

Competition for customer groups

Competition for customer group: the clearers

1. The clearers told us that competition was effective and vigorous for all customers and generally held the view that there were no distinct customer segments within the PCA market in Northern Ireland.
2. We consider the products and product strategies of each of the clearers in turn, including evidence from their marketing spend.

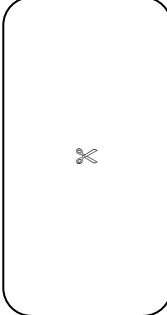
First Trust

3. First Trust said that there was no particular segmentation in the PCA market in Northern Ireland at present and that competition for all customers was vigorous.
4. [REDACTED]
5. However, we saw indications suggesting that First Trust is competing more vigorously for certain customer groups. First Trust offers its most generous products, and directs the majority of its PCA marketing effort, towards students and graduates.
[REDACTED]

PCA product portfolio

6. First Trust offers a PCA product portfolio which consists of a standard account, two packaged accounts and four student/graduate accounts. These accounts are summarized in Table 1.

TABLE 1 **First Trust PCA products**

<i>Account name</i>	<i>Description</i>	<i>Target segment</i>	<i>Key features</i>
Current Account	Traditional PCA		Transaction and maintenance fees if in overdraft
Bonus Account	Packaged Account		Monthly maintenance fee (£2 if in credit for whole month £8.50 otherwise)
Packaged Current Account	Packaged Account		Monthly maintenance fee £8, some exemptions to ancillary charges.
Student + Account	Student Account		Fee-free, interest-free overdraft (up to £1,850) credit interest (2.52%), some exemptions to ancillary charges
Medical and Dental Student Account	Student Account		Fee-free, interest-free overdraft (up to £2,000), some exemptions to ancillary charges
Graduate Account	Graduate Account		Fee-free, interest-free overdraft (up to £1,000) some exemptions to ancillary charges
Legal Postgraduate Account	Student Account		Fee-free, interest-free overdraft (up to £1,850) some exemptions to ancillary charges.

Source: First Trust submissions and First Trust website as of July 2006.

Note: First Trust describe the Bonus Account as beneficial to those customers who dip in and out of credit as it offers a flat monthly fee. It therefore differs slightly to other packaged accounts.

7. As Table 1 shows, First Trust offers significantly better terms to students and graduates offering fee-free banking and interest-free overdrafts. It does not appear to offer a distinct product to high-value customers although its packaged accounts may be more attractive to that segment.¹ It is difficult to assess the net value of packaged products because they are bundled with other financial services.

8. First Trust has not replaced its standard PCA product within the past five years, although it has introduced new PCA products such as packaged and student accounts. Its approach to off-sale accounts is summarized in Table 7.

Marketing spend

9. First Trust was unable to provide a detailed breakdown of how its marketing and advertising budget is spent and could only list the campaigns that it had undertaken in the past five years. However, it seems that First Trust has not promoted its current account PCA with any specific campaigns. Over the past five years it has run campaigns to promote its packaged account (2005), its student account (2000 to 2005), and its graduate account (2000 to 2002).

¹[8]

10. First Trust said that all of its accounts and marketing, including student and graduate campaigns, are designed to attract both new-to-banking customers and switchers. However, it does not target any particular competitors in its marketing. It seems likely that the majority of new student accounts would be new accounts rather than switching from other student accounts.

Bank of Ireland

11. Bol told us that there was no particular segmentation within the Northern Irish PCA market in Northern Ireland. However, it recognized that there were customers who had different needs and requirements and that it sought to service those needs in the most appropriate way.

12. [REDACTED]

PCA product portfolio

13. The Bol portfolio of products is tailored towards different customer groups. In addition to its student and graduate offerings Bol offers three 'standard' current accounts which offer different packages depending on customer income. [REDACTED]

TABLE 2 Bank of Ireland PCA products

Account name	Description	Target segment	Key features
Clear 1	1 year fee free then traditional. Minimum monthly credit £1,500	[REDACTED]	Automatic £200 overdraft limit and £200 fee-free overdraft buffer (after first year). Overdraft rate 8.5%
Clear 2	1 year fee free then traditional. Minimum monthly credit £500		Transaction and maintenance fees if in overdraft (after first year). Overdraft rate 12.5%
Clear 3	Traditional		Transaction and maintenance fees if in overdraft. Overdraft rate 19.5%
Graduate Account	[REDACTED] Graduate Account		Fee-free banking (except for ancillary charges) for 2 years, interest free overdraft (up to £1,000)
Student Account	Student Account		Fee-free banking (except for ancillary charges), interest-free overdraft (subject to status)

Source: Bol submissions and Bol website as at June 2006.

14. Bol offers its most attractive PCAs to student and graduate customers. Its offer includes fee-free banking and an interest-free overdraft.
15. With regard to its standard PCA products, the Clear range of accounts, these accounts become more generous the higher the level of a customer's income. Those customers who can fund a monthly credit of £1,500 or more are eligible for a Clear 1 account. They receive an automatic £200 overdraft, one year of fee-free banking (and a £200 fee-free buffer after this period) and a relatively low overdraft rate (8.5 per cent).
16. Those who can afford to fund their account with a monthly credit between £500 and £1,499 are eligible for a Clear 2 account. There is no automatic overdraft limit and no fee-free buffer after the first year. The interest rate applied to an authorized overdraft is higher (12.5 per cent) than for Clear 1.
17. Those customers who cannot afford to fund their accounts by £500 or more a month are eligible for Clear 3. This account is a traditional fee-based account and does not benefit from any fee-free buffer or introductory period. In addition it charges a significantly higher overdraft interest rate at 19.5 per cent.
18. [REDACTED]²

Marketing spend

19. The bulk of Bol's marketing spend is directed at its annual Student campaign. Bol provided a breakdown of its spending on PCA advertising campaigns for the last four years. This shows that the majority of PCA campaigns are directed at students,

²[REDACTED]

although the advertising of the introduction of the Clear range of PCAs increased the proportion of expenditure on non-student campaigns in recent years.

TABLE 3 Bol spending on PCA marketing campaigns

Year	2002/03	2003/04	2004/05	2005/06 (ytd)
Spending on student campaigns (£)	(✂)
Total spending all campaigns (£)				
% spent on students				

Source: Bol

Note: Student spending does not include spending on marketing of the Bol Graduate PCA.

20. [✂]³ Bol announced its plans to introduce a new fee-free PCA charging structure in autumn 2006. This will apply to all its new and existing PCA customers.

Ulster

21. Ulster said that it did not segment the marketplace. Ulster said that it had a similar fee structure across all of its accounts. Notwithstanding this Ulster notes that its recent marketing effort has been based heavily on attracting switchers from other banks, using comparative advertising in the press and on television.

PCA product portfolio

22. The current Ulster PCA product portfolio is summarized in Table 4. Ulster now offers two packaged accounts, two fee-free mass market PCAs and a student and graduate account.

³Account numbers are Bol estimates as of 5 April 2006.

TABLE 4 **Ulster PCA products**

<i>Account name</i>	<i>Description</i>	<i>Target segment</i>	<i>Key features</i>
U First	Packaged Account	() ✂	£7 a month maintenance fee, packaged benefits, £250 overdraft buffer, credit interest 0.5–1%, overdraft rate 8.94%
U First Gold	Packaged Account		£11 a month maintenance fee, packaged benefits, £250 overdraft buffer, credit interest 1–1.5%, overdraft rate 6.9%
Standard Current Account	Fee-free account		Fee free when in credit or authorized overdraft. Overdraft rate 10.92%
Current Plus	Fee-free account		As with Personal Current Account but also credit interest at 0.1%
Student Graduate	Student Account Graduate Account		Interest-free overdraft up to £2,000 Interest-free overdraft up to £1,500

Source: Ulster submissions and Ulster Bank website as of July 2006.

Note: Personal Current Account and Current Plus were traditional PCAs until November 2005.

23. Ulster offers packaged accounts, and offers advantageous terms to students and graduates. Ulster's standard current account is based on a fee-free model, where no charges are levied on customers in credit or in authorized overdraft, but higher charges are imposed on customers in unauthorized overdraft.
24. When its new pricing structure, known internally as Project Hanover, was introduced, Ulster chose to apply it to existing accounts (and hence existing customers) rather than introducing new accounts.

Marketing spend

25. Over the last five years, as with the other clearers, the bulk of Ulster's marketing effort has been directed at its annual student campaign. In addition, Ulster ran campaigns to promote the launches of its packaged accounts (U First and U First Gold). However, it seems that apart from product launches the only account which is regularly marketed is the student account.
26. Going forward, Ulster told us that it planned to spend around £[redacted] in 2005/06 promoting its fee-free accounts. Ulster noted that it had spent approximately £[redacted] in the year to June 2006 promoting these accounts. The marketing spend on the launch of the packaged account, U First, in 2001 was £[redacted] and U First Gold in 2004 had a

marketing budget of £[REDACTED]. Ulster therefore seems to be placing a significant degree of marketing effort behind Project Hanover, on an equivalent scale to a major product launch. The focus of Ulster's recent marketing campaign appears to have been to encourage customers of other banks to switch.

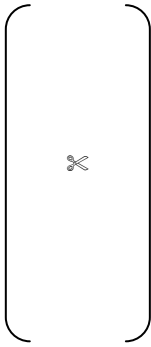
Northern

27. [REDACTED] Northern has introduced five new products in 2006, of which four meet our definition of a PCA. Its Northern Prestige and Northern Choice Plus products [REDACTED] and are packaged accounts where the customer has access to a bundle of benefits and products in return for payment of a quarterly charge.
28. Northern also offer an account for young customers (Freedom) and a mass market offer which is open to all customers.
29. [REDACTED]
30. Northern said that its Freedom account was a departure from previous practice in Northern Ireland because previously there had been a focus on the student and graduate segment. [REDACTED]
31. In terms of the level of competition within each customer segment, Northern told us that competitive forces were pretty much the same across the board. It noted that any customer could have access to any of its products.⁴

⁴The Northern Freedom account is an exception as it is open to 18- to 27-year-olds only.

PCA product portfolio

TABLE 5 Northern PCA products

Account name	Description	Target segment	Key features
Northern Prestige	Packaged account		Overdraft up to £50,000 Maintenance fee £50 per quarter Credit interest (3%) Debit interest (6.99% max)
Northern Choice Plus	Packaged account		Overdraft up to £15,000 Maintenance fee £30 per quarter Credit interest (2.5%) Debit interest (6.99%)
Northern Choice	Fee free		Overdraft up to £7,500 Credit interest (2%) Debit interest (6.99%)
Northern Freedom	Youth		Overdraft up to £3,000 Credit interest (2%) Debit interest (0%)

Source: Northern submissions and Northern Bank website July 2006.

Notes:

1. Northern Personal Access Account not included.
2. Northern Choice and Northern Freedom—fees apply if customer performs more than 13 counter withdrawals or writes more than 13 cheques a quarter. Thereafter there is a charge of 70p per withdrawal and 50p per cheque.

32. The new Northern accounts all include credit interest of 2 to 3 per cent, as well as relatively low interest rates when in authorized overdraft (see Appendix 2.4).
33. As with the packaged products offered by other banks, it is difficult to assess the relative benefits of Northern Prestige and Northern Choice Plus accounts compared with Northern's other PCA products due to the range of bundled products.
34. When Northern introduced its new products, it did not move its existing customers over to its new accounts automatically. It did not re-price its existing accounts.⁵
35. Northern stated that the reason that it had not transferred customers to their new accounts, or changed the terms on their off-sale accounts to those applying to the new accounts, was that, depending on how they used their account, some customers

⁵Northern has removed some charges from its old, off-sale accounts, for example customers on these accounts no longer pay set-up, amendment or cancellation fees on standing orders and direct debits.

might incur higher charges. As a result, the majority of its customers had off-sale accounts.

Marketing spend

36. The information supplied by Northern related to the period prior to the introduction of the new suite of products.
37. Prior to 2004, the only product-specific marketing expenditure carried out by Northern was to promote its student and graduate packages. All other marketing activity was focused on general brand awareness or other products such as loans and savings accounts. In 2004/05, in addition to a student campaign, Northern spent £[redacted] promoting its Current Account Plus product launch.⁶

Competition by customer group: the non-clearers

38. The non-clearers all form part of a wider UK banking group and as such their strategy is geared towards the UK market and is unlikely to reflect any Northern Ireland-specific conditions.
39. The approach taken by each of the four largest non-clearers is summarized in Table 6. In general the non-clearers offer products which are applicable to wider customer groups than the clearers and appear to have more of a focus on switchers and the mass market.

⁶This spend is significantly higher than its typical spend on a student campaign which ranges from £[redacted] to £[redacted].

TABLE 6 The approach of the non-clearers to customer groups

Bank	Student account	High-value customers*	Switching incentives
Halifax	0% overdraft (up to £2,750 in year 1) 2% (gross) credit interest Commission-free travellers cheques and various product discounts	High Interest Current Account and Moneyback current account products have a minimum funding requirement of £1,000 a month. High Interest Current Account offers 5.12% credit interest on balances up to £2,500. Current Account offers 2.5% on whole balance if funding £1,000 per month. Moneyback offers 1% (up to £100 a year) cashback on debit card transactions	0% Overdraft for 120 days while switching accounts through the switching service
Abbey	0% overdraft (up to £1,000 in year 1) 1.5% credit interest	Preferred rates (customer can opt for either a higher rate of credit interest or a lower rate of overdraft interest) for customers crediting £1,000 or more a month	Switchers using the switcher service receive an introductory credit interest rate of 6% on balances up to £1,000 for 12 months.
Nationwide	No student account	Credit interest dependent on monthly credit £1,000 or more—4.25% £500 or more—1% Less than £500—0.25%	If Nationwide make a mistake during the switch, they will give the customer £50
A&L	Young Worker Account (16 to 21 years) A flat-fee overdraft, with just a monthly charge of £3 to pay and no interest 4.25% (gross) credit interest	Premier and Premier Direct accounts offer higher credit interest and lower overdraft interest rates than their standard current account. The minimum funding requirement for both is £500 a month	Recommend a friend offer. Existing customers who recommend a friend for either a Premier or Premier Direct account receive a £25 payment. The new customer also receives £25

Source: Bank websites accessed July 2006 and bank evidence to CC.

*Interest rates are gross per year.

40. In contrast to the approach taken by the clearers, the non-clearers are less heavily focused on the new-to-banking segment. Abbey and Halifax, like the clearers, offer dedicated student accounts. A&L offers a 'Young Worker' product aimed at 16- to 21-year-olds in paid employment. Nationwide does not offer a new-to-banking product, instead relying on its standard current account. As with the clearers, the four largest non-clearers all said that their primary focus was on the mass market.⁷

41. All the non-clearers identify, and offer better terms to, higher-income customers through the use of minimum monthly credit requirements. The minimum monthly funding requirement for the non-clearers ranges between £500 and £1,000.

⁷[8]

42. The non-clearers claim that their primary focus in terms of marketing is the adult switchers segment.
43. A&L offers cash rewards to its existing customers for 'recommending a friend' for one of its Premier or Premier Direct Accounts.⁸ Abbey encourages switching by offering an introductory rate of credit interest of 6 per cent on balances up to £1,000 for the first 12 months.
44. Halifax and Nationwide take a slightly different approach. They do not offer direct incentives or inducements to switchers; however, they try to smooth the switching process and ease consumers' fears over the process. Halifax does this by offering an interest-free overdraft during the switching process and Nationwide offers to pay the customer £50 if it makes a mistake.⁹
45. In summary, the approach taken by the non-clearers is weighted less heavily on the new-to-banking segment, and more focused on the switchers segment.

⁸A&L also has a policy of charging no fees during the switching process.

⁹The clearers do not offer cash inducements to switchers nor do they use any form of process smoothing, other than offering a switcher service, with the exception of BoI which offers to refund any charges imposed by the customers' old bank during the switching process.

TABLE 7 **Bank approaches to off-sale accounts**

<i>Bank</i>	<i>Response</i>
Bol	Bol's most recent product launch was the Clear range in 2004. Bol mailed out details of the new accounts to existing customers as part of its annual communication of fees and charges. [REDACTED]
First Trust	First Trust have introduced a number of new PCA's; however, these are mainly niche products such as packaged accounts and student accounts. As a result customers were not migrated to new accounts automatically. Relationship managers (for high-value customers only) will advise customers of new accounts that may be more advantageous to the customer. First Trust mailed its PCA customers in July 2004 to promote the Packaged PCA. A further mailing took place in July 2005 to all PCA customers who incurred transaction fees highlighting the benefits of a packaged account (ie avoid transaction fees).
Northern	Northern has introduced a number of new PCA products in recent years. There was no automatic migration to the new accounts because some customers could incur higher charges. All customers received written notification of the introduction of Current Account Plus. With the new products from April 2006, existing customers will be written to [REDACTED]. The launch of the Danske products is a change in strategy for Northern because all other accounts have been taken off sale. [REDACTED] [REDACTED]
Ulster	The introduction of fee-free pricing structures had the result of migrating all customers, except those on packaged accounts, over to the new terms and conditions. As a result new and existing customers are on the same terms and conditions. [REDACTED] Ulster offers customers a free, no obligation customer service review (CSR) to assist customers in choosing the most appropriate products. Ulster staff are trained to monitor behaviour (eg out-of-order fees) and will suggest a CSR where appropriate. [REDACTED]
Abbey	When the Preferred in-credit/overdraft account product became available Abbey contacted its PCA customers and asked them to select whether they wanted the preferred in-credit or the Preferred overdraft option.
A&L	A&L do not automatically migrate customers on to their new PCA products; however, subject to meeting criteria customers can request the new product. A&L will, however, target certain eligible customers to switch. Details of its products are available on the Internet, in branch or by request over the telephone as soon as they go live.
Halifax	With its most recent product launch (High Interest current account) it did not automatically migrate customers to the new product. There is a minimum funding requirement, so some customers are not eligible; also customers can choose to have either a high rate of credit interest (5%) up to £2,500 or a lower rate (2.5%) on any balance. [REDACTED]
Nationwide	Nationwide has no regular customer review as such. However, system prompts at branch level will assist staff to advise customers of alternative or more advantageous products should they be available.

Source: Bank responses to CC information requests.