Analysis of non-price competition

1. This appendix sets out our analysis of non-price competition. In order to assess the degree of non-price competition we compared indicators of competitive outcomes between banks within Northern Ireland and between banks in Northern Ireland and some of the large banks based in Great Britain.

2. Many aspects of competition are difficult to measure or observe with any degree of precision. We looked at a range of indicators, which in sum may give useful information regarding the level of non-price competition.

3. The indicators we chose for the purposes of this exercise were as follows:

   (a) processing of cheques (in branch or centralized);

   (b) product innovation over time;

   (c) introduction and functionality of Internet banking;

   (d) introduction of telephone banking;

   (e) ATM card functionality; and

   (f) branch opening hours.

4. These indicators were chosen as they are likely to be affected by the level of competition in the market, because they are relatively easily obtainable and because they are readily comparable between banks.

5. The results of this exercise showed no clear differences between the clearers, non-clearers and large banks based in Great Britain on items *(a)* processing of cheques and *(d)* the introduction of telephone banking. Items *(b)*, *(c)*, *(e)* and *(f)* are discussed further below.

Product innovation

6. The prevailing level of competition can affect the rate of innovation over time and the speed with which new innovations are adopted by the wider market. As a result, those firms that face more vigorous competition will tend to introduce new products more quickly, and also will respond to successful innovations by rival firms more quickly.

7. We asked the banks to list the number of new PCA products that they had introduced since 2001. The banks responses are summarized in Table 1.

TABLE 1 **Product innovation 2001 to 2006**

Bank	*New PCA products since 2001*	*Introduced packaged account?*
BoI	4	No packaged account
First Trust	4	December 2003
Northern	11	2006
Ulster	2	2001
Abbey	4/5	No packaged account
A&L	3	No packaged account
Halifax	3	July 2003 (closed November 2004), and February 2007
Nationwide	0	No packaged account
Woolwich	0	No packaged account
Barclays	5	More than 6 years ago
HSBC	4	March 2000
Lloyds TSB	5	More than 6 years ago
RBS/NatWest	3	More than 5 years ago

Source: Responses to information request of 7 July 2006 and responses to market questionnaire.

Note: Basic bank accounts do not meet our definition of a PCA and so are excluded from this analysis.

8. Table 1 shows that there is no clear difference in the rate of product innovation between the clearers as a group and the other banks measured by the number of new accounts introduced in the past six years.

9. Northern has introduced the largest number of accounts in the past five years with 11 new PCA products, although only four of these are currently on sale. Nationwide and Woolwich have not introduced any new PCA products in the past six years. This measure does not pick up changes to terms and conditions on existing accounts. Ulster, which has introduced two new products in the past six years, changed its PCA charging structure significantly in November 2005. Similarly BoI, which has introduced three new products in the past six years, changed its PCA charging structure significantly in November 2006. For a number of banks therefore, a new product count as a measure of the rate of innovation may be an underestimate.

10. As well as looking at the rate of product innovation, it is also interesting to assess how particular innovations spread from one rival to another. In competitive markets, one would expect successful innovations to spread rapidly between rivals. We looked in particular at the introduction of packaged accounts.

11. In general the non-clearers do not offer packaged products. Halifax is the only one of the five largest non-clearers to have offered a packaged account in the past six years. It withdrew its packaged account from sale in 2004, but introduced another packaged account, the Ultimate Reward Current Account, in February 2007.[1]

12. All the clearers except for BoI offer packaged accounts. Similarly the large banks based in Great Britain also tend to offer packaged accounts. Barclays, HSBC, Lloyds TSB and RBS all offer packaged accounts. However, the large banks based in Great Britain introduced packaged accounts slightly earlier than the clearers, with the majority introducing these accounts more than six years ago whereas First Trust and Ulster introduced theirs in 2003 and 2001 respectively, and Northern introduced its packaged accounts in 2006.

[1]A&L offers free travel insurance and linked savings accounts with their Premier Account. We classify it as a fee-free account, however, as this account does not charge maintenance fees.

Introduction of Internet banking

13. We asked the banks when they first introduced Internet banking and when this service became a full-function Internet offering. We defined a full-function Internet service for the purposes of this exercise as the ability for customers to carry out the following actions online:

- make third party payments;
- set up and amend standing orders; and
- cancel direct debits.

14. Table 2 outlines the responses that we received from each of the banks.

TABLE 2 **Introduction of Internet banking**

Bank	*First introduced Internet banking*	*Full function*	*Notes*
BoI	1998	N/A	BoI customers are unable to set up or amend direct debits or standing orders. Nor can they make future dated payments.
First Trust	1999	N/A	First Trust customers are unable to set up or amend standing orders or direct debits. [✂]
Northern	2003	2003*	
Ulster	1999	N/A	Ulster customers have been able to set up and amend standing orders, and cancel existing direct debit instructions from Q4 2006.
Abbey	1999	2003	Abbey introduced its Internet only bank, cahoot in 2000.
A&L	1997	2003	
Halifax	1999	1999	
Nationwide	1997	2003	
Barclays (answered as Woolwich)	1999	1999	
HSBC	2000	2000	
Lloyds TSB	1998 Lloyds 1999 TSB	2002	
RBS/ NatWest	1997	1997 RBS 1999 Nat West	

Source: Responses to information request of 7 July 2006 and responses to market questionnaire.

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*Northern introduced the ability for customers to cancel certain Direct Debits in 2006.

15. As Table 2 shows, the clearers as a group still do not offer the same degree of functionality as the large banks based in Great Britain and the non-clearers. All the large banks based in Great Britain and all the non-clearers that we surveyed offer all of the functions listed above through their Internet service. By contrast BoI, First Trust and Ulster do not offer this functionality. Northern, however, does offer full function Internet banking.

Use of ATM cards outside the UK and Republic of Ireland

16. We asked the banks to provide details of the functionality of their customers' ATM cards outside the UK and Republic of Ireland. Until recently, BoI and Ulster customers did not automatically receive cards which could be used abroad (BoI's card could be used in the Republic of Ireland), although both said that new cards were now being issued with international ATM functionality.

17. BoI told us that from November 2006, following the introduction of chip and pin functionality it was starting to issue ATM cards which could be used outside the UK and Republic of Ireland.

18. Ulster customers had had to apply for a free Travel Cash card in order to withdraw cash abroad (except the Republic of Ireland). However, Ulster said that following the upgrade of its IT base to the RBS platform, it could now issue cards with this functionality. It said that it was in the process of automatically replacing all existing cards, on a phased basis, by the end of June 2007.

Opening hours

19. There are two key differences in branch opening hours between the clearers and the large banks based in Great Britain and the non-clearers. First, the large banks based in Great Britain and the non-clearers appear to open for more hours per week, and second, of the clearers only Northern opens a significant number of branches on a Saturday whereas the majority of the large banks based in Great Britain and all of the non-clearers have branches open on a Saturday. Table 3 shows the opening hours of the banks we surveyed.

TABLE 3 **Branch opening hours of banks in Great Britain and Northern Ireland**

Bank	*Weekday opening hours*	*Saturday opening hours*	*Approximate hours per week*
BoI	9.30–4.30pm (10am Weds)	No branches open on Sat	34.5
First Trust	9.30–4.30pm (10am Weds)	1 branch No Cash facilities	34.5
Northern	10–3.30pm (9.30–5pm one day a week Thursday or Monday)	23% of branches (9.30–12.30pm)	29.5 or 32.5 (Sat openers)
Ulster	9.30–4.30pm (10am Weds)	No branches open on Sat	34.5
Abbey	9–5pm	9–12.30pm (some 9–4pm)	42 or 46
A&L	9–5pm (10am on either Tues, Weds or Thurs)	9–12 noon	42
Halifax	9–5pm	9–12 / 12.30pm	43 or 43.5
Nationwide	9–5pm	9–12 noon	43
Barclays (answered as Woolwich)	9–5pm	9–12 noon	43
HSBC	*Belfast branch* 9–5pm (9.30 Tues) 9–7pm Thursdays *Other NI branches* 9.30–4.30pm	10–2pm (Belfast branch only)	Belfast–45.5 Others–35
Lloyds TSB	9–5pm 10–5pm Weds	For larger branches at least 9–12.30pm	42.5
RBS	9.15–4.45pm (88% of branches) Of remainder (12%) 17% open longer and 83% less.	19% of branches open on Sat (normally 9.15–1pm)	37.5 (88% of branches) 41.25 Sat openers

Source: CC summary of bank responses to information requests.

Note: Opening hours can vary by individual branch; smaller branches may have opening hours shorter than shown.

20. Table 3 shows that Northern is the only clearer to open a significant number of its branches on a Saturday. However, the proportion of branches that Northern opens on Saturday is relatively low (23 per cent). Northern also offers significantly shorter weekday opening hours (typically 10am to 3.30pm) so that overall its weekly opening hours are low (32.5 hours a week for Saturday openers). BoI and Ulster do not open any of their branches on a Saturday. First Trust does not open on a Saturday, with the exception of one branch.

21. In comparison all the non-clearers open on Saturday mornings. In addition, the non-clearers typically open for longer on weekdays than the clearers.

22. The difference between clearers and the large banks based in Great Britain is less apparent. RBS in particular opens only a minority (19 per cent) of its branches on a Saturday. However, in general the large banks based in Great Britain open for longer each week and are more likely to open on a Saturday than the clearers.