

**“Banking needs to be exposed to the full force of competition.**

**Only then, will consumers really start to see a change in an industry that’s been stacked against them for far too long.”**

Paul Pester  
Chief Executive Officer  
TSB Banking Group

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About TSB

# Foreword

**For decades there has been significant scrutiny of competition in the UK's retail banking market. The competition authorities have repeatedly concluded that consumers could benefit from a more competitive market.**

However, following yet further consolidation and concentration during the banking crisis, the reality is that we remain a long way from having a truly competitive banking market in the UK with over 85% of the market now controlled by just five large banks.<sup>1</sup>

Much has been made of the number of new banks that have entered the market over recent years, of which TSB has been the largest, now holding 4.4% of the bank account market overall.<sup>2</sup>

When you look at how successful other challenger banks have been at securing new accounts, however, the figures are less positive. Collectively, all of the other new entrants to the market, excluding TSB, in the past decade have secured a little over 1% of main bank accounts in the UK.<sup>3</sup>

All of this is against a backdrop of just one in 50 people switching their bank accounts through the industry-sponsored Current Account Switching Service (CASS) each year.<sup>4</sup>

Why, following all of the investigations in recent years, have we ended up in this position?

At TSB, we believe there are a range of interconnected issues preventing the banking market operating in the best interests of consumers. Each on its own restricts consumers' ability to make informed choices about the best products and services for them – combined, however, they have created a market that is stacked against consumers.

These problems are:

- 1. A lack of transparency around what consumers are actually paying for their day-to-day banking. This is exacerbated by the myth that banking is “free”.**
- 2. A lack of ability to easily compare and contrast the costs and benefits of different banking services.**
- 3. An industry-sponsored switching service that does not work for all UK consumers.**

In short, consumers don't know what they're paying for their banking; can't easily assess whether a competitor product would be better for them; and can't easily move their bank accounts even if they do decide to switch.

Whilst the big banks might refer to banking consumers as “inert”, to us it's clear that many consumers are simply “trapped” with their bank due to lack of knowledge, lack of informed choice, and a lack of ability to vote with their feet.

What can be done to resolve this situation in the interests of consumers?

We believe that four relatively simple changes would go a long way to breaking the banking log-jam and make the market work in the interests of consumers. These are:

- 1. All banks should disclose to each of their customers how much they've paid for their banking each month. This should be delivered through a standard format “monthly bill”.**
- 2. The industry needs to create a solution that means switching is a credible option for all consumers, particularly overdraft users. This should include a requirement for each customer to be able to request a standard format “credit passport” which they can take to their potential new bank.**
- 3. All banks should be required to further promote the existence of the enhanced switching service to consumers – explaining how switching is easy and how the cost of switching is underwritten by the big banks.**
- 4. The UK regulators must use their extensive competition powers relentlessly to promote competition as the only real way to make the market work for consumers.**

Successfully implementing these changes will, we believe, lead to a market where consumers can make informed choices about the best bank account for their needs; where consumers can vote with their feet and move bank accounts easily and – ultimately – to a market that works in the interests of consumers rather than in the interests of the big banks.

As well as more choice, improved service and greater innovation, a truly competitive banking market is, we believe, the only way to force a change in culture and behaviour in banking and to create a world where big banks focus on what is best for the long-term interests of consumers.



**Paul Pester**  
Chief Executive Officer

# Why competition matters.

In today's digital and connected world, it's easy to imagine that we have the individual power and capability to always get the best deal and choose what kind of service we receive every time we put our hands in our pockets, key in our card details or tap our contactless cards.

Our (not unreasonable) expectations have been shaped by the countless ways in which consumers have benefited from competition over the years.

Start-up and challenger airlines have opened up the possibility of transatlantic travel and short breaks across Europe to millions of Brits, by bringing new choice and innovation to their market.

Millions of consumers have benefited from being able to switch their home telephone or mobile phone operator within days – sometimes hours – instead of the weeks it used to take in a market dominated by old state-owned incumbents.

And today, households across the UK are reaping the benefits of new competition in the retail sector, as online and new entrant challengers shake up the way we shop – and crucially the way shops serve us.

These are just three clear examples of the benefits of competition – and each shows at least one of the four key consumer benefits that competition delivers:

- Better Service
- Increased choice
- Lower prices
- Improved products

When a market has genuinely effective competition, you see these direct consumer benefits – and more – because it becomes clear that:

- Consumers' interests do not suffer at the expense of anybody else's.

- Individual companies focus on long-term value for all their stakeholders, not just short-term incentives for new customers or short-term profits for shareholders.
- The whole ethos of companies faced with the genuine threat of a competitive market turns towards delivering long-term value for consumers.

Yet even these powerful examples fail to demonstrate the full benefits of competition.

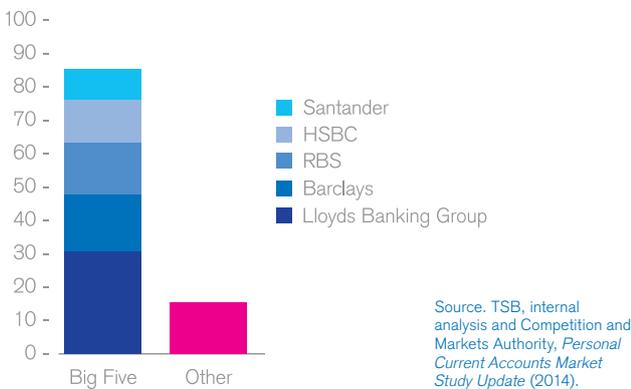
Banking is in severe need of the full force of competition being unleashed. This will mean that consumers not only reap the benefits of improved value and service, but also regain confidence in the industry's ability to serve their needs in a sustainable way.

# Competition in banking.

The UK retail banking market suffers from a low level of competition and is in need of reform.

Despite a number of positive changes brought in by government and the regulators to make the market more competitive, UK banking remains highly concentrated with over 85% of the market controlled by just five big banks.

**Over 85% of the market is controlled by just five banks.**



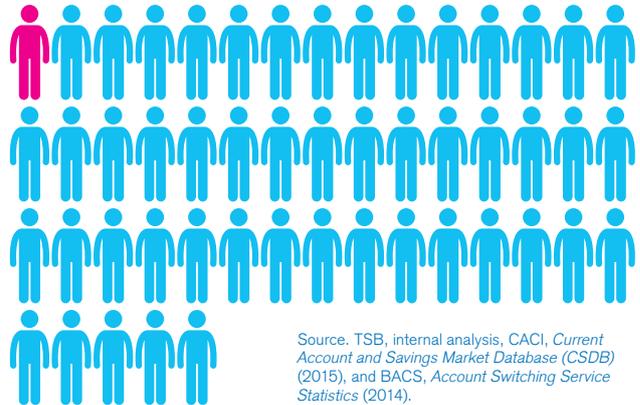
What is more, even though we have seen a number of new entrants entering the market over the past decade, these banks, excluding TSB, have collectively only secured just over 1% of the main bank account market.

**“Challengers have secured just over 1% of the main bank account market since they launched.”**

The slow pace of change in the UK banking market is exacerbated by low levels of switching.

Despite the introduction of the industry-sponsored CASS in September 2013, which was set up with the clear intention to make switching easier for consumers, just 2% of consumers switched using the service last year.

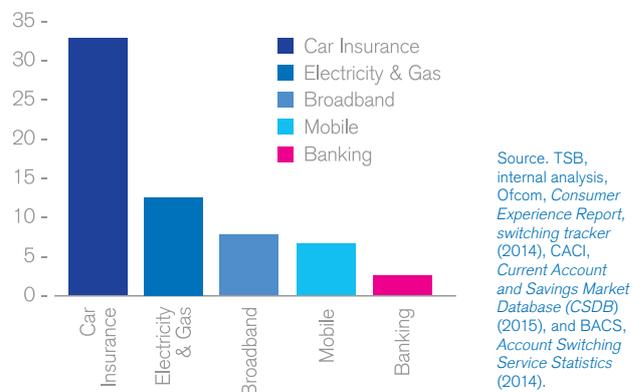
**Just one in 50 people switched their current account in 2014.**



If you compare this to other regulated sectors the figure becomes even starker. In the insurance market for example, 33% of consumers switched their car insurance, while in utilities, 12% of people switched their electricity and gas providers in 2014 alone.<sup>5</sup>

The low level of switching between bank account providers matters because current accounts remain a critical gateway product for retail banking customers and the wider services they receive from banks. Around half of all current account customers hold a savings account with the same provider; about a quarter will hold a credit card and nearly one in 10 will have a loan or mortgage with the same provider.<sup>6</sup>

**The proportion of people switching is far lower in banking than in other sectors.**



# The barriers to more competition.

**There is a lack of transparency around what consumers are actually paying for their day-to-day banking. This is exacerbated by the myth that banking is “free”.**

Over time, the intricacies of how banks and their products operate have become less and less apparent to UK consumers.

Because of the complexity of the fees and charges in the banking industry, many consumers do not understand the true cost of their current account or whether they could get a better deal elsewhere. Recent research by Tesco Bank and TNS found that over half of current account holders are unable to understand the cost of their bank account.<sup>7</sup>

The lack of transparency in the sector has also perpetuated a myth that banking is free in the UK. This has left consumers in the dark over hidden fees and charges. This needs to change.

**“The lack of transparency in the sector has perpetuated a myth that banking is free in the UK.”**

We have sought to address this at TSB through the Truth & Banking portal on our website which aims to demystify banking for consumers. Truth & Banking clearly explains how banks like TSB make money and how current accounts actually work, so that people truly understand the real costs and benefits of banking.

We believe initiatives like this are the only way to ensure consumers are able to make well-informed decisions about their finances.

The industry must take responsibility and commit to being transparent with consumers over the costs they incur.

In pretty much every other industry we can think of, consumers would expect to and do receive a bill at the end of each month explaining exactly what they owe or the services they have consumed. Why is it that in banking consumers do not receive a single bill? We think it's time this changed.

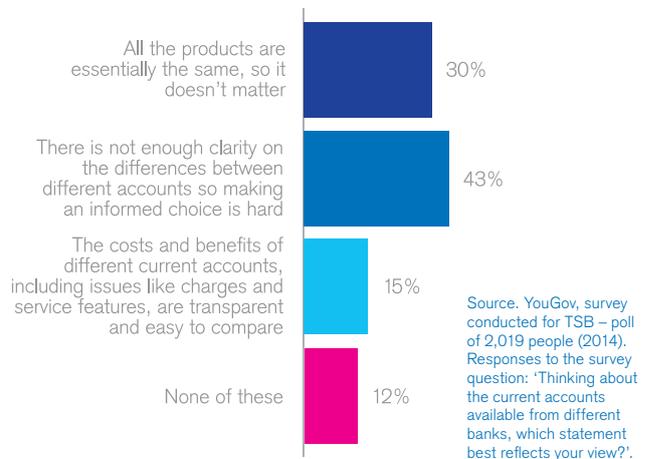
**Consumers don't have the tools to easily compare and contrast the true costs and benefits of different banking services, meaning that many see little benefit in switching accounts.**

Despite an explosion of comparison websites and some positive steps with the Government's Midata initiative, there is still no easy way for consumers to compare and contrast the cost and benefit of different bank accounts on offer today.

**“30% say that all products are the same.”**

YouGov research for TSB has revealed that 43% of people believe it is difficult to make an informed choice when choosing a bank account provider, while 30% say that “all products are the same”.<sup>8</sup>

**Consumers find it difficult to understand the true value of their current account.**



Without being given access to a straightforward, standardised explanation of fees, charges and account benefits it is unsurprising that 40% of consumers do not see any benefit to switching their bank account<sup>9</sup> and that just 2% of people switched using CASS last year.<sup>10</sup>

**“40% of consumers do not see any benefit to switching their bank account.”**

A monthly bill delivered in the same format regardless of the banking provider would go a long way in improving transparency in banking and enabling consumers to make an informed choice about their banking services.

### The industry-sponsored switching service does not work for all UK consumers.

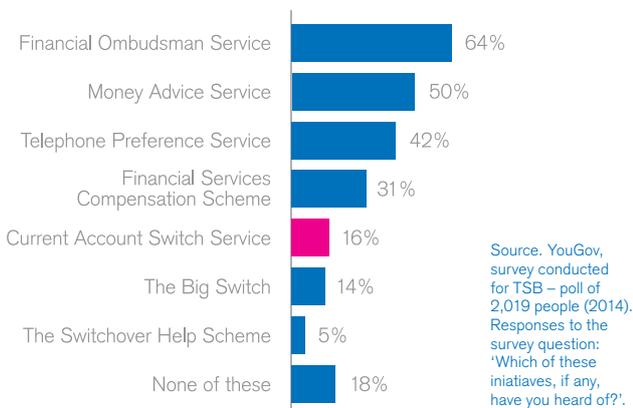
Even if 40% of people are unable to see any benefit in switching their bank account, that still implies that there is a large section of the market who would consider it.

But with switching so low, why is it that these people choose not to switch provider despite recognising that they might be better off elsewhere?

A key reason for this is a lack of awareness and understanding of CASS.

Although the Government called on the service to ensure that three quarters of the public were aware of CASS by June 2015,<sup>11</sup> research suggests that this target will not be met for some time. Recent work by the Financial Conduct Authority found that just 41% of consumers have heard of CASS<sup>12</sup> while TSB's own research suggests this figure may be as low as 16%.<sup>13</sup>

#### Awareness of CASS is low.

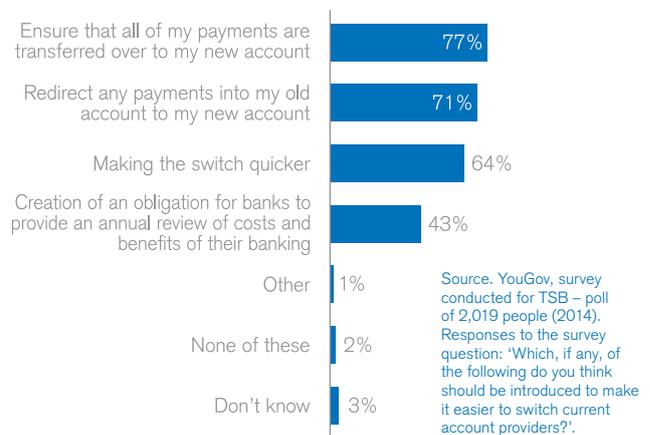


TSB's research also reveals low levels of understanding of how the system actually works.

Amongst those who have heard of CASS and want the system improved, the most popular reforms were an assurance that payments will be transferred to the new account (77%) and a redirection service (71%) both of which are already offered under the CASS system.<sup>14</sup>

**“41% of people do not believe that switching is an easy process.”**

### The most popular reforms of CASS are already offered under the current system.



All of this has led to an environment where 41% of people do not believe that switching is an easy process.<sup>15</sup> While this figure is indicative of a lack of transparency in the market and low awareness and understanding of CASS, it is also reflective of structural problems within CASS itself.

TSB analysis reveals that some consumers feel unable to switch. This is especially true for those who would benefit most from switching, such as heavy overdraft users.<sup>16</sup>

**“Some consumers feel unable to switch.”**

Heavy overdraft users are some of the most profitable customers for the big banks, but our internal analysis reveals that they are also the customers that are least likely to switch – despite the fact that they might be able to get a cheaper banking option with a different provider.

These people can't switch. They are trapped because they have to pay off their old overdraft which may be hard or simply not possible in the short term. There is also no guarantee that they will get the same overdraft at a new bank, so they risk a significant reduction in the flexibility their banking services might provide. Meanwhile banks will take three, six, or nine months of data before they can make an informed choice to match the customer's existing overdraft. Not everyone can afford to take that risk.

**“Heavy overdraft users are the least likely to switch.”**

## Four ways to fix competition.

So, if a range of interconnected issues are restricting competition in UK banking and better consumer outcomes, what can be done to ensure consumers get a better deal from their banks?



1. All banks should disclose to each of their customers how much they've paid for their banking each month. This should be delivered through a standard format "monthly bill".



2. The industry needs to create a solution that means switching is a credible option for all consumers, particularly overdraft users. This should include a requirement for each customer to be able to request a standard format "credit passport" which they can take to their potential new bank.



3. All banks should be required to further promote the existence of the enhanced switching service to consumers – explaining how switching is easy and how the cost of switching is underwritten by the big banks.



4. The UK regulators must use their extensive competition powers relentlessly to promote competition as the only real way to make the market work for consumers.

**1. All banks should disclose to each of their customers how much they've paid for their banking each month. This should be delivered through a standard format "monthly bill".**

More needs to be done to improve transparency in products to increase understanding of teaser rates, fees and charges and terms and conditions.

This is vital to rebalance the relationship between banks and their consumers; to put consumers in control by providing them with the power to make well-informed and confident choices about their bank and their financial products and services.

The current practice in banking of providing customers with a statement detailing their individual spending on their bank account does not provide customers with the information they need to understand the true cost of banking.

This needs to change.

Instead, customers should be provided with a standardised monthly bill delivered in the same format by every bank that clearly details the costs and benefits associated with their account usage, including foregone interest calculated in a standardised way.

Providing a bill will not only lead to transparency and greater understanding of banking products by consumers, it will also act as a prompt to shop around for a better deal.

To enable consumers to make informed choices the monthly bill should be supported by a reworking of the annual statement. Based on the standardised data and format of the monthly bill, the annual statement should also include information that benchmarks individual banks against the rest of the industry, including customer service ratings and rankings.

The provision of a standardised bill will give consumers the necessary control to make an informed choice about the products that are right for them. It will enable consumers to get a clear picture of how much they pay for their banking and whether or not they could get a better deal elsewhere.

TSB welcomes the industry initiatives underway focussed on creating a new price comparison tool that better portrays the true cost of banking to consumers. Such a tool will only be effective, however, if accompanied by a standardised monthly bill as this will provide consumers with a prompt to compare costs between different providers and thereby work out the best deal for them.

**2. The industry needs to create a solution that means switching is a credible option for all consumers, particularly overdraft users. This should include a requirement for each customer to be able to request a standard format "credit passport" which they can take to their potential new bank.**

CASS was intended to make switching easy for all consumers and, although it has proven an effective service for those who can use it, it has been designed in a way that means switching is not viable for everyone.

It is important that all consumers – but particularly those who incur the highest charges on their account – feel that they could benefit from switching.

TSB believes that in order to open up CASS to more consumers, the industry needs to make sure more people can take their overdraft with them, subject to eligibility criteria.

In order for banks to quickly make lending decisions through the CASS framework, we believe that a "credit passport" should be offered to consumers, whereby they are given access to their credit data in a usable format which they can transfer to their prospective new bank. After all, ultimately the information about a consumer's banking history should be available for the benefit of that very consumer.

We believe that this would free those trapped consumers who would be eligible for a matched-overdraft at their new bank but cannot afford to switch as they are faced with having to pay their overdraft off in full before switching and then having to wait three, six or nine months before receiving their new overdraft.

**"The provision of a standardised bill will give consumers the necessary control to make an informed choice about the products that are right for them."**

**3. All banks should be required to further promote the existence of the enhanced switching service to consumers – explaining how switching is easy and how the cost of switching is underwritten by the big banks.**

The industry needs to raise awareness and understanding of CASS and the guarantees it brings. A large-scale campaign could increase understanding and drive advocacy for the service to increase confidence in it and encourage more people to switch banks.

While the promotion of CASS to date has made some progress – and we are seeing further promotion of the 7-day switching process – it is a long way off reaching its 75% public awareness target.

We believe that if the original target is not met and maintained then action needs to be taken and the competition authorities and FCA should consider whether there is a need for a mandatory framework of communicating the CASS service to consumers.

This should be complemented by an industry agreement to make sure that CASS features more prominently on bank statements and internet banking home pages; through mobile banking apps and at cash machines; and through customer contact.

The campaign needs to go beyond increasing awareness, however, and must make a concerted effort to translate this awareness into familiarity and understanding.

The banking industry should commit to finding ways to promote the benefits of switching in geographies with poor financial literacy. This could be assisted by joining forces with Citizens Advice across the UK. This would vastly increase the understanding of the service with hard-to-reach consumers.

**“A truly competitive banking market is the only way to force a change in culture and behaviour in banking and to create a world where big banks focus on what is best for the long-term interests of consumers.”**

**4. The UK regulators must use their extensive competition powers relentlessly to promote competition as the only real way to make the market work for consumers.**

The Government and regulators have placed significant emphasis on increasing the number and range of providers in the UK banking market and have been successful in making it quicker and more straightforward to launch a new bank.

The same intensity of focus now needs to be applied to supporting small, new banks to grow, so they can genuinely disrupt and challenge the behaviour of the existing incumbent banks.

There are several opportunities for the authorities to pursue this:

- The FCA must make maximum use of its new competition powers and be the primary permanent focus for competition issues for the retail banking sector. The FCA should issue a regular report, perhaps annually, on what it believes are the remaining barriers to greater levels of competition in banking in the UK and seek to articulate the average benefit lost to UK consumers by failing to switch.
- Regulators should recognise the role of competition in improving culture and behaviour in banking. Supporting a more competitive market will have a knock-on effect for consumers who will be able to benefit from the better products and levels of service that greater competition brings.
- When designing new legislation, policymakers need to take into account the potential impact on small, growing banks both in absolute terms, but also in comparison to the large incumbent banks, who are better able to absorb new regulatory and legislative changes.
- The CMA investigation in the banking market is a significant opportunity to acknowledge the lack of competition in banking and make recommendations to reform the market so there is more genuinely effective competition.

Successfully implementing these changes will, we believe, lead to a market where consumers can make informed choices about the best bank account for their needs; where consumers can vote with their feet and move bank accounts easily and – ultimately – to a market that works in the interests of consumers rather than in the interests of the big banks.

As well as more choice, improved service and greater innovation, a truly competitive banking market is, we believe, the only way to force a change in culture and behaviour in banking and to create a world where big banks focus on what is best for the long-term interests of consumers.

# Effective competition can transform the market.

In a market controlled by a handful of banks, where products lack transparency and consumers are given little reason to switch and find it difficult to change providers, incumbent banks have faced none of the usual pressures to serve their customers to the maximum of their ability that one would expect to see in a genuinely competitive market.

If there was greater competition between banks in the UK, we would start to see a market that works for all consumers:

- A market where consumers have transparency over the costs – and benefits – of the products on offer.
- A market where it is easy for all consumers to switch.
- A market where consumers have a variety of providers with competitive products to choose from.
- And ultimately, a market where if banks do not service their consumers in the right way, those consumers will vote with their feet, safe in the knowledge they can get a better deal elsewhere.

But, we believe that the forces of competition have the potential to have a more profound impact on UK banking.

Our research has shown that consumers now see culture and behaviour as critical to their decisions on where they want to bank.

If the UK banking market becomes truly competitive, we believe that this will result in genuine cultural change, as individual businesses will understand and recognise its competitive benefits.

In a truly competitive market, we will see any bank wanting to succeed starting to drive a genuinely positive culture. This will result in a shift in focus on what is best for the long-term interests of consumers, local communities and shareholders, and not the short-term gains banks can extract from the economy.

Competition is the key to better consumer outcomes in banking.

It is time that banks start to operate in a way that offers consumers genuine choices and alternatives, where all consumers can make informed choices and switch with ease. Then we'd see consumers genuinely voting with their feet.

And when that happens, it will force a change in mindsets, attitudes and culture across an industry where many have had it too easy, for too long.

## More information

TSB understands that it's not always obvious what is happening in banks, which is why we are committed to being open and transparent with our customers. Our Truth & Banking portal on our website is our way of sharing more information with our customers and showing them how TSB works.

Truth & Banking has information about the way TSB works, competition in the banking sector and what we think should be done to ensure the sector is working for consumers.

We need to see banking exposed to the full force of competition to ensure consumers get a better deal and we look forward to the outcome of the CMA's investigation into the sector – a once-in-a-generation opportunity to turn the market on its head.

If you would like further information please contact [competitionmatters@tsb.co.uk](mailto:competitionmatters@tsb.co.uk) or tweet us [@tsb\\_news](https://twitter.com/tsb_news).

## References

<sup>1</sup> TSB, internal analysis and Competition and Markets Authority, *Personal Current Accounts Market Study Update* (2014), p.26, [https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717\\_-\\_PCA\\_Review\\_Full\\_Report.pdf](https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf)

<sup>2</sup> CACI, *Current Account and Savings Market Database (CSDB)* (2015)

<sup>3</sup> TSB, internal analysis and Mintel, *Current Accounts – UK* – poll of 1,948 people (May 2015). This analysis includes respondents who answered 'Metro Bank', 'M&S Money' and 'Other' to the question "Which bank or building society do you hold your main account with?"

<sup>4</sup> TSB, internal analysis, CACI, *Current Account and Savings Market Database (CSDB)* (2015), and BACS, *Account Switching Service Statistics* (2014), <http://www.bacs.co.uk/Bacs/Corporate/Resources/Pages/FactsAndFigures.aspx>

<sup>5</sup> Ofcom, *Consumer Experience Report, switching tracker* (2014), p.175 [http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-14/TCE14\\_research\\_report.pdf](http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-14/TCE14_research_report.pdf)

<sup>6</sup> TSB, internal analysis and Competition and Markets Authority, *Personal Current Accounts Market Study Update* (2014), p.26, [https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717\\_-\\_PCA\\_Review\\_Full\\_Report.pdf](https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf)

<sup>7</sup> Tesco Bank and TNS BMRB, *Current Account Switching: The Consumer Reality* (2015), p.10

<sup>8</sup> YouGov, survey conducted for TSB – poll of 2,019 people (2014)

<sup>9</sup> Ibid

<sup>10</sup> TSB, internal analysis, CACI, *Current Account and Savings Market Database (CSDB)* (2015), and BACS, *Account Switching Service Statistics* (2014), <http://www.bacs.co.uk/Bacs/Corporate/Resources/Pages/FactsAndFigures.aspx>

<sup>11</sup> Financial Conduct Authority, *Making Current Account Switching Easier: The Effectiveness of the Current Account Switching Service (CASS) and Evidence on Account Number Portability* (2015), p.7, <https://www.fca.org.uk/your-fca/documents/research/cass-report>

<sup>12</sup> Ibid

<sup>13</sup> YouGov, survey conducted for TSB – poll of 2,019 people (2014)

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> TSB, internal analysis (2014)

## About TSB

TSB was created to bring more competition to British banking – to be a real challenger to the big banks and to deliver the kind of banking the people of Britain want and deserve. TSB only serves local consumers and local businesses, to help fuel local economies, because communities thriving across Britain are a good thing for all of us. That is what we mean by local banking.

We have a simple, straightforward and transparent banking model and make clear on our website how we operate and make money. We offer the products and services people tell us they want, with none of the funny stuff people normally associate with traditional banks.

It is why our new “555 Plus” market-leading current account is made available to all consumers, not just those joining the bank.

It is why we are investing heavily in digitising our bank, with a number of new digital innovations due to be launched in 2016, which build on our existing digital and mobile banking applications and will deliver an even better experience for our customers.

And it is why we have focused on service not sales, why we have moved away from the mindset that led to PPI and product sales delivering short-term benefits for banks and moving to the sort of service that turns customers into advocates.

We have scrapped sales incentives in branches and rather than offer our Partners a bonus that encourages short-term risk taking, we offer the TSB Award – typically a flat 10% across the business – which can only be paid out when the bank is in profit and when customer service targets are met.

We've done all of this not just because it is the kind of bank that consumers told us they wanted but because we know it will help drive the type of culture we want in our bank – the type of culture which we believe will make us stand out from the competition – and ultimately make TSB a success.

For further information about TSB Bank plc, please visit our website [www.tsb.co.uk](http://www.tsb.co.uk).

