

Summary of key points made at issues hearings

Market definition

Product market

- First Trust considered that in assessing market definition, a relevant issue was the importance different customers attached to different aspects of PCAs. It was not necessary for alternative products to perform all PCA functions, provided that a significant proportion of customers regarded alternative products as substitutable for PCAs given their own, specific requirements.
- First Trust said that cheque book use was diminishing and use of debit cards had increased. Some customers did not require a cheque book at all.
- Northern said that a PCA was for money transmission in and out of the account and a cheque book was not an essential feature.
- Ulster said that, whilst money transmission was a defining characteristic, transmission could be by cheque, standing order, direct debit etc thus a cheque book should not be an essential element in the definition of a PCA. Many younger people in particular did not use cheques any more.
- Ulster said that, whilst there was some blurring around the edges of the PCA, the defining characteristics of a PCA were money transmission, the ability to withdraw cash, and the ability to lodge funds. Although a very significant proportion of customers considered an overdraft facility to be an important feature of a PCA, it did not believe that this was necessarily a characteristic of a PCA for market definition purposes.
- BoI said that not all customers saw an overdraft facility as essential, and the vast majority did not use the overdraft facility. BoI said that an overdraft facility was an important characteristic for certain customers and considered it part of an integrated PCA package.
- BoI said that overdrafts were priced taking account of a number of competitive factors including the prices charged by other PCA overdraft providers although they were not set by direct reference to other forms of borrowing.
- Northern said that it did not see overdrafts as a key feature for money transmission and regarded them as a lending facility attached to a PCA.
- Northern said that it considered that the basic bank account and other accounts with only some of the features of a PCA (as defined in the terms of reference) should be considered as a part of the market. The issue of whether to open a PCA as defined or another type of account was one of customer choice.
- Ulster said that basic bank accounts and, in particular, its Dual account, had the defining characteristics of PCAs, albeit not providing a chequebook.
- Abbey said that it considered basic bank accounts as current accounts and offered them in the same way through its branch network as it did 'full facility' accounts.

- First Trust said that Credit Unions did not offer the same functionality as a PCA, but they met the minimal requirements of customers using cash and therefore acted as a constraint on PCA penetration. The fact that Credit Unions met the requirements of many consumers explained the historically low PCA penetration levels in Northern Ireland.
- Ulster said that Credit Union accounts were not pure substitutes for a PCA (as people who held a Credit Union account were also likely to hold a PCA) but Credit Unions could and did compete on lodging/holding cash and offering loans (short term and longer). These uses competed with PCA usage.
- A&L said that Credit Unions were important in Northern Ireland but were primarily focused on savings and loans, rather than PCAs.
- Abbey said that Credit Unions seemed to have little impact on its business. Notwithstanding the existence of the Post Office account, it had recruited an increasing number of basic bank accounts across the UK.
- First Trust said that it regarded the Post Office account as a substitute which constrained its ability to compete with PCAs. It was a money-in, money-out account and the average benefits payment per household in Northern Ireland was twice that in the UK.
- A&L said that it believed the Post Office card account to be comparable to a basic bank account.
- Halifax said that basic bank accounts were not a full substitute for a PCA as customers with basic bank accounts used them for money transmission and tended not to take out other products. Halifax saw the Post Office account as a close substitute for a basic bank account, but a Credit Union account was not.
- GCCNI said that basic bank accounts were not a substitute for a PCA because they did not offer the same facilities. Nor were Credit Union accounts because they were savings accounts linked to loans. The Post Office account was not a substitute because it was not possible to lodge money, use direct debits or standing orders or service the account.

Geographic market

- BoI said that it was sensible to use PCAs in Northern Ireland as the market definition for the purposes of defining market shares and concentration, while recognizing that there were competitive constraints from the broader market and that customers might be using other products as substitutes for PCAs in Northern Ireland.
- Northern said that it had always thought of itself as part of the UK market because it was subject to UK regulation and because the past and present building societies' advertising was national, not excluding Northern Ireland. Internet and telephone banking providers did not need a physical presence in Northern Ireland. Northern did not see themselves aligned with the RoI.
- BoI said that it did not believe that there were local markets.
- First Trust said that sectarian issues were historical to a large extent, but it was impossible to determine the degree to which an individual would allow cultural or political associations to dictate their choice of bank.

- Northern said that it did not see the market split on sectarian lines regardless of the historical position of 30 to 40 years ago; choices were now made for commercial reasons.
- Ulster said that it did not think that sectarian issues were relevant to the provision of PCA banking services in Northern Ireland.

Market structure

Historical context

- First Trust said that the increased market penetration of PCAs in Northern Ireland should be seen in the context of the development of the Northern Ireland economy over the past 10 to 15 years. More providers entering the market had raised awareness.
- First Trust said that the peace factor had made it more attractive to market PCAs; the appetite to compete had increased in retailing generally.
- Ulster said that the historical context in Northern Ireland was important for understanding the PCA market in the Province. Northern Ireland had seen significant development of the retail banking market since the ceasefire in 1994 and the 1998 Good Friday agreement, but the market still lagged that of Great Britain.
- Ulster said that the different pricing practices in Northern Ireland compared with Great Britain reflected the fact that Northern Ireland operated in a different economic/political context. It noted that increased economic activity since the peace process became effective had attracted new entry and expansion in PCAs, especially from British providers, and had led to a period of rapid development.
- Nationwide said that it was keen that the Northern Ireland market should become more flexible; historic behaviour had caused it to be a more difficult market than other parts of the UK.

Market shares

- A&L said that although the market share of the largest four Northern Irish banks was similar to the largest four in Great Britain, PCA propositions were more polarized between the Northern Irish clearers and non-clearers.
- Northern said that it had lost market share to the past and present building societies. There had been a lot of advertising by the past and present building societies, which were perceived as more modern.
- Northern said that it saw a lot of competitive pressure in the market with new entrants and heavy investment in some franchises by historic providers such as Ulster now owned by RBS. A key characteristic was movement in market share with the most dramatic impact in recent months being that of the Post Office on the share of new business.
- Nationwide said that it would like the same market share in Northern Ireland as it would for the rest of the UK. It had the same marketing campaigns, approach, pricing and service in Northern Ireland as in the rest of the UK. Northern Ireland was such a small part of the UK market that it could not organize itself to market or price differently there.

Bank notes

- Bol said that [✂].
- Ulster said that it did not believe that its own bank note issuance gave it a marketing advantage.
- GCCNI said that the clearers had the competitive advantage of printing their own bank notes, which was not available to the other banks.
- Nationwide considered Northern Irish bank notes to be a disadvantage because cashiers were dealing with several types of notes resulting in a higher percentage of tills being out of balance at the end of the day. Different colours and sizes led to mistakes about values. It was also expensive to buy cash to put in ATMs. It had never thought about having its own notes.
- Abbey said that it doubted that the fact that the clearers issued their own bank notes would put Abbey at a marked disadvantage.
- GCCNI wondered if local bank notes would continue if the profit element was removed. It said that there was no advantage to consumers to have locally printed notes; it was often inconvenient and even costly to change the notes before travelling to other parts of the UK.

Branch network and other distribution channels

- A&L said that the clearers had only started to offer PCAs through a direct channel in the past 12 months. In general, older people were more comfortable using a branch, whereas many younger people were comfortable to service their PCA online.
- Nationwide said that it had no information on the number of Internet customers in Northern Ireland, but it was unlikely to be different from the UK. Internet usage had been driven by a savings account that was available only to current account holders. Nationwide's policy was to have a multi-channel relationship with its members.
- Danske Bank said that the Internet was the driver for the future. It was not possible to bank in Scandinavia without the Internet or plastic cards; cheques were hardly used. It had closed 400 to 500 branches in Denmark with the expanded use of the Internet. However, it accepted that some customers would not change their attitude to the Internet.
- A&L said that there were three channels for new business and ongoing servicing of PCAs: branches, telephone and the Internet. There was more focus on branches as a distribution channel in Northern Ireland. More than three-quarters of PCA sales still took place in the branch in Northern Ireland, compared with around two-thirds in the rest of the UK.
- A&L said that the Post Office provided a very useful network for a pure Internet provider, but considered that the mass market generally required a mix of channels.
- Bol said that it saw the branch network as an integral part of its multichannel offering. The importance of branch networks was perceived to be declining, but a branch network remained an important distribution channel for Bol and branches reinforced the service proposition, although direct providers were able to provide just as much

competition as traditional providers. The Post Office was also an important distribution channel.

- Northern said that it did not use the Post Office distribution system because it was just a distribution channel and it wanted customers through its own doors.
- First Trust said there was no area in Northern Ireland that new entrants could not reach as customers from rural areas tended to work in areas of high population with access to branches of new providers. The customer of the past might not necessarily be the customer of the future and it did not see the convenience of branches as a key factor in the future. Customers could also be serviced, for example, by telephone and the Internet.
- Northern said that branches were the main sales outlet for all products. The branch network was the core channel for the relationship with customers and could not survive if branches were only selling PCAs.
- Northern said that branches were core to maintaining the community banking relationship. Community banking meant relationship banking. Northern said that it had a community strategy, serving agriculture and the business community.
- Abbey said that there were differences in Northern Ireland, for example a spirit of community banking, which meant that staff stayed longer in one branch and knew the customers better than elsewhere in the UK. Some areas of Scotland and England had a similar profile, but it had not chosen to market to those customers differently.
- GCCNI said that local access to branches was important because the population was dispersed, there was lower access to car ownership and it was a more cash-dominated society than in any other region of the UK.
- Abbey said that because of the different population distribution patterns in Northern Ireland, its 21 branches did not provide enough coverage to be a major competitor compared with its competitors' numbers of branches, which were over-branched compared with the rest of the UK.
- Abbey said that the location of its branches in Northern Ireland was long established, and there had not been changes as a result of any changes in demographics.
- Nationwide said that its branches were strategically placed in all of the main towns in Northern Ireland and where there were no branches there were agencies. This gave it complete coverage. It had a comparable number of branches to the ex-building societies.
- A&L said that it was seen as having quite a wide presence in Northern Ireland because its branches were strategically placed. The only area where it was not really represented was the far west, covering around 20 per cent of the population. Customers were prepared to travel to come to one of its branches.
- A&L said that it had a low-cost model with around half the number of staff in a branch compared with one of the clearers partly because it did not offer the same extensive range of branch services.
- Ulster said that approximately 75 per cent of the population of Northern Ireland lived within 10 minutes' drive of at least one former building society branch, and 85 per cent lived within 15 minutes' drive. Accordingly, the former building societies' branch networks were widely accessible throughout Northern Ireland.

- Bol said that it was not possible to open one of its PCAs in the Post Office because of money laundering requirements, ie the need for identification and verification.
- Northern said that it had to work harder to cover costs because of the higher fixed costs of branch networks.
- Bol said that [✂].
- Northern said that it did not know how many branches it would need if it were setting up from scratch. Historically where branches had been closed it was because they were not being used and the number of transactions was falling.
- Ulster said that it was a full-service provider. Its branches served not only personal customers but also SMEs and corporates and accordingly regarded its footprint of branches across Northern Ireland as entirely appropriate for its business model. It was important to give the customer a choice of distribution channels: branch, ATM, telephone, Internet. Ulster said that it was undertaking a further branch improvement programme, investing around £20 million across the island of Ireland.
- Halifax said that it was considering enhancing the branch network in the UK, but Northern Ireland was not a priority. A higher priority was the areas where it was underrepresented such as London and the South-East as a result of its northern and Scottish history. It said that property prices were not a factor.
- Nationwide said that it was less expensive to operate in Northern Ireland because of lower property values. Salaries were the same in Northern Ireland as in Great Britain.
- Abbey said that there had been only marginal changes in the branch network across the UK. Abbey considered that the network in Northern Ireland was the right size for its business model, which was predominantly focused on personal financial services with potential future SME growth.
- Nationwide said that designing a branch network for savings and mortgages was different to one for PCAs. There was less transaction business and people were prepared to travel further. PCA customers did not want to travel so far and the number of branches was also driven by business banking.
- Nationwide said that a big branch network would drive more current account business, but PCAs were not profitable enough to justify a bigger branch network.
- Ulster said that customers still primarily used its branches for lodging cheques and withdrawing money. Many customers also came in for Customer Service Reviews.
- Abbey said that the branch network was the primary channel of communication for a good proportion of its customers. Large numbers across the UK still queued to withdraw and deposit cash as well as check balances and make other enquires across the counter rather than use an ATM. Abbey customers were also likely to have a savings account but the PCA was the account that probably determined where they held most of their other products.
- Nationwide said that views on branches had changed in the industry. Some ten years ago it had been thought that the numbers of branches would reduce, but this had not happened and from time to time branches were being opened. People still wanted the personal touch through branches.

- Northern said that it saw that entrants such as Halifax and HSBC when establishing branches were selecting the areas where they could make the highest return. In the Republic of Ireland Halifax had taken over old electricity showrooms and if it wanted a larger network in Northern Ireland it could use its estate agencies there.
- Halifax said that its estate agency business and independent agencies were a feature of its business, but not unique to Northern Ireland.
- GCCNI said that the branch network was powerful especially for those new to the market. Research showed the influence of the local branch in choosing a provider as well as the pull of where friends' or family banked or where their business accounts were held.
- GCCNI said that the branch network serviced the small business and agricultural market which tended to bank locally.
- GCCNI said that consumers greatly valued the perception that they could negotiate with bank staff in a branch. They preferred a personal service, perhaps more so than in the rest of Great Britain.

Barriers to entry and expansion

- Halifax said that not being members of the Northern Ireland Bankers' Association or the Northern Irish clearing system was not an issue for them. Nor was any extra delay in clearing time an issue because most consumers were not receiving their income by cheque.
- Northern said that anybody could apply to join the Northern Ireland Bankers' Association and the Northern Irish clearing system. It saw no material advantage over non-members.
- First Trust said that there was common regulation, a common currency, similar clearing arrangements, and an extensive network through the LINK operation.
- First Trust said that it was very easy for British banks to enter the market; it was a marginal cost for them to move to Northern Ireland on the back of a mortgage product.
- BoI said that the ex-building societies could benefit from national advertising campaigns. The lack of a large branch network was not a disadvantage to the challengers, and a network could always be acquired.
- First Trust said that the ex-building societies had been in Northern Ireland a long time but the real change had taken place within the past five years. They had built up a huge database of mortgage customers which could be used as a gateway to cross-sell.
- Nationwide said that it was not constrained in selling PCAs by staff numbers. Historically the charging had been a constraint. It thought it would be difficult for the clearers to reverse any reduction on charges.
- Abbey said that there would be considerable costs for any new entrant in the market in establishing a branch network of the size which the clearers had. Abbey's current impression was that changes in ownership of banks in Northern Ireland such as Northern or Ulster would have a small effect on Abbey.

Conduct of banks

Products and pricing

- BoI said that historically there had been two different pricing matrices—one fee-free (from the British providers) and the other the traditional pricing model, which in practice had a very high level of fee-free banking.
- Halifax said that the recent charging structure of the Northern Ireland big four was similar to the historical practice of most banks in the UK at the time when it was the norm to pay to operate a bank account.
- Ulster said that, in designing its PCAs, it took account of customer needs and competition. Prices were not set to reflect costs but to attract and retain business. The market set the price; businesses had to adapt or lose share. The business aim was to grow market share by attracting new-to-banking customers and switchers, and also to reduce the numbers who switched away each year.
- Ulster said that it was able to offer a wider range of PCAs to the customer than the former building societies were able to do. Packaged accounts tended to develop a long-term banking relationship as customers used services other than banking.
- First Trust said that it carried out market research to look at the drivers of customer behaviour and tried to match its product offering with that to get a reasonable rate of return. There were external factors such as base rates.
- Danske Bank said that it believed in cross-border banking, subject to some local adjustments, which had succeeded in Sweden and Norway. An account was an account wherever it was. The products should be simple and transparent, and the integration of Northern to the Danske Bank IT-platform would result in a reduced number of products.
- BoI said that it clearly differentiated itself in terms of service and product innovation. Across the key components of the PCA, it was the most competitive, although it would depend on the individual customer profile.
- Abbey said that the competitive advantage for the clearers was economy of scale. The competitive advantage for Abbey was being able to price the way that it did in the rest of the UK but it had to convince customers that it was worthwhile travelling to its branches.
- Ulster said that the ex-building societies were primarily providers of retail products, although A&L, for example, were looking to compete more in the SME market.
- A&L said that the non-clearers had similar underlying strategies, and in its opinion offered a much better value proposition than the clearers.
- Ulster said that it believed that at least one of the ex-building societies priced for acquisition as many offers were only available to new customers.
- Halifax said that it tended to try to lead in all products and saw other banks follow. Fees and charges were never the focus of public advertising campaigns, again because most customers did not expect to incur them, although customers were informed of them. However, inertia might allow fees to increase without customers leaving.

- Halifax operated a single price across the UK for simplicity that allowed national advertising campaigns.
- Abbey said that currently there would be systems difficulties if it wanted to have a different pricing structure in Northern Ireland to that which it operated in the rest of the UK; this would involve considerable systems work as its IT was configured to treat Northern Ireland as the rest of the UK.
- Ulster said that the ex-building societies had UK-wide advertising and marketing which naturally extended into Northern Ireland, because of common branding and products, whereas the clearers marketed and advertised specifically for Northern Ireland.
- Abbey said that the Santander Group saw PCAs as a key priority product. The structure of the product had not changed since the acquisition of Abbey by Grupo Santander other than an adjustment to the product design to increase the credit interest rate. What had changed was the Group's publicly stated ambition to achieve a 10 per cent share of new accounts in the UK by the end of 2008.
- Abbey said that Northern Ireland was a small contributor to new account openings, reflecting the size of the market there, and the focus was the UK market as a whole. The products were the same but Abbey had evolved more specific marketing material targeted at its main competitors in Northern Ireland.
- Abbey said that SME business was a growth area and it was working hard to be a major player. Unlike PCAs, there were no tailored marketing activities in this area in Northern Ireland at the moment.
- Abbey said that it had recently started tactical marketing activity against the incumbent banks, following a similar campaign in Great Britain.
- Halifax said that the only tailoring of promotional activity for Northern Ireland was some local marketing of UK-wide advertising.
- Nationwide said that it attracted new-to-banking customers through the children's saver account and youth savers. It did not compete on student accounts because they were too expensive and it was better to attract students after university.
- A&L said that its product offering was strongly price led. Its prices were determined by a range of factors, including the competitive landscape, changes to the cost base, the base rate and other money market rates, feedback from customers, and the overall desire to treat customers fairly. Pricing was flexed by distribution channel.
- A&L said that its charges for overdrafts or failed transactions were competitive. It was important to consider how charges were applied (for example, A&L did not charge if a customer went overdrawn for one day).
- Abbey said that in the UK it had a relationship with a significant proportion of the adult population through other product holdings. It had no information about cross-product holdings specifically in Northern Ireland, but was attracting switching customers there.
- Halifax said that the structure of only charging for unauthorized overdrafts was popular with customers because most customers did not expect to incur default charges, and most did not incur them in practice.
- First Trust said that some other banks were [X].

- First Trust said that the Great-Britain-based banks segmented their offerings.
- A&L said that price was becoming a more important competitive variable in Northern Ireland. Comparisons of PCAs tended to focus on in-credit interest rates and overdraft rates.
- First Trust said that price was part of the overall product offering mix.

Competition

- BoI said that competition for PCA business was extremely intense.
- Ulster said that it believed that the PCA market was dynamic and competitive. It faced strong competition from the full range of PCA providers. This was reflected in the MORI market share data, which showed that the share of the four largest banks had declined in recent years, whilst other providers had grown considerably.
- Northern said that it did not differentiate between competing with the traditional banks and the newer banks.
- Nationwide said that it saw the greatest competition from Northern and Ulster in terms of size and coverage.
- GCCNI said that the challenger banks offered competition but only in cities and town-centres.
- Nationwide said that competition was not on price but if a customer had decided to move, price was a key factor.
- First Trust said that it competed with the other banks on price and quality of service together with the product proposition. The cost of the products depended on the customer's behaviour, such as penalty charges when in unauthorized overdraft, and customers could choose how to operate their accounts.
- A&L said that the product offerings of the clearers were uncompetitive and customer inertia was the main factor in retaining customers. However, the clearers were increasing their focus on sales, with higher levels of advertising and an increase in the number of sales manager jobs being advertised.
- A&L said that although competition had increased marginally in the past 12 months, in its opinion there was still 'clear blue water' between it and the clearers.
- Northern said that new entrants were not just competing for new-to-banking customers; everyone was competing for switchers.
- Nationwide referred to its press release in February 2005 and said that it believed there was parallel pricing, and an unwritten cartel. Common pricing was more frequent than on the mainland, but it would be wrong to speculate on why.
- GCCNI said that the OFT report showed that the situation was worse than it had thought. The clearers did not identify each other as competitors, but identified the Halifax, and they competed for new-to-market but not existing customers.
- First Trust said that prices did not move in parallel. [✂].

- Nationwide said that Great Britain and Northern Ireland rates of pricing were similar. It would expect Northern Ireland to change, but did not know if it was as competitive as Great Britain.
- GCCNI said that it had always kept a watching brief on banks because of high charges and low product innovation compared with the rest of the UK, but it had not had the necessary access to information on profitability etc to probe further. The supercomplaint gave them a means to open up an investigation. One of its major concerns was that 19 per cent of Northern Irish consumers did not have a PCA: the highest level in the UK.

Market developments

- First Trust said that the PCA in Northern Ireland was highly competitive and the dynamics of that market had changed dramatically over the last few years. The market was heading towards a situation where banks were using common platforms to access different jurisdictions, and this was leading to common products and pricing in order to leverage economies of scale.
- Ulster said that it had responded to competition in the market with a series of innovations (eg 'Project Horizon', which re-engineered its branch processes; improving the features and prices of its PCAs—including its 'U First' packaged PCA; and its new charging structure, which removed a significant number of charges).
- Halifax said that the launch of its high interest current account in 2000 was a big initiative in the UK. Subsequent to that a number of other challenger providers had emerged in the PCA sector that would have had an impact in Northern Ireland. The recent takeover of Northern by Danske Bank had had an impact on the way Northern was changing some of its PCA propositions.
- Ulster said that the speed of innovation in the PCA market was increasing, and there was greater customer demand for clarity and simplicity in the marketplace. The new charging structure was designed to respond to this.
- Nationwide said that it thought that bank charges had been in Northern Ireland for so long that this was regarded as the status quo. It was only in the past 24 months that the media had realized that free banking was an alternative. The market was distorted by the charging regime, and although this was becoming less so the perceptions would take a long time to change.
- Bol said that [✂].
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- Ulster said that it was the only one of the clearers at the moment to be offering a new charging structure of transaction fee-free banking to all its PCA customers, reflected in its new PCA proposition launched in November 2005. Following this change, its PCA had a clear and transparent overdraft rate.
- Nationwide said that Northern and Ulster were quick to move because they were owned by other banks. There were fees in Northern Ireland that were not being charged in the UK.
- GCCNI said that it had begun to see the market change, with the changes announced by Northern and Ulster, although neither had changed the credit interest rate. It

welcomed the removal of direct debit and standing order charges by Northern and Ulster, but believed more change was needed for a transparent market where people felt it was easy to switch as products changed and the market became more innovative. It did not understand why First Trust and BoI had not done anything.

- Halifax said that Ulster and Northern were small in terms of the UK, but the changes they had made were quite significant in Northern Ireland. Halifax regularly monitored the number of customers switching to or away from them. It had not seen a large number switching to Ulster and Northern, but was continuing to see a strong level of switching from incumbents, which was one metric Halifax used to judge the competitiveness of its offer.
- First Trust said that the changes in ownership of Ulster by RBS and Northern by Danske Bank had brought two significant players into a small market area and raised the level of intensity of competition, particularly in terms of leverage of economies of scale.
- Northern said that it was in a special position because of the Danske Bank takeover. It believed that competitors would be looking to see what Northern would now do.
- Danske Bank said that it had looked at several markets and saw good opportunities in the Republic of Ireland and Northern Ireland. Its policy was to have local people run the bank, based on its experience in other markets. The staff in Northern Ireland were enthusiastic about the takeover even though none of the changes had taken place yet.
- Danske Bank said that it would be making a substantial investment in refurbishing the branches to integrate the new IT and improve the quality of the working environment to deliver quality products and services.
- GCCNI said that the new ownership of Northern had raised expectations.
- Nationwide said that it had not noticed any significant changes with the takeovers of Ulster and Northern, but it could be too early to tell.
- Halifax said that it saw changes in Northern Ireland with the Danske Bank takeover of Northern and would look to see how the other three reacted.
- Ulster said that it had plans to launch Project Horizon (the re-engineering of its branch process) before the change in ownership to the RBS Group in March 2000, but the acquisition gave additional momentum to the Project as the new business model was aligned to that of the wider RBS Group.

Conduct of customers

General

- Abbey suggested that the reasons for inertia were linked to family connections, a lack of interest in or focus on switching until three to four years ago, and a perceived difficulty of switching.
- Abbey said that inertia was driven by the perceived benefits in return for what was considered to be the hassle of moving. The benefits were in-credit interest, relatively attractive overdraft rates and charging structures and there were various marketing techniques to promote them.

- Abbey said that bank accounts were not a product that people tended to want to think about. They needed to be sold through face-to-face conversations to persuade customers that it was not a hassle to switch and that there was a real tangible benefit. That was why the branch network was key to acquiring PCAs—over 90 per cent of new accounts, including switched accounts, were opened in branch.
- Abbey said that there were perceived to be more issues associated with error-free switching than was the case with a utility or mortgage provider as the utility, mortgage and other suppliers were paid from the PCA.
- GCCNI said that there was a distrust of the financial services market, lack of innovation, lack of competition for switchers and lack of comparative information. Its survey work showed that consumer confidence across the board in Northern Ireland lagged that in the UK.
- A&L said that there was still a tendency for individuals to bank at the same bank as their parents, although this was starting to change.
- Halifax said that there were push and pull factors in opening an account with a particular bank, but a local branch presence was a very important factor.
- Abbey said that the main push factors were associated with dissatisfaction in service. Pull factors included the credit rate, overdraft rate and branch location. Cross-selling from other products was significant. Service was rarely advertised as a promotional tool because it was expected as a 'hygiene' factor.
- Halifax said that the biggest single factor influencing choice of PCA provider was branch location. Its view was that branches were as important as ever in the customer's relationship with them.
- Halifax said that people chose a branch close to where they lived or worked. As Halifax operated the same sort code across the UK its customers did not need to move bank branches when they moved house or job.
- Halifax said that the incumbents' high market share gave them an advantage because people tended to choose the bank their parent used and because of the importance of branch presence and location in selecting a bank account. The family connection generally applied across the UK.
- Halifax said that inertia could result from all providers looking the same and that differentiating the product was one way to break the customer inertia.
- Halifax said that a PCA was a personal product where the customer carried the card around, knew the telephone number of the bank, and knew where the branch was based. The biggest parallel in terms of attitudes to switching was online services like broadband Internet access that was tied in with the email address. Similarly, only when mobile phone numbers were portable did switching in that market increase because an enormous barrier was removed.
- GCCNI said that a lot of people could not access the market because the minimum funding level requirements applied by the mortgage banks were set at levels suitable to consumers in England where the average income was much higher than in Northern Ireland.

- GCCNI said that the relationship with the bank tended to be deferential. Customers knew the bank employees and often followed the bank manager from branch to branch.
- GCCNI said that it believed that the practices, policies and products of the four banks had resulted in market-led customer inertia.

Switching

- BoI said that although levels of PCA switching were perceived to be low, switching levels were typically three or four times higher in Northern Ireland than in the UK as a whole. BoI said that the level of switching was high for a banking market. BoI said that it was likely that switching would continue to increase in Northern Ireland as switching became, or was perceived to be, easier.
- Halifax said that customer inertia was very prevalent in the PCA market and even possibly the financial services sector as a whole. The switching rate to Halifax was slightly higher in Northern Ireland than Great Britain. Though small, the difference was significant.
- A&L said that the switching market had grown and that, going forward, there were estimates of 10 per cent growth a year.
- Nationwide said that it had found that many new accounts in Northern Ireland had been opened not because of its normal marketing processes but from new customers objecting to charges imposed by the clearers.
- Nationwide said that it was seeing growth across the whole of the UK so it was difficult to isolate particular factors for that growth in Northern Ireland. Key factors were the interest rates and a greater propensity to switch as customers became more comfortable with the idea. The inertia was starting to break down across the UK through awareness of financial matters in the media.
- Ulster said that switching rates in Northern Ireland were comparable with the rest of the UK. However, it believed that there was a high level of 'hidden' switching, where customers allowed their accounts to go inactive, but did not formally close them.
- First Trust said that available data on customer switching significantly underestimated the number of customers who had actually changed their PCAs, since many customers failed to close their old accounts.
- Northern said that the level of switching was not as low as it appeared because of the impact of dormancy where the customer did not actively switch the account, but left it dormant and opened another account elsewhere.
- Ulster said that over 75 per cent of switchers from Ulster in 2005 moved to one of the former building societies or one of the new entrants, and over 30 per cent of switchers moved to a single ex-building society.
- Abbey said that it monitored switching by branch.
- Halifax said that it did not tend to look at switching figures by geography.
- First Trust said that the Banking Code was relevant in raising awareness of switching and the industry had moved to automating the process in the UK as a whole.

- Abbey said that the Banking Code had helped to make sure that the other banks could not delay the switching process. Switching would be easier if the originators of direct debits complied; some smaller suppliers had to manually update their systems and did not always do so.
- Ulster said that it was straightforward for customers to switch between PCA providers. It complied with the BBA Banking Code, which was designed to facilitate switching, and it also offered a free, dedicated Switcher Service. It did not knowingly charge for switching to another provider.
- A&L said that its switching process was now highly automated, was more cost-efficient, and less prone to error.
- GCCNI said that Northern Ireland consumers believed they could not switch to a new bank if they had a loan or overdraft with their current bank. They did not expect that a new bank would take over their loan or overdraft so they believed they had to pay them off before they could switch.
- Halifax said that inertia was why there had been no step change in the number of customers switching since the step change following the launch in 2000 of its high interest current account. It had seen competitors react and change the nature of their offerings and there was a lot of innovation.
- Northern said that its research had shown that switching was a combination of both push and pull factors.
- A&L said that switching was typically driven by customer dissatisfaction, arising from a service failure or a charge-related issue which triggered a search for an alternative.
- GCCNI said that switching tended to be driven by dissatisfaction but the recent changes had shown that once consumers were offered a better deal they were interested in switching.
- Ulster said that customers tended to switch because of charges but often opened a new account because of proximity to work or home or on the basis of recommendation.
- Abbey said that there was a growing awareness of switching and it expected less customer inertia in 20 years' time. It considered the CC inquiry more of an influencing factor to change prices than Abbey's presence.
- A&L said that inertia to switching among PCA customers was reinforced by a stronger affiliation to the branch network in Northern Ireland and the charges in place for cancelling standing orders and direct debits.
- Halifax said that only a certain proportion of customers were rate sensitive and they would switch earlier than others with the result that a lot of the rate-sensitive people had switched in response to the 2000 offering. There was still a huge share of the market to go for and Halifax wanted to make sure that it was top of the mind for non-customers should they become dissatisfied with their current provider.
- Halifax said that the sector was asymmetrical in that customers saw less benefit in switching than banks did in acquiring an account.
- Nationwide said that the reasons for opening or switching an account were recommendation, price or finding the right moment in the branch.

- GCCNI thought that higher income groups were more likely to switch. The least likely were the lower income groups and those operating around the margins; they were the higher proportion of those not in the market at all. Consumer confidence was low in Northern Ireland at 41 per cent compared with 71 per cent in Great Britain in terms of consumers' awareness of their rights to operate in the marketplace.

Information available to customers

- Bol said that there was good coverage of personal financial issues in the media in Northern Ireland.
- Ulster said that customers in Northern Ireland were generally well-informed on personal financial issues.
- Bol said that it was easy to compare different PCA offerings given the information available on the Internet.
- Bol said that the PCA was a complex product, and that it was hard to predict behaviours and characteristics of customers with any certainty.
- Ulster said that PCAs were inherently complex, and comparison of total charges depended on usage, but it believed that it was fairly easy for customers to make comparisons between different PCA providers via websites such as Moneyfacts, for example.
- Ulster said that it went to great efforts to explain charges to its customers.
- GCCNI said that information on different PCA offerings was not transparent or easy to compare.
- GCCNI said that people would avoid anything perceived as difficult and while they might know that they should do something to get a better deal would put it off. The systems needed to be clear, transparent and easily accessible.

Credit rating histories

- A&L said that it used credit reference agencies whereas it understood that the clearers did not supply data to credit reference agencies but rather had a closed user group among themselves. This had led to issues since credit histories were not transferable between these two systems.
- Abbey said that from a UK-wide perspective the clearers did not historically disclose current account information to credit reference agencies for competition reasons; there had now been changes. This was not a huge constraint because they would ask for a copy of a statement from the other bank, although this gave the customer time to change their mind in the meantime.
- Halifax said that customers' perceived concern about credit rating was perhaps a barrier to switching because there were a lot of consequences for the individual if the switching process went wrong.
- Nationwide said that the operation of credit histories was no different in Northern Ireland than in the UK. In the UK as a whole they would like to see more sharing of 'white' data—the positive data on how well a customer was managing the account, but sharing such data was seen as a marketing advantage.

- GCCNI said that credit rating was not a barrier, more one of perception as customers did not have a significant understanding of the whole area of credit reference and credit files and the transferability of credit history, either in Northern Ireland or Great Britain.
- Bol said that there was no barrier to switching relating to availability of credit history.
- First Trust said that the extent of information sharing between credit rating agencies had not come across as an issue.
- Ulster said that it had mechanisms in place to allow a prospective customer to show that they had a satisfactory profile such that the lack of a credit history was not necessarily a barrier to switching.

Profitability

- Bol said that PCAs were profitable in their own right.
- Danske Bank said that it did not try to measure product profitability because around 80 per cent of its costs were fixed costs.
- Abbey said that it monitored profit and loss accounts by product on a monthly basis and that costs were allocated on a UK-wide basis; branches were mainly measured by new and retained customers, not individual profitability. PCAs were a gateway product.
- A&L said that PCA customers were profitable in their own right and provided a long-term relationship, with the potential for further product sales during the life of that relationship.
- A&L said that it only measured profitability on PCAs across the UK as a whole and pricing structures were consistent across all geographic regions.
- A&L said that Basel 2 (Pillar 2) was likely to attribute more regulatory capital to current accounts and therefore make a return on capital measurement more meaningful.
- Halifax said that the clearers might have an acquisition cost advantage through the family relationships in Northern Ireland, whereas Halifax's own acquisition cost per customer would be higher because of the cost of television advertising etc.
- Halifax said that it never looked at all PCAs in aggregate, and referred to the important distinction between a PCA that was a primary account with the benefits of cross-selling and retention, and a PCA which was a secondary account. A challenger bank would tend to have more secondary accounts than an incumbent.
- Halifax said that it would be necessary to look at profitability in relation to the PCA and the products sold through it as well looking at the profitability of PCAs specifically.
- Halifax said that PCAs were a gateway product and a very important part of the financial relationship with the customer.
- First Trust said that there was clear evidence of (for example) the new banks selling PCAs using mortgages as the 'gateway product'.

- Nationwide said that as a mutual organization it did not treat profitability differently as it had to make a profit for members rather than shareholders. It returned value to members via a pricing benefit for all its products.
- Nationwide said that it looked at profitability in two ways—with and without group overheads. Operational costs were allocated by product and by activity.
- Nationwide said that PCAs were a loss-making product but were an opportunity to cross-sell other financial services products. The loss was declining and PCAs would break even in five years time at the current rate of growth.