

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 in the past five years. The banks responses are summarized in Table 1.

TABLE 1 **Product innovation**

<i>Bank</i>	<i>New PCA products in the past five years</i>	<i>Introduced packaged account?</i>
Bol	3	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	2	July 2003 (closed November 2004)
Nationwide	0	No packaged account
Woolwich	0	No packaged account
Barclays	5	More than 5 years ago
HSBC	4	March 2000
Lloyds TSB	5	More than 5 years ago
RBS/NatWest	3	More than 5 years ago

Source: Responses to information request of 7 July 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 five 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 remain on sale. Nationwide and Woolwich have not introduced any new PCA products in the past five years; however, this measure does not pick up changes to terms and conditions on existing

accounts. This also affects Ulster, which has introduced two new products in the past five years, but also changed its PCA charging structure significantly in November 2005. 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 more competitive markets, one would expect successful innovations to spread more rapidly between rivals. We looked in particular at the introduction of packaged accounts.
11. Packaged accounts are PCAs which offer a number of bundled services, such as travel insurance or breakdown cover, usually in return for a monthly fee. In general the non-clearers do not offer packaged products. Halifax is the only non-clearer to have offered a packaged account in the past five years; however, this was withdrawn from sale in 2004.¹
12. All of the clearers except for Bol offer packaged accounts. Similarly the large banks based in Great Britain also tend to offer packaged accounts. Barclays (but not Woolwich); 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 five years ago whereas First Trust and Ulster introduced theirs in 2003 and 2001 respectively, and Northern introduced its packaged accounts in 2006.

Introduction of Internet banking

13. We asked the banks when they first introduced Internet banking and the banks when this service became a full-function Internet offering. We defined a full-function

¹A&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.

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

<i>Bank</i>	<i>First introduced Internet banking</i>	<i>Full function</i>	<i>Notes</i>
Bol	1998	N/A	Bol 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	Set up and amend standing orders to be introduced Q42006.
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 and responses to market questionnaire.

*Northern introduced the ability for customers to cancel certain ADDIS 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 of the large banks based in Great Britain and all of the non-clearers that we surveyed offer all of the functions listed above through their Internet service. By contrast Bol, 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 (see Table 3).

TABLE 3 **ATM functionality**

<i>Bank</i>	<i>Customer ability to use an ATM outside the UK and the Republic of Ireland</i>
Bol	Bol customers cannot use their ATM card in ATMs outside the UK and Republic of Ireland. Bol plan to introduce this functionality, along with chip and pin in November 2006.
First Trust	Automatic
Northern	Automatic
Ulster	To withdraw cash abroad (except the Republic of Ireland) customers must apply for a Travel Cash Card (free). [€]
Abbey	Automatic
A&L	Automatic
Halifax	Automatic
Nationwide	Automatic
Woolwich	Automatic
Barclays	Automatic
HSBC	Automatic
Lloyds TSB	Automatic
RBS/Nat West	Automatic

Source: Responses to information request of 7 July.

17. As Table 3 shows, there is a difference in terms of the functionality offered by some of the clearers in comparison with the large banks based in Great Britain and the non-clearers.

18. Bol customers cannot use their ATM cards in any other country outside the UK except for the Republic of Ireland.² Bol told us that it plans to introduce the ability for its ATM cards to be used outside the UK and Republic of Ireland when it introduces chip and pin technology in November 2006. Ulster customers similarly cannot use

²Note, however, that Bol does not apply withdrawal charges on customers using ATMs in the Republic of Ireland other than those charges that would also apply in Northern Ireland.

their ATM card outside the UK and Republic of Ireland, but can withdraw cash abroad if they apply for a Travel Cash Card from Ulster, which is free of charge.³

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 4 shows the opening hours of the banks we surveyed.

TABLE 4 Branch opening hours of banks in Great Britain and Northern Ireland

<i>Bank</i>	<i>Weekday opening hours</i>	<i>Saturday opening hours</i>	<i>Approximate hours per week</i>
Bol	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	9–12.30 pm (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 / 12.30 pm	43 or 43.5
Nationwide	9–5pm	9–12 noon	43
Barclays (answered as Woolwich)	9–5pm	9–12 noon	43
HSBC	<i>Belfast branch</i> 9–5pm (9.30 Tues) 9–7pm Thursdays <i>Other NI branches</i> 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)	16% of branches open on Sat (normally 9.15–1pm)	37.5 (88% of branches) 41.25 Sat openers
	Of remainder (12%) 17% open longer and 83% less.		

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.

³[

20. Table 4 shows that Northern is the only clearer to open a significant number of its branches on a Saturday. However, even for Northern, the proportion of branches that it 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). Bol 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 (16 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.