them a real competitive advantage in Northern Ireland. Its research showed that the most common reason for consumers choosing particular financial products was because they already had an established relationship with the provider, often through a PCA. One of the main reasons for choosing the PCA provider was access to a branch, or because friends and family had a PCA with that provider.
- Which? said that it was unlikely to be worth the non-clearers investing in a wider branch network in terms of costs and potential benefits because of the lack of switching on the part of consumers.
- Which? said that in Northern Ireland, clearers' branches in small towns and villages represented a barrier to entry for non-clearer because of the business custom from farmers and market providers who transacted cash on a regular basis.

### *Use of branches*

- BoI said that [✂].
- Ulster said that having a branch network was only one aspect of gaining accounts. It was important to invest in the brand, the upkeep of the branches, in staff training and in products. Ulster had to invest significantly in bringing its branch network up to date.
- A&L said that the branch was important from the perspective of providing financial advice. All processing was carried out centrally at Bootle.
- A&L said that cross-selling in branches was a tailored approach to discuss with customers and only try to sell them what they needed. The PCA was the key product for cross-sales.
- A&L said that transactions in Northern Ireland were over 3 per cent of total bank transactions. This was a reasonable indicator of branch use.
- Halifax said that, unlike its branches in Great Britain, all its branches in Northern Ireland dealt almost exclusively with personal banking; business and SME banking were not major activities.
- Halifax said that it had no plans to develop its business banking facilities in Northern Ireland, where it had one business banking outlet. Business banking was a product offering, but with no counter services available for paying in cash, its ability to compete with the clearers was limited. It had not sought to go after 'high cash' businesses, seeking instead business customers who used Internet and telephone banking.
- Halifax said that experience had shown the branch to be very important to customers, even if they were not going to be regular users. Only about half of its PCA customers would visit their branch on a regular basis, but the reassurance provided by a branch was important.
- Halifax said that it used its branches to target potential switchers. When discussing its range of products with customers, it might ask where they had their PCA and promote its own offering. When a customer deposited a cheque at one of its branches, if the

cheque was from a clearer, that customer might be asked if they would like a face-to-face meeting to review their banking.

- Nationwide said that the branch was still important as the prime point of transacting business for many of its customers and remained a focal point of the customer's relationship with Nationwide. Nationwide was keen to retain branches in rural locations in the UK, so had not sought to close purely on economic grounds.
- Which? said that the document provision requirements of the money laundering regulations made it easier to open an account at a branch where staff could guide the customer through the process. After an account had been opened, a lack of awareness and inertia made switching unlikely.

### *Functions of branches and size*

- First Trust said that one deterrent to opening a PCA was the time taken. It had reduced the time taken in the branch to open a PCA [redacted].
- One clearer [redacted] said that currently all PCAs had to be opened in-branch face-to-face, because of the need for identity and address verification. [redacted].
- First Trust said that [redacted].
- First Trust said that it was looking to 'decongest' the branch network, centralizing the back-office functions and allowing branches to focus on customer service.
- Northern said that in the past there had been inefficiencies in their systems, [redacted] in relation to [redacted] everything that went on within the branch network. [redacted].
- Northern said that [redacted].
- Ulster said that, in terms of Ulster PCAs, they could only be opened via branches. Ulster branches were also used for customer service reviews. Ulster was aware that PCAs for other banks could be opened remotely.
- Abbey said that on average it would have six customer-facing FTEs and a branch manager in a typical branch, with specialists coming in to offer advice on regulated products.
- A&L said that [redacted].
- A&L said that a typical branch in Northern Ireland had about five FTE staff—usually a manager, a mortgage adviser and three or four other customer advisers. A financial adviser on regulated investments might be shared between two branches.
- Nationwide said that average staff numbers in branches ranged from 20 FTEs in Belfast to 10 to 12 in the main secondary towns and 5 to 6 in the smaller towns.
- Halifax said that the vast majority of its accounts were opened in-branch, though they may be managed via the Internet or telephone banking.

### *Online banking*

- First Trust said that it was planning to increase the functionality of its online capability. [redacted].

- Northern said that [✂]. Actions that would previously have been carried out in a branch, for example setting up standing orders, could now be done online.
- Ulster said that under its business model it regarded the Internet and telephone banking as important adjuncts to its branch network.
- A&L said that it did not feel constrained by its branch network. It thought that it and others were growing in Northern Ireland through direct banking, but that Northern Ireland needed to catch up with Great Britain in terms of computer penetration and experience of transacting in different ways.
- Halifax said that over the past five years, there had been an increase in Internet and telephone banking, but this had not led to a decrease in branch usage. Customers still valued the importance of the face-to-face contact offered by the branch.
- Nationwide said that a quarter of its PCA holders had an Internet registration and about 70 per cent of those used it regularly. It was not seeing a decline in the take-up for the Internet bank. There were Internet terminals within the branches so that customers could access the online bank within a branch; staff were on hand to support them if they had any difficulties.
- GCCNI said that it had anecdotal evidence that consumers who were annoyed by excessive charging were considering switching to Internet-only providers such as Egg and Cahoot.
- Which? said that it had looked at whether there was satisfaction with Internet banking. Trust and confidence was a complex issue and a branch was a sign of a sound institution. For a brand to be successful with consumers, it had to offer a package of channels. This variety of channels had a particular importance for Northern Irish consumers. However, once customers had set up with Internet banking, they were happy with its operation.
- Which? said that information from *Computing Which?* magazine showed that the help of a physical person, eg in the form of a telephone helpline, was important when consumers shop online.

### ***Business models and charging structures***

#### *Bank notes*

- BoI said that [✂].
- A&L said that the clearers issuing their own banknotes was not a major concern for A&L.
- Nationwide said that while there were some efficiency costs or disbenefits arising from a multiplicity of banknotes, it did not feel this was a source of significant competitive disadvantage.
- GCCNI said that evidence of the strong links between the universities and banks was found in the issuing of local banknotes. Where, for example, Queen's University had strong links with one bank, its image would appear on that bank's notes.

## *Models/policy*

- First Trust said that the clearers did not fit into a single business model. They had, for example, different branch networks, different charging structures, and their fortunes had varied substantially.
- Ulster said that the clearers offered different PCA product propositions and so should not be considered as homogeneous.
- One clearer [X] said that it tended to have older customers who might, by virtue of their life stage, be more affluent.
- Halifax said that it believed that the clearers in Northern Ireland had higher credit balances because of the older age profile of the clearers' customers.
- Halifax said that in Northern Ireland it asked branch managers to target [X] per cent of new PCA customers as switchers. Currently this figure was [X] per cent.
- Halifax said that its new and existing customers both received the same product offerings. Maintaining its growth levels and levels of switchers was important and exploiting its customer base through differentiated products would damage this.
- Nationwide said that it had a fairly simple PCA product. The average credit balance was about [X]. It did not specifically market its PCA to higher-value customers, although there was probably opportunity to increase that type of customer and the product was attractive to a more sophisticated financial requirement.

## *Pricing*

- BoI said that it did not price more highly than the non-clearers, but priced differently. [X]
- First Trust said that it was important to recognize that there was no such thing as free banking. The 'fee-free' model charged heavy 'out-of-order' fees.
- First Trust said that increasingly its prices were being set taking cognizance of the non-clearers. In recent months, it noted the development of the Halifax moneyback account, A&L's incentives to open an account, and, very recently, 360 Money.
- One clearer [X] said that as a result of Ulster's new charging structure, it was seeing customers switching from Ulster back to it, in addition to ongoing switching to the non-clearers.
- Northern said that [X].
- Northern said that [X] per cent of its customers operated their account in credit in any quarter. It was also important that there were no entry requirements in terms of regular deposits.
- A non-clearer [X] said that it believed that credit interest was a more attractive feature to its customers than overdraft facilities. It priced to achieve a good position in the Best Buy tables.
- Northern said that its cap of £22.50 on transaction charges in a quarter on its one traditional PCA (which was no longer on sale) was to ensure parity with the maximum monthly fees payable on some of its legacy accounts.

- Ulster said that its new PCA pricing proposition sought to respond to competition in the marketplace and to customer needs. There had been a focus on providing fee-free banking, and increasing the [X] per cent who did not pay charges on the traditional accounts to approaching [X] per cent under the new PCA charging structure. It had also simplified its PCA charging structure to make it easier to understand, so that out-of-order charges were set at a standard £30.
- Ulster said that although there was a huge advantage to it in being able to leverage technology and learning from RBS, it made product market pricing decisions at the local level, based on the local competition in Northern Ireland. Ulster's charges were primarily set to compete in the market rather than being directly cost reflective; the Ulster business model, with its focus on controlling shared costs, ensured efficiency.
- Ulster said that the evidence from its research was that credit interest on PCAs was not a key factor to customers. Many customers preferred to keep separate savings accounts for credit balances and use the current account for transaction purposes.
- Nationwide said that a reason why the non-clearers were differentiated from the clearers was that many of them were attempting to break into a market and therefore their pricing, primarily in terms of credit and debit interest, had to be attractive.
- Nationwide said that its pricing policy had been very strongly driven by the 'one price fits all' model it applied to all its business. Mutuality was also a factor for Nationwide.
- Nationwide said that the changes made to Ulster and Northern's charging structures suggested that they were responding to competitive pressure by the non-clearers.
- Which? said that even the new PCAs from Northern and Ulster were not tremendously competitive against the Great Britain clearers. The clearers had not been influenced by the availability of better offers in Northern Ireland from banks with UK-wide tariffs.
- Which? said that it might be interesting to compare a PCA provider such as Nationwide which operated throughout the UK with UK-wide tariffs and Ulster which was part of a UK-wide bank, RBS, but operated in a different way in Northern Ireland and Great Britain.
- GCCNI said that robust evidence of potential parallel pricing and price leadership had been presented by the CC, confirming earlier evidence identified by the OFT and the supercomplainants. GCCNI rejected the suggestion that there was no price similarity or parallelism in the banking charges in credit or agreed overdraft or unauthorized penalty charges of the clearing banks as their documented evidence given to the CC confirmed.

### *Innovation and products*

- Bol said that it had demonstrated innovation and proactivity in several ways: its [X] initiatives, its alliance with the Post Office, and its [X]. These were demonstrable differences compared with the other clearers.
- Bol said that, in terms of product offerings, its Clear accounts were innovative.
- Northern said that the new products were influenced by Danske, which had similar products in Scandinavia. The structure of the new products was driven by Danske, but the pricing reflected local market conditions.

- Northern said that [with regard to measuring the success of the new products, Danske was most interested in: [X]].
- Abbey said that the PCA was a difficult product on which to innovate because it was fundamentally transaction-based; however, its 6 per cent in credit offering was an innovation.
- Abbey said that [X].
- Halifax said that it believed there had been recent innovation in the PCA market, for example offset accounts, packaged accounts, and accounts with varying levels of credit interest depending on, for example, monthly funding requirements or Internet usage.
- Nationwide said that it did not offer a mortgage offset account at the present time as the market was not that large and there was flexibility in the mortgage products already offered.
- GCCNI said that it welcomed Northern's 'fee-free' account and the removal of direct debit and standing order charges, but all customers should have been switched to the new products and other unfair or excessive ancillary charges removed.
- GCCNI said that it welcomed Ulster's decision to remove the standing order and direct debit charges and the transaction charges for in-credit and authorized overdrafts for all customers, but it was disappointed that nothing was done on credit interest and that new charges had been created on unauthorized overdrafts. There were also certain ancillary charges that could have been removed.
- GCCNI said that it believed that the new product offerings were a direct result of the publicity surrounding the inquiry, as well as Danske looking to make its presence felt in Northern Ireland. It rejected the suggestion that the clearers had intended to make these changes anyway. GCCNI said that product innovation was normal and to be expected from any private company but that the changes more fundamental change was needed to address issues identified by the OFT.
- GCCNI said that it believed that some of the clearers were taking a minimalist approach to their new offerings. It believed that both BoI and First Trust had not made changes and perhaps were waiting for the outcome of the inquiry. They also both had parent companies in Dublin.

### *Marketing*

- Nationwide said that the level of PCA marketing activity in Northern Ireland was currently as high as it had ever been.
- A&L said that from a marketing perspective it did not regard Ulster and Northern as competitors. It focused instead on the Great Britain clearers. It said that there was a perception in Northern Ireland that there had not been a major change as a result of Northern and Ulster's new PCAs. There had been no impact to date (end May) on A&L's share of flow in Northern Ireland. There had been an increase in advertising intensity in Northern Ireland.
- GCCNI said that some of the clearers were now running advertisements targeting each other's customers, but it was unsure if this would last into the foreseeable future. It said that this type of marketing was not at the same level as the targeting of other market segments such as new entrants, students etc.

## **Overdrafts**

### *Authorized overdrafts*

- Bol said that a customer with an overdraft would still be an attractive proposition to a bank, provided they had other assets. Those customers on lower incomes might be better suited to basic bank accounts.
- One clearer [X] said that one of the reasons for developing a packaged account was to accommodate customers who preferred the certainty of a regular charge with a buffer facility, rather than paying the full quarter's fee for going into overdraft for, perhaps, one or two days.
- A&L said that [X].
- A&L said that it saw longevity of customer relationship as very important for cross-selling; this was much more important than the risks associated with debit balances.
- Halifax said that a new customer would be offered the same overdraft, for a four-month period, as that which they had with their previous bank. A £1,000 overdraft was offered to new customers, though for those with higher salaries this could be negotiated.
- Halifax said that it believed customers who used their overdraft on a regular basis would be more nervous about switching, though the chances of them switching would be increased if they had a bad experience with their bank.
- Which? said that its surveys showed that overdraft fees and interest rates came very low in terms of a component of satisfaction.

### *Credit scoring*

- Ulster said that a customer with a history of operating in overdraft who wanted to switch to Ulster would be put through a credit assessment process just like anyone else. No particular weight was given to overdraft history. It only refused PCAs to undischarged bankrupts. It welcomed overdrawn customers because it was in the business of lending money.
- Abbey said that when opening a new account, it asked a customer to provide the last one month's bank statements. It also used credit-rating agencies to assess a customer's creditworthiness.
- Abbey said that it guaranteed to match the overdraft facilities of the switcher's previous bank, provided that the customer met the credit score criteria.
- One non-clearer [X] said that, in authorizing an overdraft, it took account of credit scoring, promised levels of customer funding, and account history.
- A&L said that around [X] per cent of its decisions on lending control fell outside its automated process.
- Halifax said that all customers were taken through a scorecard to determine their creditworthiness. As a responsible lender, it would not extend credit to customers who, historically, had not been able to open and manage an account within the previous terms and conditions.

- A clearer [✂] said that overdrafts offered to switchers were based on credit history, which may involve consideration of previous months' bank statements and credit assessment against a scorecard.
- Nationwide said that it operated a buffer of £30, after which a mainly automatic credit-scoring process could make an authorized overdraft facility available.

### *Unauthorized overdrafts*

- Bol said that it was not in its interest for customers to use unauthorized overdraft facilities, because it was interested in building a long-term relationship with the customer.
- Bol said that [✂].
- GCCNI said that the primary driver behind its unfair charges campaign was the concern that banks would replace their income from one set of charges with another. Ulster's introduction of higher unauthorized overdraft charges alongside transaction-fee-free banking prompted its work on unfair penalty charges.
- GCCNI said that through its unfair charges campaign, more than 900 people, as at [✂], had received copies of the two-step guide. It had helped a taxi driver recover £2,000 of charges from the Halifax and in many instances excessive charges were being refunded.
- GCCNI said that it was targeting non-clearers who purported to provide 'fee-free' banking in conjunction with high levels of charges for unauthorized overdrafts as well as clearers. Its campaign sought to achieve fair banking in Northern Ireland for all and was not a vendetta against the clearers.
- GCCNI said that some customers who had been refunded charges had received letters from the banks defending the charges as cost reflective. By refunding the charges, the banks stated that they were not showing weakness or accepting liability, but wanted to avoid the costs of going to court.
- GCCNI said that the clearers charges on unauthorized overdrafts were very similar and rather than being based on cost reflectivity, appeared to be based on common practice.

### *Sensitivity to unauthorized overdraft charges*

- Bol said that customers were insensitive to unauthorized overdraft charges until they incurred them. Some changed their behaviour as a result; others did not.
- Northern said that customers who had experienced unauthorized overdraft charges would take these into account when considering switching to a new product. But most people would not focus on these charges as the majority of customers did not operate unauthorized borrowing.
- One clearer [✂] said that historically customers had been tolerant of unauthorized overdraft charges because they were regarded as penalizing them legitimately for things that they had done wrong. [✂]
- Ulster said that it was not in its long-term interest to have customers paying unauthorized overdraft charges. It sought to have a long-term profitable relationship with satisfied customers. Thus its objective was to reduce the percentage of customers

paying unauthorized charges to below the [X] per cent assumption set out in the base Business Case.

- Abbey said that it believed customers were aware of its charges. Bank accounts were opened in-branch and the customer would be taken through how the account worked and the terms and conditions.
- Abbey said that it was aware that some customers were sensitive to unauthorized overdraft charges (usually those who were at risk of incurring them). [X]
- A&L said that when most customers opened an account they did not think they would go into unauthorized overdraft.
- GCCNI said that it believed people were unaware that banks were willing to take on some consumers' debt in the form of overdrafts, just as they would take on mortgage debt. People in Northern Ireland felt very guilty about debt. People did not realize that fees and charges contributed to the banks' profits and that it was in the interest of the banks to take on customers with overdraft debt.

### *Levels of discretion*

- One clearer [X] said that there was little discretion in the imposition of unauthorized overdraft charges other than, perhaps, for someone who had gone into unauthorized overdraft accidentally for the first time.
- One clearer [X] said that there was a significant amount of discretion used when a customer went into unauthorized overdraft.
- One clearer [X] said that it advertised its PCA product as an entire package, rather than leading on penalty charges. 70 per cent of its customers did not pay penalty charges. It was also difficult to advertise low unauthorized overdraft charges both for ethical reasons and because it would not sound very appealing.
- Northern said that [X].
- Northern said that [X].
- First Trust said that there was a growing head of steam from consumer groups and in the press that unauthorized overdraft charges were too high.
- Ulster said that the incidence of charging for unauthorized overdrafts under its new pricing structure was higher than expected, but this was reducing. In the past month, [X] of its customers were incurring charges, down from [X] per cent in November 2005. Ulster was generating income in excess of that modelled in the base business case.
- Ulster said that it specifically targeted customers who were paying charges to try and help them manage these. Each month it sent out flyers to all those who incurred unauthorized borrowing fees with suggestions about how to manage their finances so as to avoid paying fees. They were also invited in for a customer service review, and this offer had been, and would continue to be, repeated for those who had incurred the fee for three consecutive months.
- Ulster said that there were many reasons why people went into unauthorized overdraft. It was not necessarily due to a shortage of funds, but could be a result of being

disorganized or to being such a high earner that they did not care or could not be bothered to check. There were clearly behavioural aspects that could be corrected since Ulster's mail campaigns were having an effect.

- Ulster said that not every account which went into unauthorized overdraft necessarily became a bad debt but where someone who was an existing credit risk sought additional funds, Ulster would credit score them.
- A non-clearer [X] said that if a customer queried an unauthorized overdraft charge [X] would discuss that charge with the customer and, in accordance with its policies, decide whether to reverse the charge or let it stand. In addition, if appropriate in the particular circumstances, staff were trained to suggest the customer consider requesting an extension to their authorized overdraft limit.
- A non-clearer [X] said that a number of factors were taken into consideration when deciding to pay a cheque that would push a customer into unauthorized overdraft or where there were insufficient funds in an account. Among these were: the likelihood of the cheque being paid back by the customer; the customer's credit history; transaction history and so on. The decision on whether to pay would be taken by a combination of automated processes and human judgement.
- Halifax said that where a new customer had gone into unauthorized overdraft with their previous bank, the decision to offer overdraft facilities would be decided on an individual basis. Typically, a customer would not be prevented from switching because they had previously strayed into unauthorized overdraft.
- Halifax said that the type of customer likely to incur unauthorized overdraft charges usually suffered from a high level of apathy and were not very good at managing their finances.
- Halifax said that it carried out regular reviews with customers with financial difficulties. It was in its long-term interest to maintain a good relationship with customers in financial difficulties. They were contacted before they got into a position where they would incur fees and charges and invited in to talk with its staff. It offered customers with difficulties extended overdrafts and help with restructuring their finances.
- Halifax said that customers continuously in unauthorized overdraft would be less likely to receive a large authorized overdraft limit.
- Nationwide said that increased unauthorized overdraft fees were part of the strategic imperative to turn the PCA into a profitable business over time. Its charges were significantly less than a number of its competitors.
- Nationwide said that it did not want to see customers continually putting themselves into unauthorized positions without being brought back within an agreed facility.
- Nationwide said that about [X] per cent of its PCA customers incurred unauthorized overdraft charges each year.
- Nationwide said that its fee for cheque card misuse was lower than its fee for unpaid items because of the difference in administrative cost. The charges were part judgemental, taking account of competition in the market, and part cost-related.
- Which? said that it had been looking at unauthorized overdraft charges for some time before the OFT statement on credit card default charges. Its work was based on market research to construct consumer profiles and spending scenarios.

- Which? said that it saw unauthorized overdraft charges as both a competition and consumer fairness issue. The main focus of its activity had been getting people redress for what it thought were unfair practices. It also believed that the principles that were applied to the credit card market could be translated to PCAs.
- GCCNI said that it had concerns that there was not a consistent policy regarding refunds, with the more empowered customer likely to get a refund against a customer not so aware of their rights.

### *Provision of Information to customers*

- Northern said that it sent out a fees and charges list at least once a year and worked with the customer to help avoid unauthorized overdraft situations arising. The customer was pre-notified of certain charges.
- Abbey said that it notified customers of changes in terms and conditions and tariffs. Tariffs were available on the Internet, in-branch and via telephone banking.
- A&L said that, in terms of providing information on unauthorized overdraft charges, there was a separate Fees and Charges leaflet in the account-opening pack. A&L was one of the few UK banks to print the tariff on the back of the PCA statement.
- A&L said that there were concerns about a general lack of financial capability in the country and because of the complexity of financial services products people might find it difficult to work out what they might pay in certain situations.
- Halifax said that it published all its tariffs and charges and customers typically looked at these via the Internet. Publications such as *Money Supermarket* and *Money Facts* allowed consumers to make comparisons between competitors.
- Nationwide said that complaints from customers suggested that they paid very little attention to what would happen if they found themselves overdrawn and liable to charges. The terms and conditions and tariffs were made clear. A number of customers were repeat offenders who would know what the charges were.
- GCCNI said that customers were not aware of the components of a charge and what elements could be challenged. Customers were also unaware of the level of charges that would be incurred if, for example, they went into unauthorized overdraft.

### *Response to the OFT's findings on credit card default charges*

- Bol said that [redacted].
- Northern said that it did not see the connection between the OFT's statement on credit card default charges and unauthorized overdraft charges.
- One clearer [redacted] said that, in the context of the OFT's report on credit card default charges, the fees were inherently different because they were fees for late payment and were automated. In the case of overdrafts, the bank would have to consider whether or not to pay a cheque, for example, and there was a significant manual process and judgement associated with that.
- Ulster said that it did not agree with the OFT's analysis and findings on credit card default charges, although it had reduced its credit card charges to remain competitive in

the marketplace. It did not think that there was a read-across from the credit card market to the current account market.

- Abbey said that MBNA managed the majority of Abbey's credit card book and had responded independently.
- Abbey said that it did not believe there was any read-across between the OFT's decision on credit card charges and charges on other products.
- Halifax said that it did not agree with the position taken by the OFT on credit card default charges, but had announced that it would move to the £12 ceiling.

## **Switching**

### *Process*

- Bol said that when a customer sought to open an account it looked to see what was the most appropriate product to offer, [X].
- One clearer [X] said that when it acquired a switcher it looked at the last three months' bank statements. It mostly did not use credit-rating agencies. It used judgement to assess whether to offer an overdraft facility, and if so, at what level.
- Bol said that the Banking Code acted as a great facilitator to switching. The only real barrier to switching was consumer awareness of prices. Although awareness had increased, Bol would be in favour of anything that increased awareness further.
- Northern said that the process of switching appeared to be working very well. As customer satisfaction was high, the biggest issue was around customer awareness.
- Ulster said that, despite the information being available, customers were not well aware of the Banking Code.
- Halifax said it believed that the market was competitive, but it did not expect switching levels to increase dramatically. Most customers saw switching as a high-risk, low-benefit process. The PCA was an important part of people's daily lives and switching an account was viewed as a daunting process.
- Halifax said that it promoted its switching service through staff and literature in branches. As part of its switching process, it compared its service with other banks and ran an in-branch campaign called 'Making it as easy as one, two three!'.
- A&L said that most of the problems with switching occurred with a third party such as a direct debit originator or an income provider. Although the number of cases that went wrong were small, the number of issues created was disproportionate and thus fuelled the fear of the process for customers.
- Halifax said that the vast majority of its automated account transfers went very smoothly. The major problem it had was with child tax credit, which new customers had to move themselves.
- Nationwide said that the biggest problem with switching was the transfer of direct debits. The perception by the customer was that Nationwide was holding up the process when this was not the case. Although the customer gave Nationwide the details of direct debits and standing orders with permission to approach those companies to make the

switch, the instruction often got lost and the originator wanted the customer to contact them direct. The originators were not subject to the Banking Code.

- Which? said that its survey had found that 29 per cent of people in the sample had considered switching but did not. When asked why they did not switch, the main reason was worries about standing orders and direct debits. However, whenever those who had switched were asked about their experience, the process for direct debit transfers seemed to have gone well.
- Abbey said that there could be problems with switching direct debits. Problems particularly occurred when the banks' systems were not compatible and the moving of direct debits did not happen automatically.
- GCCNI said that the majority of complaints it received were not from switchers but from customers who had a long relationship with their bank. Charges were a major source of complaints, usually from more vulnerable customers who did not have high credit balances. There were also complaints from customers with high credit values who felt the charges were excessive and that in-credit interest rates were too low.

### *Promoting switching*

- BoI said that [REDACTED].
- Northern said that it did not price discriminate between existing and new customers. Given that it had lost [REDACTED] market share over the past 15 years, it was in its interest to keep existing customers as well as attract new-to-banking.
- Ulster said that it had not been its policy to date to offer incentives to switchers, because of the issues it would raise with the existing customer base about loyalty.
- Ulster said that it was currently advertising its switching service throughout the branch network and media.
- A&L said that Ulster's recent advertising was obviously targeted at other clearers in a way that had not happened before. Previous marketing had been product promotion rather than focusing on other bank's charges.
- A&L said that an advertisement publicizing ease of switching did not have as much pull as a price-driven advertisement. The pull factors came into play once a customer had been pushed, for example by charges, service, or a change of branch manager.
- Abbey said that [REDACTED].
- Abbey said that [REDACTED].
- Nationwide said that it generally reached switchers who were not customers of other Nationwide products through advertising campaigns. It had seen an increase of switching following recent campaigns.
- Halifax said that although it had a large share of the savings market, the majority of its savings customers were older customers and it was harder to get them to switch.
- A&L said that its view was that bank charges had become a discussion point among the general public in Northern Ireland.

- Abbey said that financial gain was not the most important driver to switching. The most important push factor was bad service and a customer getting good service from their bank was less likely to switch.
- Abbey said that it believed examples of bad service included: not returning calls; being passed from one person to another; overdraft problems; queues at counters; opening hours.
- Nationwide said that the prime reason for switching was some difficulty encountered with the current provider—the push factor. There were three issues around a PCA; price, features of the products and service received.
- Which? said that its research showed that the biggest reason for switching seemed to be dissatisfaction with the existing provider rather than any real pull factors.
- Nationwide said that one of the biggest triggers for customers in Northern Ireland questioning and comparing their accounts was local media quoting what customers had saved by switching.
- GCCNI said that circumstances had changed since the beginning of the inquiry and consumers were gradually becoming better informed and confident about switching. But significant market-based barriers to switching, such as lack of product differentiation and charging structures, did still exist. Customers were unaware of the banks' obligations under the Banking Code. When contacted, even staff in branches were unclear about their obligations and details of their products.
- GCCNI said that at the branch level, clear and comparable information on charges and products was not available. A leaflet on PCA charges would be available at branches, sometimes only on request, but the leaflets tended to be complicated to read because of the number of PCAs available and the lack of explanation of why and when the charges were applied.
- GCCNI said that the Banking Code and the summary leaflet would also be available at the branch, again sometimes only on request. Both the Banking Code booklet and the summary were detailed documents and either provided information on consumer rights when switching bank account.
- GCCNI said that it appeared that there was increased competition at the moment between Ulster and Northern. Ulster recently sent an update to all its customers, quoting a Northern customer who was unhappy at not being automatically switched to its new account.
- Which? said that the CC's research showed that 55 per cent of Northern Irish consumers who had switched from a clearer switched to another clearer. If a consumer was aware of the information and was acting rationally it would expect a much higher proportion of customers to switch from a clearer to a non-clearer.
- Which? said that for products like financial services and utilities, where trust was important, consumers would not always make a rational decision according to classical economic theory in terms of the best price. Customers still did not switch utilities and telecoms even though there were switching websites and the process was easy.
- Which? said that its research indicated that the Northern Ireland clearers came out bottom of the league table on customer satisfaction as well as on price.

- Which? said that it had found that there were number of barriers which stopped people switching, and that there seemed to be more of them in financial products other than mortgages and general insurance products. For example, car insurance was a very visible product and even though the price differential may not be high, annual renewals reminded people of switching. It seemed to take more to push people into switching PCAs than other products.
- Which? said that there could be significant savings for particular groups of customer.
- Which? said that if things did not go wrong with products like PCAs, and they generally did not, customers tended to stay with their existing provider.
- Which? said that research had shown an inverse correlation between market share and customer satisfaction in banking. There were a lot of factors that contributed to inertia and an unwillingness to switch. The level of financial literacy went only some way to explain this degree of inactivity.
- Which? said that it was keen to see any encouragement of switching including payments for switching.
- GCCNI said that as the inquiry has progressed and the context changed, it has become more difficult to say for certain that reputation and branch networks were the main reasons new-to-banking customers chose a particular bank. People were becoming more sophisticated, not necessarily banking where their parents banked, but were looking at the marketplace and making more informed choices. GCCNI welcomed this change but attributed it, in large part, to the media attention created by the inquiry and the GCCNI rather than a change in behaviour of the banks.
- Abbey said that the benefit to the customer of switching to Abbey would be higher in Northern Ireland than Great Britain as customers would benefit from no transaction fees and a higher rate of in-credit interest. With the 6 per cent offer, someone putting £1,000 into an account would be better off by £60 and, in addition, would save on transaction fees.
- GCCNI said that the figure of £80 benefit for a customer switching should be placed within a spectrum of savings. The figure may not represent the true saving for some customers and therefore a financial range would be a more appropriate way of expressing the benefit possible.

### *Switching rates/levels*

- One clearer [X] said that it had much higher levels of switching to it than the other clearers.
- Bol said that the survey evidence that it had suggested that the annual switching rate in Northern Ireland was 3.6 per cent [Mintel Report, *Current Accounts, Irish series* (Figure 24, p49)].
- Ulster said that one of the prime reasons for the existing low levels of switching were the high levels of satisfaction customers had with their bank.
- Ulster said that [X] was the most popular bank for customers who were switching away from Ulster.
- Abbey said that [X].

- A&L said that the total market for new business was [X] per cent adult switchers and about [X] per cent new to banking. [X]
- Halifax said that it did not believe there were great differences in the pattern of switching between Northern Ireland and the rest of the UK.
- Halifax said that following an advertisement campaign, it had experienced an increase in switching, but it believed that the level of switching in the market had returned to a consistent level, neither decreasing nor increasing.
- Nationwide said that customer response in the PCA market was slow.
- GCCNI said that it did not believe that the PCA market had undergone a fundamental change as a result of increased competition between Ulster and Northern. It saw the change as a start but that all of the banks would have to build on the work begun by Which?, the Consumer Council and the media to make customers aware that it was possible to switch accounts and get a better deal.

## **Financial performance**

### *Efficiency*

- One clearer [X] said that the prime measure of its cost efficiency was its cost/income ratio. It assessed the business as a whole and the constituent parts in terms of cost/income ratio. It monitored trends over time, as well as limited benchmarking at a Group level.
- First Trust said that it had a cost/income ratio of around [X] per cent across its business as a whole.
- One clearer [X] said that it benchmarked itself against other banks in terms of market shares, customer service and cost/income ratio.
- Northern said that one key efficiency measure was cost/income ratio, though this was predominantly measured at bank level. [X].
- One clearer [X] said that its systems had evolved measuring business unit revenue contributions rather than end-to-end process cost around a product. It said that it was likely to have to start doing more to allocate costs by product.
- Northern said that the PCA business led to a lot of costs within the business because of the transactional nature of the PCA business and the continuing heavy use of cash and papers as opposed to electronic methods.
- Northern said that [X].
- Ulster said that it was important to it to operate efficiently. It had measures across four broad areas: sales, service, people and risk control. It benchmarked branch performance primarily internally. The financial outcomes were the result of the challenges on efficiency and benchmarking.
- Abbey said that [X].
- Abbey said that [X].

- Abbey said that [REDACTED].
- A&L said that [REDACTED].
- Halifax said that the large branch networks of the clearers in Northern Ireland did not necessarily equate to higher operating costs. In many areas, for example marketing and the leveraging of some fixed costs such as IT expenditure, there were economies of scale.
- Halifax said that it believed it was very efficient compared with the clearers in Northern Ireland. A high level of technology was involved in its day-to-day operations, whereas many of the clearers were still using manual processing. For example, Halifax had centralized a lot of day-to-day work processed in call centres and the processing of cheques.
- A&L said that on average the clearers had higher credit balances because they probably had a very mature account base; balances tended to get bigger the longer they were held.
- A&L said that [REDACTED].
- Nationwide said that one of the reasons for the high cost to the banks of running current accounts was the system that supported it. The systems used by the clearers tended to be older and more costly than those of more recent entrants.
- Nationwide said that, [REDACTED].
- Nationwide said that it measured costs per branch.

### *Profitability*

- Bol said that [REDACTED].
- One clearer [REDACTED] said that PCAs had a lower profitability than other personal products. This was due to the features of the product, which included multiple transactions, a tendency to manual transactions, a lot of cash activity and a lot of cheque activity. It used a high number of staff and included a high level of variety.
- One clearer [REDACTED] said that profitability was not driven by the PCA but by other products, particularly in lending. It was required to make material investments to sustain its position in PCAs. By developing direct channels, it hoped to win a greater share of new to banking customers.
- Northern said that [REDACTED].
- Ulster said that the PCA was a gateway account which provided the opportunity for long-term relationships and cross-selling. Ulster had, for example, a good opportunity to increase its market share of the mortgage market. The current account mortgage was also likely to represent a good opportunity in the near future.
- Ulster said that it made money out of PCA credit balances, but offered a range of other accounts, such as a packaged current account and savings accounts, to customers who wished to earn interest on credit balances.
- Abbey said that [REDACTED].

- Halifax said that it did not know how the profitability of branches in Northern Ireland compared with those across the UK since it did not measure the profitability of individual branches. But because common processes were used across the UK, it would expect costs to be similar. Each branch had sales and service targets.
- Nationwide said that it used certain models for profitability, including contribution. It tended not to look at profitability at a particular branch but to focus on sales. One of the problems in measuring branch profitability was to identify assets and liabilities held by each branch. For example, transactions could be undertaken at an alternative branch to where a customer's account was held or on the Internet or by phone.