Playing the Field

Consumers and Competition in Banking

Katie Evans

Social Market Foundation

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EXECUTIVE SUMMARY

COMPETITION IN RETAIL BANKING – FINDING THE MARKET FAILURES

- Examining the level of competition in banking is a regular activity for regulators. The complexity of financial services means it can be difficult for consumers to tell when they're getting a fair deal; concentration raises the possibility that firms can misuse market power; and high entry costs and regulatory barriers mean it's relatively difficult for new entrants to build a sustainable business. But analysis to date has focused mostly on the supply side shortcomings of the market, and over recent years, thanks to regulatory intervention and technological change, there has been progress in addressing these.
- The supply side of Britain's retail banking market isn't perfect. But new entrants are queuing up to get in the door and the industry is innovating, suggesting competition isn't as weak as some reports would lead us to believe.
- The focus of this report is the demand side of the market – do consumers shop around, or at least threaten to, and what pressure does that exert on banks to make better offers? If such activism coincides with the changes on the supply side then there is a real prospect of changing the outlook for competition and significantly improving the benefits to customers.
- We can already see some effects of stronger competition in the current account market, including higher interest rates on credit balances and other incentives like cash back. But official switching rates remain relatively low. So what is driving this growing competition?
- Multi-banking, the use of more than one bank or current account at the same time, is an understudied phenomenon. Driven by technological developments which cut the costs of managing multiple accounts, it allows consumers to test different products, providers and propositions without losing the stability of their main account. While it doesn't show up in the official switching figures, this can be an important new form of competition in the market.

HOW CAN MULTI-BANKING STRENGTHEN COMPETITION?

- We distinguish between two types of multi-banking, with different implications for competition:

    1. Narrow multi-banking, where a consumer holds current accounts at two or more banks.
    2. Broad multi-banking, where a consumer buys financial services products (including current accounts, savings products, credit cards, mortgages and loans) from a range of providers.

    Narrow multi-banking might have a more immediate impact on levels of competition in the current account market, but over the longer term broad multi-banking might indicate a brighter state of competition across the entire retail banking industry.

- There are four ways in which multi-banking could signal or lead to benefits for consumers:

    1. If banks can successfully market current account products to customers of other banks this suggests that customers are looking around for value in a way not captured by switching numbers alone.
    2. If consumers have financial products and services from providers other than their current account provider, this suggests they are looking around for value in those products too.
    3. Consumers who are multi-banking may be better able to observe differences in service level and price between different accounts and banks, increasing competitive pressure on those designing and offering the products.
    4. As it becomes easier to manage products from multiple providers, consumers may be less likely to take advantage of all the services bundled within their current account, and more likely to shop around for credit and savings products to get the best deal, reducing the importance of current accounts.

WHO ARE BRITAIN'S MULTI-BANKERS?

- In practice we find that a quarter of customers (25%) have current accounts with more than one bank, but only one in five uses more than one account provider actively.
- Most multi-bankers (57%) use more than one current account provider to manage their finances. This might not have a direct impact on competition, but will still help them to observe how price and quality varies across providers.
- Over a third of those actively using more than one current account provider are purposefully seeking value and chasing returns.

    1. Those with more than one active current account provider are four times more likely to be taking advantage of a cash bonus on a current account, and more than twice as likely to be using a current account to earn interest.
    2. Multi-bankers are twice as likely to hold short-term savings in a current account, and nearly four times as likely to be using a current account to store long-term savings. They're making the most of the increasingly generous interest rates offered by banks on current accounts.

- These active multi-bankers are usually slightly older than the average current account user, they are relatively well off and are more likely to be home owners. They're financially sophisticated too: on average a person with more than one current account provider has 4.5 active financial products, compared to 2.5 for a person with just one current account. And their preferred method of communication with their bank is online. Essentially, Britain's multi-bankers are the readers of Which? or MoneySavingExpert.com – bargain hunters with an internet connection ready to shop around.
- A much larger proportion of the population shop around beyond current accounts. Half of consumers actively use credit, savings or other financial products from more than one bank.
- Competition from non-bank providers of financial services is also growing – three-quarters of consumers have bought at least one

financial product from a non-bank provider, including online payments, credit cards, insurance or peer-to-peer investments.

- Despite the competition created by consumers shopping around and multi-banking many consumers still think of their current account in the traditional way.
- Six in ten consumers admit that they view their current account in a passive way, as a necessity but not something they give a lot of thought to. While this remains the case, it will be very difficult to strengthen competition in the current account market.
- A majority of consumers (56%) thought it would take seven days or fewer to switch accounts, in line with the Current Account Switching Service Guarantee, when asked without any prompting, and most consumers think it is easier to change bank than other household services like internet, TV provider or mobile phone contract. Consumers seem to know they can switch accounts, but aren't motivated to do so.

RECOMMENDATIONS

- To build on the momentum created by current account switching – and the previously understudied idea of multi-banking – we recommend that policy-makers should act to strengthen demand side competition in banking in the following ways:

    1. Make it easier for consumers to work out the best deals for them. While multi-bankers love chasing a good deal, for a significant number of consumers, shopping around for financial services isn't ever going to be an attractive prospect. We need a way to make sure that these customers who prefer a more relaxed approach to banking aren't missing out on the benefits of competition.

        o At present, most consumers are unable to work out the price they pay (or value they get) from their current account. They struggle to anticipate their financial behaviours, and so fail to place sufficient weight on issues like overdraft fees when picking an account.

- The government's midata initiative provides an opportunity to help consumers use their own data to get personalised switching recommendations – but it needs to go a step further. It's unlikely that any but the most motivated consumers will get to their bank website, download their data and upload it somewhere else. By simplifying the process, setting up an Application Programming Interface (API)1 to allow consumers to share their anonymised data with comparison sites just by using their online banking log in details, the process could be streamlined and made more accessible.

- With consumers able to access their own data and share it as they please, they could also use this to gain personalised quotes for overdraft facilities from banks – an area of the market the Current Account Switching Service fails to reach at present.

2. Multi-bankers are already able to compare the fees and charges on their various accounts, by experiencing them first hand. But for other consumers, pricing of current accounts is opaque. Some simple nudges could help to make these prices more transparent, and encourage inactive customers to take another look around the market.

   - Building on the success of text alerts in helping consumers avoid unarranged overdrafts, text messages could be used to inform consumers about the way they're using their bank account and the charges they're incurring. Receiving text alerts should be a compulsory condition for organising an arranged overdraft`. Similarly, to help those keeping significant sums in their current account and losing out on interest payments, reminders could be sent after three months to those with credit balances in the top quartile, providing a prompt to open a savings account and move cash to where it can earn better returns

   - Copying moves in the energy market to tell consumers when a cheaper tariff is available and move consumers off tariffs that are no longer offered to new customers would also help to avoid the situation where consumers are stuck in poor value accounts. Unlike in the energy market, where providers are limited to offering just four tariffs, this would need to be combined with continued freedom to offer different products, however, to ensure that providers have the space to innovate and compete.

3. Multi-banking depends on a strong supply side – diversity and choice are key motivators for consumers to test out different propositions. To encourage multi-banking and stronger demand side competition, we need to ensure that new entrants are able to build sustainable businesses.

    - Stronger competition around incentives for current account holders isn't necessarily a blessing for new entrants – with less capital to draw on than incumbents, they may struggle to keep up. As price competition in the current account market hots up, it's important that new entrants are able to compete on a level playing field.

    - Building on transparency measures already announced by the new Payments Systems Regulator, those banks with direct access to payments systems should be compelled to publish the price at which they access payments systems internally, and to offer this price to agency banks. The aim of this proposal is mean that access should be priced at the right level for member banks to invest in the infrastructure, while ensuring new players aren't at a disadvantage on cost.

    - Mechanisms to ensure that agency banks have a voice in payments systems decision-making processes should also be encouraged to ensure that agency banks are able to inform innovation and improve the quality of service.

- In the longer run, technological developments will continue to shape the supply side and how consumers behave. The changes we have seen so far and those envisaged by our recommendations may be only the start of a much wider reshaping of the market. The infrastructure of today's retail banking – current accounts, debit cards and ATMs – could all be swept away by the next wave of innovation. Online wallet services could take on the transactional role of the current account, while block chain technology could render the idea of a current account completely unnecessary, crowd-sourcing the ledger we rely on banks to keep. Although competition concerns in the current account market have been talking points for decades, they may soon be a thing of the past; and, with the retail elements of banking services more open to competition, banks themselves may consolidate around their classic function of borrowing short (accepting deposits) and lending long. We are in the early stages of any such structural change but it is possible that the multi-bankers may be showing the way to the future.

CHAPTER 1: COMPETITION IN BANKING – LOCATING THE MARKET FAILURES

The British banking industry[2] has weathered many criticisms since the financial crisis. Concern over competition, however, has characterised the industry's relationship with regulators for much longer. Since 1998 regulators and experts have launched review after review into the sector – competition authorities alone have published nearly 20 papers over the past two decades[3] – each finding cause for concern. The ongoing Competition and Markets Authority (CMA) review of the market for personal current accounts marks just the latest battle in an ongoing saga. In common with other reviews of the sector, the CMA has identified three potential theories of harm, relating to market concentration; the extent to which bank customers shop around and switch providers; and barriers to entry and expansion for new players. Like much of the past analysis of the sector, these theories focus on the supply side of the market – the number of players, the choices they offer, how they treat consumers, and how easy it is to switch. Much less attention has been paid to the demand side of the market, even though it is widely recognised that consumers are often inert when it comes to financial services. Is this focus on the supply side a fair assessment of the market and the barriers to stronger competition in it, or is the role of the demand side in generating competition being under-estimated?

MARKET CONCENTRATION

The dominance of a few big players, combined with the complexity of financial services from a consumer perspective, means competition is a constant concern in the banking industry. The round of mergers, acquisitions and exits through the financial crisis further increased concentration, as failing banks were absorbed by their competitors and international banks quit the British market.[4] Market shares for current accounts have been relatively stable over the last three years: some newer players, including Santander[5], Metro Bank and TSB have seen moderate increases in market share while other small banks have seen their shares remain relatively stable. The total market share of the four largest banking groups (Lloyds Banking Group, RBS, HSBC and Barclays) has fallen since a little since 2011, but these banks still accounted for more than seven in ten personal current accounts in 2014.[6]

Policymakers and regulators have worried for years that this concentration reflects a lack of competition and means consumers are getting a bad deal, although there isn't strong evidence of a causal link between concentration and weak competition.[7] Rather, the fear is that the relatively concentrated market, combined with variable features of current accounts and lack of upfront pricing may make it difficult for some consumers to engage with the market and navigate the choices available to them. The lack of diversity in today's market[8] may make this all the worse – where banks look similar and offer similar products consumers may feel it's less worthwhile to shop around. Where customers are inert as a result, banks may be able to make excess profits. Banks have stable shares of the market, which can be read as suggesting that providers offering poor service aren't losing customers and those with the best ratings aren't winning new ones. Switching levels are relatively low compared to other industries like energy, internet provision or mobile phone service.[9] Some banks, however, question the reliance on these switching figures which don't take into account the churn in the industry created by population growth and people coming of age – new groups of customers that banks must compete to serve, but which don't register as switching.[10]

The realities of concentration in the industry may be different from the picture presented by the volume shares cited by the CMA and other regulatory bodies, too. These measures don't reflect the value of the accounts banks hold – and, accordingly, their profitability. Concentration levels also vary significantly across the various segments of the retail banking market – there are more providers of credit cards, for example, than of current accounts.

A RAW DEAL FOR CONSUMERS?

Although the dangers of concentration may be overstated, subsequent reports over the past 15 years have found consumers being offered poor value – charged excessive fees for borrowing and, earning pitifully low returns on deposits. Although concerns encompass the whole of the retail banking industry, personal current accounts, used by 94% of adults in the UK[11] and the basis for financial inclusion, have become a focal point in the debate. Current accounts are the front-line of banking for most consumers – what we automatically think about when someone mentions a bank account. They're also crucial for banks, a cornerstone of relationships with consumers which can provide opportunities to sell a broader range of financial services including loans, credit cards, savings and mortgages. They're often seen as the key to competition across the retail banking market.

With current account services usually provided free to those in credit (FIIC), there are significant concerns about transparency of pricing. It's often suggested that the lack of a clear point of price comparison between different products and providers kills competition in the market.

Rather than charging a straightforward fee for the services offered, such as transactions, debit card, cheques and cash, as is commonly the case in continental Europe, most banks in the UK fund their current account offers by levying charges on overdraft lending, by not paying interest on credit balances and through interchange fees charged to merchants on debit and credit card transactions. Although not all consumers will incur fees for borrowing or more complex transactions, by not earning interest on balances they still pay an implicit price for current account services. Fees are often difficult to understand, with calculation methods varying between banks, making it hard for consumers to understand why they have been charged or to pre-empt the likely cost when picking an account. Because consumers can't easily see the cost of interest foregone or estimate how they will use their overdraft facility and be charged for it, many still have little idea how much they are effectively paying for their current account, and struggle to compare offers across providers.

This lack of price pressure is often blamed for subduing competition in the current account market. But it has other, potentially more serious, consequences. Fees on overdrafts account for a substantial proportion of banks' revenues from current accounts, and those who struggle to manage money, often on lower or more variable incomes and in more vulnerable circumstances, can end up paying more. This cross-subsidisation means that the costs banks incur from different types of customers and the revenues received are misaligned, making prices even more opaque.[12]

The Office of Fair Trading (OFT) suggested in 2008 that the average current account brought in revenue of £152 for a bank[13] – equivalent to charging consumers £12.67 a month.[14] No update on this figure is available, as banks struggle to calculate profitability by product[15], however, as the Treasury Select Committee pointed out in their 2011 report, if experts can't identify the costs of current accounts, there is little hope that the public can.[16] The cost of an account (or its value to the bank) also varies significantly depending on the behaviours of the individual – whether they use an overdraft, if their borrowing is planned or unplanned, how much credit they hold in the account, how often they undertake transactions etc. which makes it difficult for banks to provide a single point estimate of price.

Initial evidence, however, suggests that although the price paid by consumers for current account services is still not a strong dimension of competition between providers, the profit made on current accounts has fallen somewhat over the past three years. This is a result of falling overdraft fees, increased interest payments on credit balances and the low base interest rate reducing the amount that banks can earn on credit balances.[17] Recent reforms have improved the transparency of fees, with a notable impact on the cost of unarranged overdraft borrowing. The complexity of fee structures, however, remains a serious barrier to consumer understanding.[18] The costs of being in credit through interest foregone also remain opaque (although with interest rates at record lows in recent years this is less of a concern than in the past). With financial literacy in the UK relatively low, many never realise that they are essentially paying to store money in a current account, and would struggle to compare the costs across providers.[19] For others, doing the sums isn't the trouble, but the amount of effort it involves is sufficient to cancel out any monetary pay-off. Frankly, for most of us, there are other things we'd rather do with our free time.

This lack of consumer engagement is directly related to the complexity of information provided to consumers by banks. But it isn't solely the responsibility of the banks. While charging structures could be less complicated, in practice consumers struggle to anticipate how they will use their bank account, thus what they will pay, until they are actually using a product. Some of the information problem here is on the demand, not supply, side of the market. Customers can't work out what is the best deal for them because they don't understand their own financial behaviour, and the costs of finding out which products would suit them best are too high for it to be worthwhile.

ENTRY AND EXPANSION

Although a handful of new players have emerged since the crisis, the story told is still one of market concentration. Personal banking is perceived as a hard market to break into – there appear to be substantial barriers to entry and expansion for new firms. First among these are the costs of setting up a business – financial services firms need specialist IT systems, sufficient capital to meet regulatory requirements and access to infrastructure like payments systems, which require significant investment in IT infrastructure and for small new entrants can only be purchased through agency agreements with larger banks.[20] Historically these costs have been a significant barrier to those interested in setting up a bank. Most banks also still require a network of branches, with a convenient local branch seen as essential or very important by nearly two-thirds of customers[21], adding a significant real estate cost to their start-up.

But many of these costs are also faced by incumbents – not least the legacy costs of branches, which are politically difficult to close, and the need for constant investment to support ageing IT systems. In some ways, new entrants may even be better off – rather than relying on tangled ancient IT they can buy new streamlined 'bank in a box' technologies and are less reliant than ever on branch networks. Regulators have also made significant efforts to reduce the costs of gaining a banking licence. There are still some steep start-up costs – not least the capital needed to gain a licence – but these don't seem to be putting new entrants off: a wave of new banks emerged in the wake of the crisis, including familiar high street names, like Tesco and M&S, completely new players like Metro Bank, and international banks seeking to grow their UK market share, like Handelsbanken. Meanwhile another 20 would-be banks have made applications to the Prudential Regulatory Authority.[22] Businesses are clearly willing to enter the personal banking market, despite the high start-up costs.

Beyond the costs of setting up a bank, however, there's the question of attracting customers. Typically these new banks have relatively small market shares: although some are growing quickly, from their starting point they will take decades to achieve the scale of the big five banks. And with sizeable fixed costs to entering the market, new players need to be able to win a substantial market share – estimated at around 5%[23] - to support these costs and create a viable business. At present, only TSB has anything like this market share – other new entrants together are expected to have less than 8% of the market by 2020.[24] While there are new banks on the scene, it isn't yet clear that they have a sustainable basis for business – although, as the fixed costs of providing banking services fall, with lower branch costs and cheaper IT, a market share needed to balance the books may fall. Still, the challenge of convincing customers to move their accounts, rather than the fixed costs, might be where new banks feel the squeeze.

Although as consumers we use our banks every day, we don't tend to think about it a lot. Only around 2% of consumers switched their main current account provider in the year to February 2015.[25] This is partly due to consumer worries about the risks of changing bank – direct debits going astray, bills unpaid, payments lost. The Current Account Switching Service (CASS), launched in September 2013 has eased some of these fears, but many consumers are either unaware of it or unconvinced by the offer.[26]

Beyond this, many consumers are simply happy with their bank. Recent research by the Financial Conduct Authority (FCA) found that 82% of consumers are very or fairly satisfied with the service they receive from their current account provider, and 81% with their current account as a product. A separate study by GfK research finds similar results – 91% are satisfied with their current account and just 3% were dissatisfied.[27]

Where consumers don't see any problem with their current account it isn't surprising that they aren't particularly engaged in the market. Most consumers seem to view their account in a relatively passive way – current accounts are seen as being essential, but not engaging and as services are provided on an ongoing basis with no obvious switching point (like the end of a contract), many consumers are inert.[28] This may also be a consequence of the difficulty working out if their account is offering good value – in the absence of a clear price point, consumers may focus on quality of service and if this is acceptable decide to stay put. Switching is usually driven by 'push' rather than 'pull' factors – consumers change because they are unhappy with something at an existing provider, rather than being lured by an attractive offer somewhere else.

Given this, it might be hard for new entrants to win enough customers to justify the substantial expenses of starting up a bank. A new bank may need to make losses for years before breaking even. The advantage incumbents enjoy carries across from the current account to other markets, as they have privileged information about their customers (access to their transactions data, for example) and so may be able to offer better deals on other products, like personal loans, than new entrants can. But, with new entrants queueing up for banking licences and consumers increasingly able to access their own data, it's not clear that the barriers to entry are as high, or reduce competition as much as we might have feared, at least on the supply side. The difficulties for new entrants are more on the demand side – without consumers actively looking around at the deals new banks are offering, it's hard to create sustainable, effective change in the market.

COMPETITION: A STRUCTURAL PROBLEM?

In recent years, the policy-making community have attempted to solve these problems in a structural way. The increase in concentration witnessed after the financial crisis was a result of banks being swallowed by their competitors; one obvious solution, therefore, is to reverse this, creating separate businesses out of the largest banks post-crisis. TSB was the first bank to be created in this way, with a group of Lloyds customers reassigned bank and TSB allocated a proportion of Lloyds branches. By the end of 2016, TSB will be joined by another challenger bank set up in this way: Williams & Glyn will be carved out of RBS using NatWest branches in Scotland and RBS branches in England.

Creating banks in this way isn't a cheap option – although the new banks avoid some of the start-up costs by sharing IT systems and inheriting branches, there are still costs to rebranding, communicating with consumers who have been switched between providers, and dealing with those who are unwilling to move. What's more, with these banks created from existing parents, it's not clear that they offer, at least initially, anything substantially different to the market. With the same PLC structure, same sort of shareholders, same customers and the same types of products, it's hard to see how these banks offer anything truly new. And without this diversity, it's not clear that choosing from a higher number of banks is really a mark of stronger competition.[29]

The CMA's decision to investigate the current account market shows that, despite several rounds of policy intervention, the creation of a dedicated switching service and the entrance of several new competitors, there are still causes for concern.[30] Switching volumes remain relatively low: although switching increased by 22% over the first 12 months of CASS operation, this was from a low base, and rates have since slipped back.[31] Market shares, at first glance, remain relatively static; at least in volume terms. As competition is an important driver of innovation, providing firms with incentives to come up with new products, offers and business models to attract consumers, we might also worry that the current market stasis will slow the pace at which we benefit from improvements in technological capability. But switching is not expected to grow significantly while consumer inertia remains so prevalent.

It's not clear that the CMA have got the diagnosis right with their apparent focus on the supply side of the market. While the supply side still has its weaknesses, our initial review of the evidence seems to suggest that many of the market's problems are actually on the demand side. Rather than resisting competition, most banks are doing a reasonable job of keeping their customers happy and new entrants see sufficient opportunity to justify the costs of entry. But a lack of consumer engagement and activism makes it difficult to strengthen competition.[32] While some of this is undoubtedly due to the way banks interact with their customers and the way they offer information, it means the problem, and any solution to it, inevitably involves both sides of the market.

WHAT WOULD COMPETITION LOOK LIKE?

To accurately judge the levels of competition in the sector, we need to be clear what adequate competition would look like, on both sides of the market. The CMA has said that the sector will be working well when consumers are "sufficiently engaged with their banking services to drive competition." But with relatively uninformed and inactive consumers, how can we expect high volumes of switching? Given that improving financial literacy is likely to be the work of a generation, this isn't likely to be a quick fix. Moreover, many consumers are rationally choosing not to dig deeper in financial services markets – the complexity and cognitive cost involved in shopping around means that, for most people, the pay-off of slightly lower fees or a little bit more interest simply isn't high enough. At the moment for a significant group of consumers, playing the market is just too much like hard work: in an entirely rational way these consumers are choosing to do other things with their free time rather than shopping around for bank accounts. Structural divestments, creating more banks that look the same as the old ones, don't seem likely to offer more than cosmetic change either.

One other indicator of competition could be innovation. Competitive pressures should push banks to offer new services through their current accounts, in a bid to attract customers from their rivals. Looking over the last year or so, most major banks have begun to offer an interest-bearing current account, and we have also seen innovation in branch offerings.[33] There has been a clear increase in the proportion of personal current accounts offering cash incentives to customers over the past two years – by 2014, nearly one in five current accounts offered this sort of reward. In addition to this, the size of cash incentives for switching has increased, from £50-£100 on average in 2010 to £100-£150 in 2014.[34] The number of current accounts offering interest has also increased significantly, as has the amount banks spend on advertising current accounts.[35] While initially these offers were made by smaller banks, hoping to take advantage of CASS to win new customers, most of the main banks have since introduced similar products, suggesting that competition is heating up. Concerns do remain about some areas of the market, however, particularly overdrafts: despite a general reduction in bank funding costs in recent years, overdraft fees have barely fallen, suggesting price competition is weak in this area of the market.[36]

It isn't clear, however, that stronger competition would necessarily mean higher CASS switching rates. If competition is sufficiently strong, simply the threat of switching should be enough to make banks improve service to keep their customers. Furthermore, some competition could take the form of customers changing account type within their current provider, to move to the best deal offered – competition that would not be captured by official switching figures. If banks can successfully respond to customer threats, outright switching could remain relatively low while consumer outcomes would still improve.

Alternatively, customers may be playing a smarter game. Rather than outright switching – closing one bank account and opening another through CASS – we may see 'multi-banking' – where consumers use more than one bank or more than one type of account. Through multi-banking, consumers can try and test different banks' propositions; search for value across markets without giving up the stability of their main account, and take advantage of different deals. In many ways, this consumer behaviour, pointed out by the CMA in their initial market review, could be a new form of competition in the retail banking market. But, until now, relatively little has been known about the drivers of multi-banking behaviour or about those who take part, making it difficult to assess whether it truly is a new form of competition. This report, drawing on new consumer polling data and expert industry analysis, examines the role multi-banking can play in creating competition across the financial services sector.

In the next chapter, we explore in greater depth the variety ways in which consumers can multi-bank, and how this could put competitive pressure on banks. Chapter 3 presents new consumer polling data, providing an insight into the identities of Britain's multi-bankers. We consider, on the basis of this evidence, whether multi-banking represents a shift in competition in Britain's banking industry. In Chapter 4, we offer policy recommendations which could help build on Britain's existing multi-banking trend to strengthen competition across the sector. The final chapter offers some conclusions and a look ahead at how multi-banking may evolve in the future.

CHAPTER 2: MULTI-BANKING – COMPETITION FROM A DIFFERENT ANGLE?

Most discussions of competition in banking since the crisis have focused on the supply side of the sector – the number of players, their diversity, pricing structures and profits. Accordingly, the remedies proposed have focused on this side of the market: ways to make pricing clearer, to reduce sunk costs for new entrants, to increase the number of providers.

But all markets have two sides, and demand also plays an important role in determining levels of competition. By considering multi-banking, we're thinking about how consumer demand can make markets for banking services more effective. There is precedent for this in other markets, as Box 1 shows.

Box 1: Demand-led competition in supermarkets

The UK's grocery market has, for many years, been nearly as concentrated as that for personal current accounts. The 'Big Four' supermarkets – ASDA, Sainsbury's, Tesco and Morrison's – have slugged it out in a closely fought war. Through the 90s and 00s stores battled to pick up out of town sites to build stores and raise market share, but arguably the behaviour of consumers has been as important in generating strong competition in recent years.

The emergence of discount providers Aldi and Lidl onto the scene has led to a fight for market share, with all the major retailers cutting prices to try to compete. While the main stores still retain a majority market share, consumers are increasingly using more than one supermarket, and doing several 'shops' a week, often across a variety of stores, rather than being loyal to one brand.[37]

This consumer behaviour has led to fierce competition in the grocery market and falling food bills for customers even through the market remains relatively concentrated. The market's Herfindahl-Hirschman Index (HHI, a common measure of market concentration) is 1637[38]

– usually interpreted as showing sufficient competition with moderate concentration.[39] The HHI for personal current accounts is only slightly higher, at around 1,700.[40] For newly opened current accounts (including new entrants to the sector) the score is notably lower, suggesting that concentration is falling.

THE WAY WE BANK NOW

Traditionally, consumers had a long-term relationship with a single bank. They visited a high street branch to pay in earnings, or withdraw money for the week; perhaps knew their bank manager, having dressed smartly to go ask for a loan or mortgage.

Those days are long gone. Consumers can now apply for credit from their bank online, in some cases with just a couple of clicks on an app; our wages go into our accounts automatically; we send money through online transfers rather than cheques, using just our mobile phone numbers. Although Britons remain psychologically attached to the notion of the bank branch, and value having access to a branch for complex transactions or advice over big decisions, it plays an ever-diminishing role in our day-to-day lives.[41] With younger people and the more affluent more likely to prefer online or mobile banking for day-to-day transactions, we can expect this trend away from branches to continue and strengthen significantly in coming years.

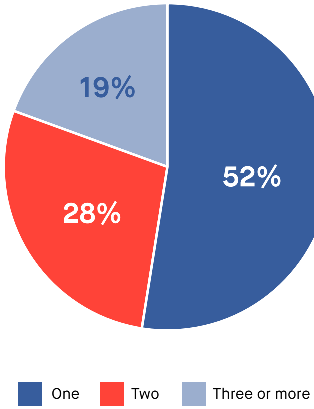
With these technological changes, the nature of our relationships with banks has started to shift. As managing our bank accounts remotely becomes easier, the cost of running a bank account falls, removing a major barrier to using more than one bank. Keeping two different apps on your phone is a lot less hassle than traipsing across town to a different branch. Technology has also made it easier to look around and see what different banks have to offer. Rather than going into branches and making appointments, consumers can now proactively search online and quickly gather information on what each bank has to offer, often using comparison websites or those offering expert advice. We're also no longer restrained to choosing between those banks with a local branch, and a growing number of online only offers are emerging to take advantage of this new space in the market.

At the most basic level, the increased availability and accessibility of information about banks and their current account offers should help to make the market more competitive and ensure people get a better deal. Multi-banking – using more than one bank concurrently – is one way this can happen, and appears to be a growing trend. Below we put forward four theories of how multi-banking might be changing competition in the current account market and beyond.

WHAT DO WE KNOW ABOUT MULTI-BANKING?

Nearly half (47%) of UK consumers currently use more than one current account according to GfK data collected for the CMA, illustrated in Figure 1 below. These figures are higher than other recent surveys suggest – Which? data which suggests around 30% of consumers have more than one current account[42] while Mintel research quoted in the first CMA issue statement found a similar figure.[43] The new CMA figures find about a third of consumers (31%) claiming to have current accounts with more than one bank, suggesting that perhaps the framing of the questions is responsible for the difference in figures. Whether consumers have more than one account with the same bank or use multiple providers is likely to be important in determining what sort of effect multi-banking has on competition. Those consumers using more than one bank might be able to threaten more credibly to leave and use this to extract better value from both their providers. Those with more than one account with the same bank, by contrast, may be more likely to be using separate accounts to manage money, rather than trying to get the best deal.

Figure 1: Number of current accounts held



Source: GfK Personal Current Accounts survey, quoted in Competition & Markets Authority, Retail Banking Investigation: Updated Issues Statement, Appendix D: Personal current account customer engagement indicators

Whatever the UK's multi-bankers are trying to achieve, there are a lot of them. Providers and other stakeholders have also highlighted multi-banking as a potential form of competition in recent inquiries, and frequently expressed concern that switching figures collected purely from CASS fail to reflect this form of competition and consequently may overestimate the problems in the market.[44] Another dimension of multi-banking competition is using different providers for different financial services. This, too, seems to be relatively common: data collected by YouGov for the BBA suggests that nearly half of current account customers (43%) have purchased a credit card from a different institution, and a quarter (25%) have a savings account somewhere else.[45]

The competitive implications of multi-banking, however, are far from clear, as the CMA noted in its Market Study Update, published prior to the decision to undertake a full market investigation into the current account sector. There is little information available about why consumers use multiple current accounts, and a limited understanding of the implications for competition.[46] Does multi-banking make it easier for new entrants to gain customers and expand? Can it strengthen competition?

MORE MULTI-BANKING TO COME

While multi-banking is already a sufficiently clear trend for the CMA to consider it of interest[47], it is also likely to become more prominent in future. Some data suggests that the proportion of customers opening additional current accounts has already begun to rise, although the evidence is not unequivocal at this point.[48] Multi-banking also appears to be well-established across international markets: 62% of German consumers use more than one bank, as do 40% of Italians, 43% of French consumers and 49% of Americans. In China and Japan virtually all consumers (94%) have relationships with more than one bank.[49] Given this, there's a compelling case for research to explore how multi-banking affects competition across markets for personal financial services.

Multi-banking is also not an entirely new trend in Britain – prior to the 'Big Bang' reforms of the 1980s, many consumers borrowed to buy homes through building societies, who didn't offer current accounts, rather than banks. The removal of barriers between investment and retail banking allowed banks to take greater risks, and expand their mortgage books through the use of increasingly exotic instruments, a train which some see as setting the scene for the financial crisis 20 years later. The renewed interest in diversity in financial services[50] and the ring-fence between investment and retail banking to be introduced in 2019 may lead to a revival of more specialised financial services providers in future.

Trends driven by technology, like multi-banking, take time to catch on. While a substantial proportion of customers are known to be demonstrating some multi-banking behaviours at present, on any measure they remain a minority. But although the CMA doesn't believe that new internet-based services like online wallets can, at present, provide a wholesale replacement for the bundle of services offered to consumers in a current account, it does see how some of these services may begin to displace parts of the traditional current account over coming years.[51]

The wave of new entrants hitting the sector might also increase the prevalence of multi-banking in the near future. Given that consumers are often wary of shutting down an old current account when moving to a new bank, we may see customers who want to try these new providers leaving existing accounts open. Additionally, banks continue to add to the incentives they offer current account customers – Barclay's, one of the hold-outs on incentives, recently created a package to offer current account holders, while others have increased the amount they offer switchers (Halifax) or added additional charity donations as incentives (the Co-operative Bank). We might expect consumers to continue to chase these offers, with some particularly savvy customers taking advantage of more than one at once and becoming confident multi-bankers. While interest rates remain at record lows, savers are likely to increasingly find interest-bearing current accounts an enticing prospect. Meanwhile the growing normalisation of fintech innovations could increase the number of people using a wide variety of financial services providers. The creation of a peer-to-peer ISA, for example, could encourage savers to look beyond their usual banks to a wider range of providers as they hunt for returns in the low yield environment.[52] Mintel data suggests this may already had started, with a growing number of customers appearing to have moved savings away from their main bank over the last two years.[53]

IT'S NOT ALL UPSIDE

Multi-banking might help to strengthen competition in the current account market and beyond by making it easier to test banks out and to gain information about their offers. However it's possible to imagine a situation in which it harms competition too. By definition, multi-banking, means that consumers are not exclusively giving their business to a single bank. It increases the pressure on banks to offer competitive products, and may reduce opportunities to cross-sell.

In the ordinary course of things, this sounds like a good market outcome. Providers wouldn't be able to make excess profits, and consumers should get better value. But in a market where we hope to encourage new entrants and increase diversity, the ability of consumers to cherry-pick offers and chase incentives might actually undermine competition. In particular, it might make it difficult for new entrants to acquire the more profitable parts of a consumer's business – loans, credit cards and mortgages, for example, if the customer does not switch outright. If consumers split their deposits between banks, it may also be difficult for new entrants to gain sufficient deposits to fulfil the capital requirements they need to enter the more lucrative areas of retail banking market and ensure the business will be viable in the long term. In this case, better outcomes for the consumer may prove to be short-lived, if new banks find that this behaviour leaves them unable to fund the infrastructure they need to operate. Furthermore, inactive customers who don't join the game are unlikely to benefit, and may even be worse off as their guaranteed custom is used to fund incentives for more fickle customers.

A race to the top on rewards, especially if combined with a race to the bottom on the cost of other financial products and services, is likely to favour incumbents with an established customer base. The rising prevalence of interest-bearing current accounts and other incentives for switchers suggests that banks are designing products to chase these active customers who may be particularly likely to multi-bank. In its evidence to the CMA, however, TSB suggested that the upfront costs of incentivising these consumers to switch means they're not immediately profitable.[54] Joining in with this game is unlikely to be sustainable for new entrants who are less able to cross-subsidise such activities. While banks can, and do, insist that accounts meet minimal funding levels or certain levels of activity (two direct debits, for example) before being eligible for goodies like interest, cashback and switching bonuses, some consumers have been able to manipulate these criteria.

Oddly enough, hyper-activist consumers might kill the insurgents. Effective competition might require 'just the right level' of multi-banking or other activism, rather than too little or too much.

COMPETITION AND CURRENT ACCOUNTS

Multi-banking can take several forms, with different implications for competition. To clarify this, we develop a typology, distinguishing between 'narrow' and 'broad' multi-banking.

One form of multi-banking is the practice of using more than one current account at a time. While many consumers are still reluctant to switch current accounts formally, multi-banking could be an important source of additional competitive pressures. By running more than one account simultaneously, consumers may be better able to observe differences in the quality of service and the price of different current account products – for example, they may find it easier to work out that one bank is charging them more for their overdraft than another bank, paying less interest or taking longer to answer the phone. They might also be able to game charges, using one account for foreign exchange transactions, for example, and another for overdraft borrowing. Alternatively, of course, they could just be using multiple accounts to keep track of household spending or sharing one with a partner. But even if the customer has two current accounts with the same bank, they still gain information on the benefits of different products, and can be seen as a form of competitive pressure. This use of multiple current accounts can be described as 'narrow' multi-banking.

Narrow multi-banking

Using more than one personal current account at a single point in time. These accounts may be with the same provider or different providers. For example, a consumer may have an account with one major bank and another with a smaller provider. The additional accounts may be used to take advantage of incentives offered by the bank, or as a way of managing money.[55]

For a bank to be attracting customers to their current account who would normally use another bank would also indicate a weakening of consumer loyalty, and a strengthening of competition in the current account market. It suggests that customers are looking around for better value even if they're not going through the full formal switching process. If this is reasonably common, it might lead us to think that multi-banking is a way consumers work to get the best deal in markets, and that figures for formal switching through the CASS process underestimate competition in the current account market.

Theory 1: If banks succeed in marketing current accounts to customers of other banks, then this suggests that consumers are looking around for value in a way beyond that signalled by switching numbers alone.

BEYOND CURRENT ACCOUNTS: BROAD MULTI-BANKING

But banking isn't really a single market, and multi-banking can be broader than just current accounts. Some consumers may use just a single current account at one bank, but go on to buy other financial products from a much broader range of providers. This indicates a different form of competition: although this consumer might not be playing the current account market, they are still actively seeking the best deals in other areas, like loans, credit cards, mortgages and savings – each separate markets in their own right, as illustrated in Figure 2, with a different range of providers offering a variety of products, and, crucially, different levels of competition.[56] Competition investigations focus on current accounts because they're the front-line for consumers, and because we worry about banks' ability to cross-sell products to this captive audience. But multi-banking isn't limited to the current account market. While using more than one current account may be an important indicator of consumer activism in banking markets, to focus on this relatively narrow strand of personal financial services could lead us to underestimate changes in the competitive environment elsewhere in the industry, and over-estimate the importance of current accounts.

Figure 2: Markets for personal financial services

Source: Social Market Foundation

There are signs that competition in retail banking is stronger outside the current account market. New entrants to the current account market have been relatively few and far between[57], but other personal financial services markets have proved more attractive to providers. Mortgage markets have traditionally had a greater number of providers than current accounts, as many building societies offered only mortgages and saving products. Similarly, there have been non-bank credit card providers for several decades. In these markets, where there has been a wide range of products and providers for some time, technology is making it easier for consumers to juggle them. Herfindahl-Hirschman Indices for peripheral markets, listed in Table 1, show that broad banking markets are relatively competitive.[58]

Table 1: Competition across different markets – Herfindahl-Hirschman Index Scores

Product market	Herfindahl-Hirschman Index score
Personal loans	919
Mortgage lending	1014
Credit cards	1153
Personal current accounts	Around 1,700*

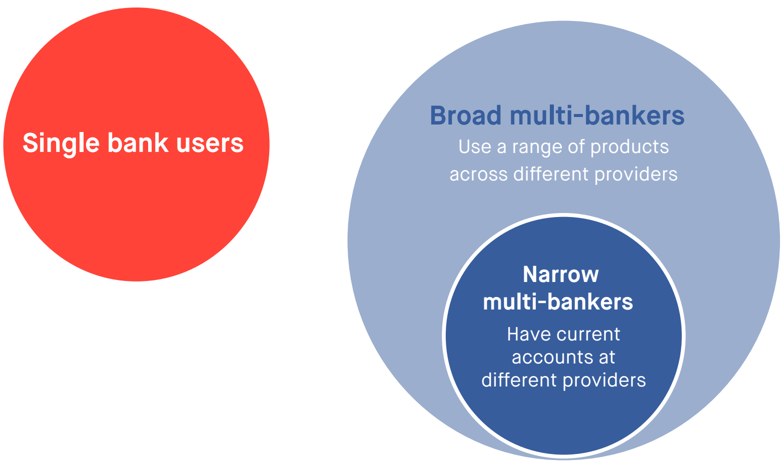
All HHIs from J. Barty and T. Ricketts, Promoting competition in the UK banking industry, British Bankers' Association 2014, calculated using BBA data, apart from *current account, from Competition & Markets Authority, Retail banking market investigation: Updated market issues statement, CMA 2015. The BBA's estimated figure for current accounts in 2015 assumes that the divestment of Williams & Glyn from RBS was completed on time, while in practice this has been delayed and TSB remains the only divestment to date, so the CMA figures provide a more accurate point of comparison. The current account HHI has fallen from its high of 1820 in 2009[59] thanks to new entrants and the divestment of TSB.

Technology makes it easy to manage products from multiple providers, while comparison websites and the like make it easy to gather information on the best deals. These information shortcuts help consumers to navigate markets, and increase the likelihood they will look beyond their current account provider when looking to buy other financial products. Some of these markets have also seen new forms of competition emerge from fintech firms in recent years. Traditional savings providers, for example, are being squeezed by online companies offering higher returns through peer-to-peer (P2P) investments. Choice in markets for other personal financial services is growing, even if the current account market still features largely the same players. And if consumers are shopping around rather than allowing banks to cross-sell, we can worry about competition in the current account market purely for its own sake, and not as an indicator of competition in banking more generally.

Theory 2: If consumers have financial products and services from providers other than their current account provider, then this suggests that they are looking around for value in those products too.

Theory 3: Consumers who are multi-banking may be better able to observe difference in service level and price between different accounts and banks, increasing competitive pressure on those designing and offering the products.

Figure 3: Narrow and broad multi-banking



Source: Social Market Foundation

The ability to use different financial services providers in different markets, facilitated by technology in recent years, could characterise another form of multi-banking – 'broad multi-banking', looking at across the full range of financial products rather than just focusing on current accounts. Narrow multi-bankers, using multiple current accounts, are thus a sub-set of broad multi-bankers, as illustrated in Figure 3.

Broad multi-banking

Using more than one bank or financial services provider. For example, a consumer might have a current account with one bank and a cash ISA, mortgage or credit card from another provider. Alternatively, a consumer might buy traditional banking products, like a personal loan, from their current account provider, but experiment with new offers elsewhere in the market – like peer-to-peer investments.

CHANGES IN THE CURRENT ACCOUNT PARADIGM?

If the theory of broad multi-banking proves to be true, we might worry less about what is happening in the market for personal current accounts, as it would suggest that consumers are increasingly shopping around for value, looking at a wide variety of providers and competition may be stronger on the demand side of the market than previously thought. In turn, this might tell us something about the way current accounts are used and perceived: customers might be less tied to their current account providers, and the ease of purchasing credit and savings products elsewhere might be reducing the importance of the current account as the gateway to other financial services.

Traditionally a current account was the core of a customer's relationship with the bank. As well as its central role in facilitating transactions – holding wages, providing cheques, cash, transfers and payments through a debit card – it offered a safe place for easy-access savings and a first line of credit through an overdraft. In this way, a current account could be described as a 'bundle' of financial services – partly transactional, partly credit, partly savings. But often there's a price to pay for the convenience of these services – the interest on savings left in a current account is likely to be meagre and the fees paid for overdraft borrowing are usually higher than would be paid on a simple bank loan for a similar amount.

As consumers have access to a growing range of financial services providers and can increasingly manage their own financial products online, however, the role of the current account could shift. As it becomes easier to buy some parts of the 'bundle' elsewhere, opening them out to competition, the role of the current account might shrink. If you can apply for a loan without much more hassle than using your overdraft, and more cheaply, the current account may stop being the first place we look for credit. This shift, moving some services out of the bundle and into a more competitive market, would also strengthen competition. Box 2 describes how this decoupling of the core platform and additional services has happened in the mobile communications market.

Box 2: Growing competition in mobile communications

The advent of the smartphone and app capabilities, together with faster mobile internet connections, have in many ways reshaped the nature of competition in the market for mobile communications.

A decade ago, a consumer purchased a bundle of services from their provider – texts, calls, possibly picture messages or access to emails, perhaps a handset and insurance for it. The only way that consumers could access these services was through the central programs on their phones – without Wi-Fi or 4G, consumers were reliant on core mobile telephony.

Now a consumer has a range of options when making a call from their mobile phone. They can still use the traditional call function on their phone, but they can also call over internet protocol using FaceTime, Skype or Viber, in each case making use of Wi-Fi or 4G rather than a call allowance from their network provider. The same competition has evolved in messaging – as well as traditional SMS messages, consumers can send texts through WhatsApp or Facebook Messenger, and pictures are shared through Instagram, Twitter and Snapchat not just through MMS.

In each case, services which were once part of the core mobile telephone offer are now subject to greater competitive pressures. This competition appears to have been successful in driving down the costs of traditional calls and texts across mobile markets.[60] The growing provision of Wi-Fi in public places means that consumers are also increasingly toggling between their networks and other sources of data connections, providing additional competition in this core market too.

If technology has a similar impact in the current account market, we might expect some parts of the current account offer, like overdraft services or foreign exchange transactions, to be increasingly separated from the current account and subject to competitive pressures. The role of the current account might shrink back towards straightforward transactions.

If this is the case and the paradigm of a current account has shifted, then we might expect competition in banking to be stronger than we currently perceive it to be. If current accounts move away from being a bundle of services and a gateway to other products, towards simply providing a way to process transactions, the value they offer to the consumer is less important; what's critical is the access they provide to other markets. If consumers are able to get a good deal in relatively competitive markets for mortgages, credit cards, loans and savings products, competitiveness in the market for current accounts itself is no longer such a concern. And, given that we know competition is already stronger in these peripheral financial services markets, if there is proof that the nature of personal current accounts is changing, this may be evidence of stronger competition.

Theory 4: as it becomes easier to manage products from multiple providers, consumers may be less likely to take advantage of all the services bundled within their current account, and more likely to shop around for credit and savings products to get the best deal. The functions of a current account may shrink back towards transactional purposes.

The rest of this paper will consider the evidence for each of these theories, and assess the extent to which multi-banking is providing an additional form of competition among the Britain's banks. We begin by exploring the existing evidence on multi-banking in Britain.

CHAPTER 3: BRITAIN'S MULTI-BANKERS

To date, no research in Britain has focused specifically on multi-bankers. The CMA's figures on prevalence, for example, are generated from a more general survey. But to work out if multi-banking is potentially a force for stronger competition in British banking markets we need to work out who multi-bankers are, why they use multiple providers and how they view banking. To fill these gaps, the SMF carried out new opinion research with Populus. Online interviews were carried out with 2048 GB adults (aged 18+) between 17-19 April 2015, with results weighted to be representative of all British adults. We focus on consumers who use multiple providers, rather than just multiple accounts with the same provider, on the basis that this behaviour is more likely to have a competitive impact.

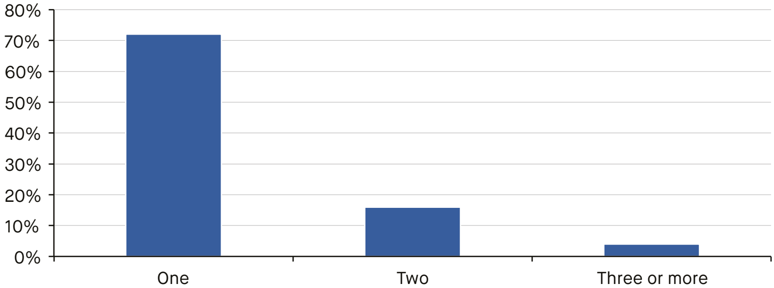
MULTI-BANKING IN THE CURRENT ACCOUNT MARKET

A quarter of consumers (25%) reported that they had current accounts with more than one provider[61], compared to the 35% identified by Mintel in 2013 and the 30% identified by Which?.[62] Given the slightly different definition of multi-banking we choose, however, our results are broadly comparable.[63]

However our conversations with experts raised concerns about levels of activity within these current accounts. For multi-banking to be a source of competitive pressure, consumers would need to be actively using each of their accounts, rather than leaving one dormant, perhaps after gradually switching accounts outside CASS – behaviour that banks see regularly. To ensure we were focusing on those consumers who are actively multi-banking, and thus more likely to be putting pressure on banks to make competitive offers, we excluded cases that hadn't used multiple accounts within the last four months. This timeframe was chosen to ensure those accounts used for quarterly payments (e.g. certain bills) would still be captured, but dormant accounts would not be; the banks we spoke to suggested that accounts tend to fall dormant within a six month period when customers have self-switched.

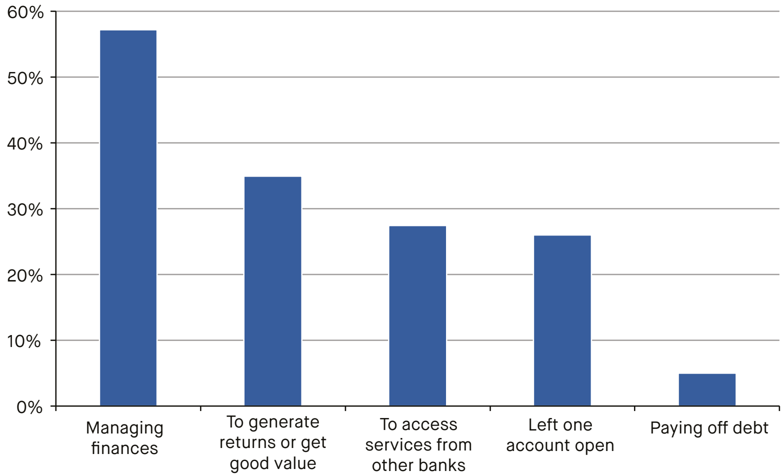
Using these criteria, we found that one in five consumers actively uses more than one current account provider, as illustrated in Figure 4. Most of these narrow multi-bankers use two different current account providers, but there are a small minority of consumers with three or more accounts across different banks. On average narrow multi-bankers have current accounts with 2.3 providers.

Figure 4: Proportion of consumers with multiple active current accounts from different providers



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015

Figure 5: Reasons for using more than one current account



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: active narrow multi-bankers – those with at least two current accounts at different providers which have both been used in the past four months. A breakdown of the individual survey responses included within each category is provided in Appendix A.

Over half of all narrow multi-bankers (57%) report that they use more than one current account in a structural way – to manage their finances. More than a quarter suggest the accounts are to keep household and personal expenses separate (29%), or that one is a shared account with a partner or housemates (26%). While not surprising, this type of multi-banking is unlikely to have significant implications for competition. While consumers might, as a side effect of this behaviour, be better able to observe the value and quality of service offered by different banks, their behaviour itself isn't an indication of desire to get a good deal.

However over a third (35%) of narrow multi-bankers suggest that generating returns and getting good value is driving their use of multiple current account providers. One in five say that they are using at least one of their current accounts to hold savings (21%) or to earn a better rate of interest on credit (20%). With more than one in ten (11%) also using multiple accounts to take advantage of cash bonus offers, it's clear that there is a significant population of narrow-multi-bankers who are engaging with the market in a competitive way. Using multiple current accounts is also a way to get access to or to try the services offered by another bank or building society – 27% say this plays a role in their decision to use more than one current account provider, offering further evidence that these narrow multi-bankers are working the market to get the best deals. As such, they're likely to be putting competitive pressure on banks to offer better current accounts, and, as more people multi-bank than switch in any given year, they may be the driver of the increased price competition we have seen in the market in recent months.

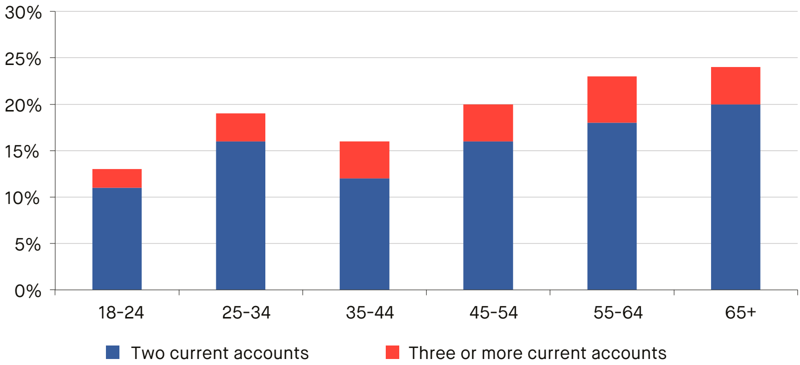
WHO IS NARROW MULTI-BANKING?

Our evidence suggests four broad factors characterise the people most likely to use more than on current account.

1. More likely to be in older age groups

Older people are slightly more likely to be narrow multi-bankers than younger age groups – the average age of those with just one current account provider is 48 years, compared to 52 for those with current accounts at more than one bank, as illustrated in Figure 6. This age profile contrasts somewhat with earlier findings, particularly the IFF data which suggested that younger people (under 45) were more likely to multi-bank.[64] However our data matches the experience of the banks we have spoken to and of major consumer organisations. And when we look at the other characteristics of narrow multi-bankers, we find a cohesive picture building.

Figure 6: Proportion of each age group actively narrow multi-banking



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

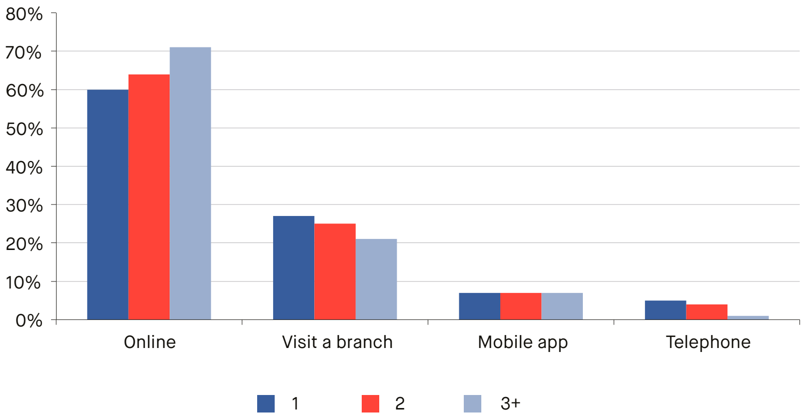
2. Relatively well off

The average household income of a narrow multi-banker is £30,200 compared to £26,400 for a single bank household. They are also more likely to be home-owners - 74% of narrow multi-bankers own their own home, compared to 65% of those with just one active current account – more likely to have taken a foreign holiday in the last three years, and more likely to own a car. But they're no more likely to be in employment than those with just one current account provider, suggesting a substantial proportion of those with multiple current accounts are likely to be retired.

3. Tech users

The importance of branch banking also declines with an increase in the number of active current account providers, as shown in Figure 7.

Figure 7: Most important way of communicating with bank by number of active current account providers



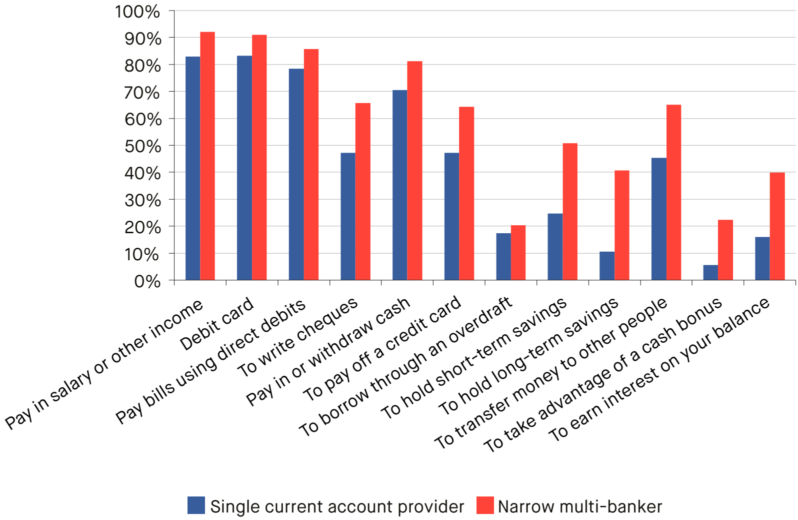
Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

Online banking is more important to multi-bankers. Nearly two-thirds (65%) of those with active accounts at more than one provider suggest that online is the most important way they communicate with their bank, rising to 71% for those with three or more current account providers, compared to 60% of those with current accounts at just one bank. In line with our prediction that technology makes it easier to manage financial products across a variety of providers, the technologically savvy are more likely to be multi-bankers. This may be surprising, given the age profile of multi-bankers; however there is evidence that older generations are more likely to use consumer websites to find the best deals than younger consumers.[65] Given the complexity of financial services products, it may be that these intermediaries are the key to getting the best value from the market and successfully multi-banking. From there, the costs of managing multiple accounts are dramatically reduced by the ability to bank online. Mobile banking, by contrast, is rarely seen as the most important way of communicating with a bank, although it is increasingly common – perhaps reflecting the kind of interactions it is used for, keeping an eye on balances on the go or managing existing payments rather than more substantial transactions. For multi-banking, where more complex information is needed, it seems online access is key.

4. **Financially sophisticated**

Those with multiple current account providers tend to be more intensive users of current account services, as illustrated in Figure 8. They're more likely to use most of the functions of a current account – both simple services, like debit cards and cash transactions, and more complex savings or lending functions. But what is most striking about Figure 8, is how much more likely narrow multi-bankers are to report that they use their current accounts for savings purposes, to earn interest or to take advantage of cash bonuses. Multi-bankers on this evidence are clearly seeking value from their current account providers. Those with current accounts at more than one bank are four times more likely than those with a single current account provider to be taking advantage of a cash bonus on an account, and more than twice as likely to be using a current account to earn interest on a balance. This is also reflected in the higher proportion of multi-bankers using current accounts to hold savings both in the short and long term. Multi-bankers are twice as likely to hold short-term savings in a current account, and nearly four times as likely as those with just one current account to be using a current account to store long-term savings. The combination of this propensity to hold savings in current accounts and to seek interest may suggest that a substantial driver of multi-banking behaviour over the last few years has been the decline in interest rates offered on savings products, combined with the introduction of interest-bearing current accounts.

Figure 8: Activities undertaken within current accounts



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

Narrow multi-bankers are active in other financial markets too. On average a person with multiple current account providers has 4.5 active financial products at any one time (such as personal loans, savings products and mortgages, in addition to current accounts), compared to 2.5 for a person with a single current account. These are sophisticated consumers of financial services.

These narrow multi-bankers are savvy customers. They're financially sophisticated, relatively well-off, and invested in finding good value. Essentially, they are the people who read Which? magazines or MoneySavingExpert.com - the sort of people who have the time, capacity and sufficient means to find it worthwhile to shop around and play the market. While we might have expected younger, tech-aware consumers to be the ones shopping around, they use far fewer financial products and, in general, are less financially sophisticated. This seems to stop them from playing the market of multi-banking in the same way.

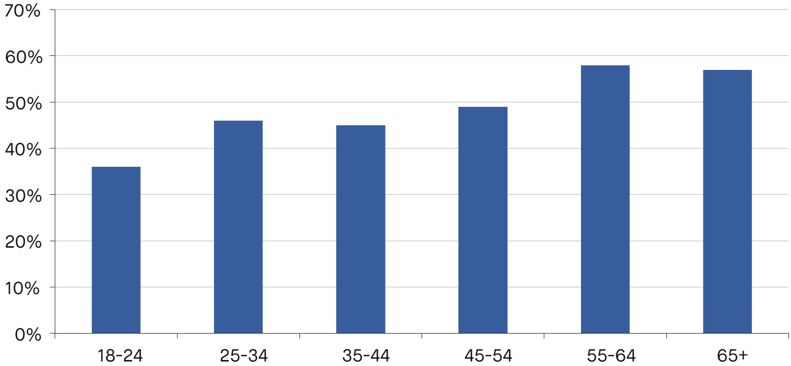
BROAD MULTI-BANKING: BEYOND THE CURRENT ACCOUNT

Although only a fifth of the population are actively using current accounts from different providers, a much higher proportion of consumers are using more than one bank when it comes to buying other financial products, such as mortgages, credit cards, savings or investments (for a full list of products considered, see Appendix B). Half the population (50%) actively use products from more than one bank, with a further 13% having products open at other banks that they don't use. Both are positive figures from a competition standpoint, suggesting that a relatively high proportion of consumers are shopping around for secondary financial products like loans, mortgages and savings accounts rather than taking what their current account provider offers, even if they don't always stick with that alternative provider.

This finding matches other evidence that consumers are shopping around outside their current account provider: Mintel data, for example, suggests that cross-selling to current account holders has become less prominent over time, with the average number of products bought from a main current account provider falling since 2011.[66] Nearly half (43%) of all savings products opened are with a provider the customer doesn't have a current account with, according to GfK.[67] And switching rates are decidedly higher in the easy access savings[68] and credit card markets[69] than for current accounts. These data points may, however, raise concerns that, like narrow multi-banking, a relatively select group of consumers are shopping around, while others rely on their primary provider.

As in the current account markets, older consumers are more likely to be shopping around and using several banks. But broad multi-banking is spread somewhat more evenly across the population – younger age groups are more likely to engage with competition in banking in this way, as illustrated in Figure 9.

Figure 9: Proportion of each age group using more than one bank (broad multi-banking)



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

As with narrow multi-banking, however, broad multi-bankers tend to be more affluent – while nearly half (46%) of those who use just one bank earn less than £21,000 a year, under a third (31%) of those who actively multi-bank are in the same income bracket. More than a quarter of broad multi-bankers (27%) earn more than £34,000 a year, compared to 18% of those who use just one bank. In line with this, multi-bankers are more likely to own their own home (outright or with a mortgage) – more than three-quarters (77%) of those who use more than one bank are homeowners, compared to just over half (56%) of those who use just one bank. They're also strikingly less likely to rent from the council or a housing association: 11% of multi-bankers rent from these housing providers, compared to 28% of those who use just one bank. Seven in ten (69%) of those who use more than one bank have taken a holiday abroad in the last three years, compared to just over half (56%) of those who use just one bank. Together, these figures suggest that affluence is a significant characteristic of those who play the financial services market. This isn't all that surprising, of course – people who have more money are likely to use a greater number and range of financial products, and in this way have more at stake when choosing providers (though they may also be more able to afford fees).

Online banking is also more important for those who use more than one bank – two-thirds (66%) of broad multi-bankers claim it is the most important way they communicate with their bank, compared to 54% of those who use just one bank. Consumers who use only one bank are correspondingly more reliant on branches – the most important method of communication for one in three (30%), compared to 24% of those who use multiple banks.

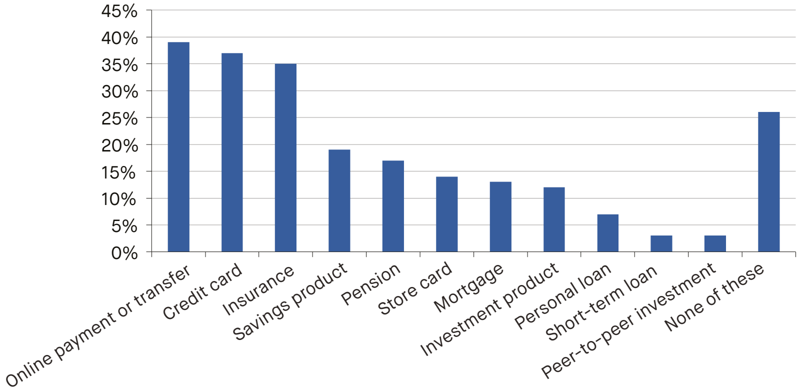
The fact that less affluent consumers are less likely to shop around for financial services products is a source of concern, because it provides banks with an opportunity to cross-sell their products. In the past, cross-selling – where banks sell other products like savings accounts, insurance cover or credit cards to their current account customers – has been associated with poor value.

A current account provider has a first-mover advantage compared to other banks when trying to sell a customer additional financial products, because they have access to that customer's data – allowing them, for example, to make a more informed offer of credit card or loan products, with lower interest rates. The practice of 'bundling' products – for example, offering a higher return savings account or lower interest credit card with a particular current account can also be used to hook customers in, and there are concerns that this may make it harder for customers to switch and act as a barrier to entry for new firms.[70] Convenience also seems to be a significant factor in the decision to buy products from a current account provider[71] – suggesting that faced with the time and effort involved in looking around the market, consumers choose instead to go with their existing provider. The relatively large proportion of the population still using just one bank should therefore be a cause for concern to competition authorities. They're a captive audience for their banks, as such may be sold poor value products.

BEYOND THE BANKS

A further development of the last five years, however, has been the growth of non-bank financial services. New online or mobile-based payments options, peer-to-peer platforms and specialist finance providers have opened up a new range of options for consumers – and may be attracting a different range of customers to those who traditionally multi-bank.

Figure 10: Use of products from non-bank providers



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

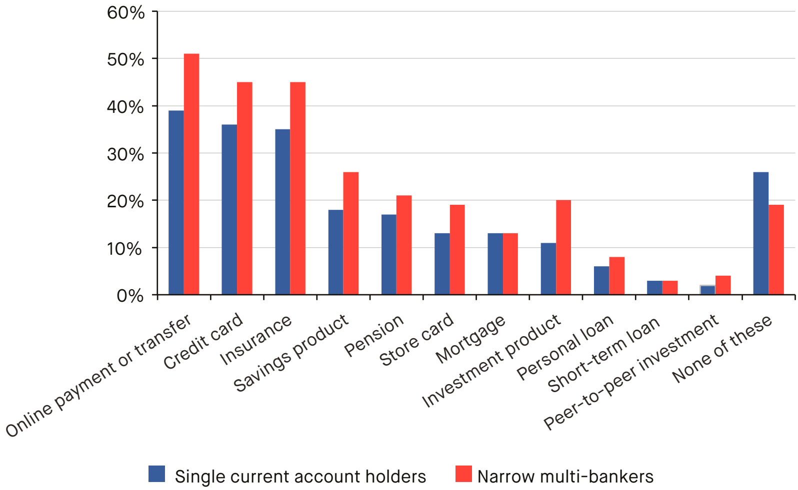
Figure 10 shows that the take-up of these and other non-bank options is relatively wide.

Three-quarters of consumers have bought at least one financial product from a non-bank provider. More than a third (39%) have made use of an alternative payment system, credit card or insurance not bought through a bank. The market for savings, however, continues to focus more squarely around bank offers – just one in five consumers has a savings product with a company they don't have a bank account with.

In most cases, older consumers are more likely to have bought products outside of banks. Nearly half of over 55s have a credit card from a company they don't have a bank account with, and over a quarter have savings products other than from a bank provider. Rather than reflecting better bargain hunting by these customers, however, this could simply be because they are likely to consume a broader range of financial products: they are more likely to have a pension, mortgage or investment product, not just more likely to buy it from a non-bank provider. And in some of these markets, young people are more likely to have tried non-bank products.

The use of peer-to-peer investments and short-term loans from non-bank providers, for example, peaks among the 18-34 year olds, suggesting that some younger consumers are exploring the value offered by niche areas of the market. Those who rely on branches as their most important method of communication with their bank are more likely to be left behind though – a third of this group have not purchased any financial products outside of their usual banks. Online banking customers, by contrast, are more likely to have shopped around, particularly for a credit card, savings or insurance.

Figure 11: Use of products from non-banks by narrow multi-bankers and those with just one current account provider

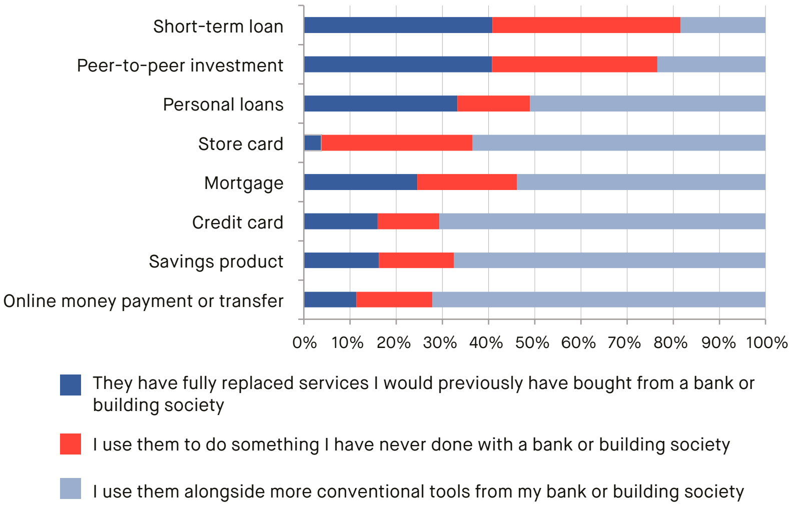


Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who have a bank account.

Perhaps unsurprisingly, those who use multiple current account providers are more likely to have bought a non-bank product across the board – further evidence that narrow multi-bankers are sophisticated in seeking value across a wide variety of financial services providers. In particular, consumers with more than one current account are more likely to have made peer-to-peer or other investments and to have shopped around for savings – in line with the way they use their current accounts to maximise returns.

In most cases these non-bank products are used alongside more traditional offerings from banks and building societies. In the case of pensions, insurance and investment they're usually separate to banking activities. Online money, meanwhile, is perceived as a compliment to existing bank services, not a replacement. Only peer-to-peer investments and short-term loans are clearly viewed as potentially replacing traditional bank offerings, as illustrated in Figure 12.

Figure 12: How non-banking services relate to other financial services purchases



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents who hold each product with a provider they don't have a bank account with, percentages adjusted to account for those who use services but not regularly, or responded 'other' or 'don't know'.

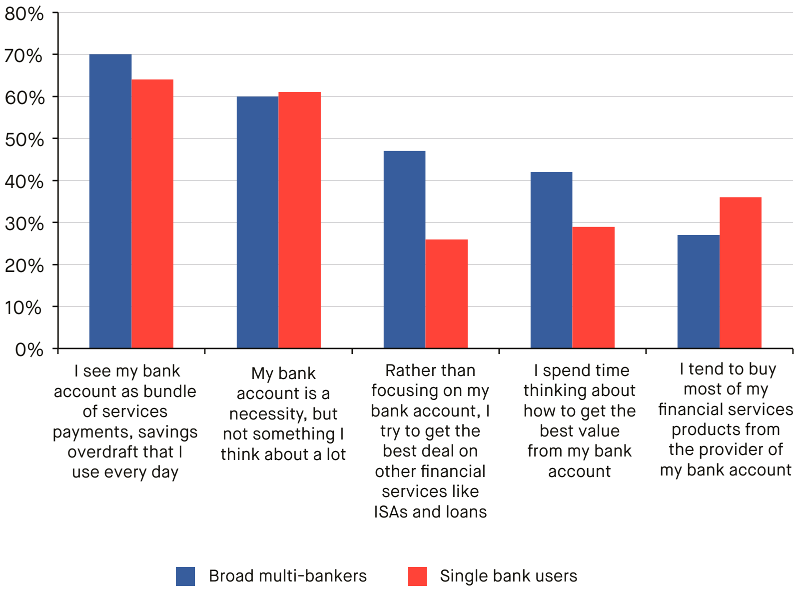
IS THE CURRENT ACCOUNT PARADIGM SHIFTING?

Multi-banking is clearly creating some competition, in the current account market and beyond. Those who use more than one bank are shopping around with the explicit aim of finding the best value and earning returns. Have this group of consumers started to see their current accounts in a different way, or do they continue to see current accounts as central to their financial lives?

Two-thirds of consumers suggest they see their current account in the traditional way, as a bundle of front-line financial services, and a similar proportion suggest that they are relatively passive in the way they interact with their current account – despite the fact that some of these consumers will be multi-bankers. Just over a third of consumers (36%) suggest that they spend time thinking about how to get best value from their current account – approximately the same proportion as claim to seek value in other financial services markets.

There are some differences in how broad multi-bankers and consumers who use just one bank view their current accounts, however there is no clear evidence yet of a shift in how current accounts are generally perceived. As Figure 13 shows, even most multi-bankers still see their current account in the traditional way.

Figure 13: Proportion agreeing with ways of looking at current account services



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015.

While multi-bankers still see their account as a bundle of services, they are significantly more likely to spend time thinking about how to get value out of both their current accounts and other financial services markets. This provides some evidence that multi-bankers are seeing the markets for financial services in a different way. But, across the population as a whole, we seem to be a long way away from a shift in our understanding of a current account to a model where the value of bundling credit and savings services together disappears. For many consumers, the traditional bundled current account is still clearly a core financial product.

THE UPSHOT FOR COMPETITION

Having explored the identities and behaviours of Britain's multi-bankers, how confident can we be that this trend is driving stronger competition in the current account market and beyond? Table 2 summarises the evidence for each of our theories, and outstanding questions.

Table 2: Multi-banking and competition - the evidence

Theory	Evidence & outstanding questions
Theory 1: If banks succeed in marketing current accounts to customers of other banks, then this suggests that consumers are looking around for value in a way beyond that signalled by switching numbers alone.	A sizeable proportion of those using multiple current accounts are definitely motivated by value. By seeking returns both inside and outside of the traditional banking market, these valuable consumers can place significant pressure on banks to improve their offerings – and we are seeing the result of this in the market at present. The question remaining is whether less affluent customers are also able to benefit from these offers, and competition is benefiting a sufficiently wide proportion of the market.

Theory 2: If consumers have financial products and services from providers other than their current account provider, then this suggests that they are looking around for value.	With 50% of customers buying financial products from banks they don't have a current account with, there's clear evidence that banks are no longer able to rely on cross-selling and need to provide good value to win customers in broader markets for credit and savings products. Whether all consumers are able to benefit from this competition however, is not clear. In particular, as multi-bankers tend to be relatively financially sophisticated and affluent, there may be concerns that more financially vulnerable consumers are being less well served by the market.
Theory 3: Consumers who are multi-banking may be better able to observe differences in service level and price between different accounts and banks, increasing competitive pressure on those designing and offering the products.	Narrow multi-bankers are clearly and explicitly using multiple current accounts to game the market and seek returns, suggesting that multi-banking helps them observe the benefits of accounts and find the best value offers. The generous incentives and benefits offered by banks to these customers for their current account custom demonstrate that this value-seeking is influencing providers to improve their offerings and strengthening competition. It is unclear, however, if this competition is benefiting others in the markets or just these active consumers who are actively searching for the best deals. Does this form of multi-banking help other consumers and strengthen competition across the market? Given the eligibility requirements placed on many of the most attractive current account offers – they are only available to those

	who use CASS, who pay a certain amount in each month and set up a number of direct debits – it seems likely that only those actively switching are benefiting. For other, inert consumers, the threat to switch is not sufficiently strong to motivate the provider to offer better value.
Theory 4: As it becomes easier to manage products from multiple providers, consumers may be less likely to take advantage of all the services bundled within their current account, and more likely to shop around for credit and savings functions to get the best deal. The functions of a current account may shrink back towards transactional purposes.	There is relatively little evidence that the way consumers think of their current accounts is changing. While consumers are happy to shop around for other products, the current account remains a key product in its own right, and technology-intensive alternatives like mobile wallets do not appear to be acting as substitutes yet.

While Britain's multi-bankers are value-seeking, and appear to be driving price competition between firms, they also represent a relatively narrow group of consumers– affluent, financially sophisticated, willing to spend time hunting the best deals. With the eligibility criteria many banks are tying to the most attractive product offerings and the continued inertia reported by those who use just one bank, it isn't yet clear that the competitive pressure exerted by multi-bankers is being transmitted through the market, driving banks to provide a better deal for all consumers, not just those who actively demand it.

In fact, with the close price competition and generous incentives offered by banks chasing this select group of consumers, there is a risk that offers will become unsustainable. This may result in inactive customers being offered even worse deals, as banks attempt to cross-subsidise their more attractive offers for active customers. An arms race of incentives could make it even harder for new entrants to attract market share and win the deposits they need to make their business sustainable.

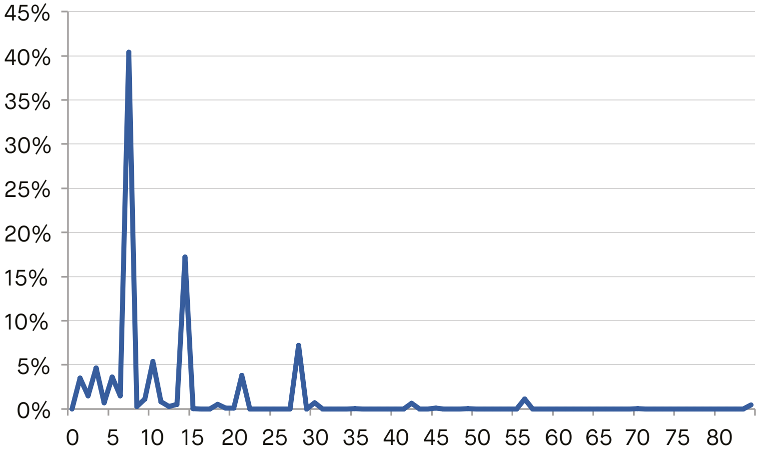
Other consumers, in sharp contrast, remain largely satisfied but inert. They are aware of that their banks may not be offering the best value, but are in some ways happy to pay higher prices than confront the mental cost of thinking about financial matters. These groups are a clear cause for concern – but is the problem that banks are failing to serve them properly, to provide a range of attractive and affordable offers, or that the consumers lack the tools to navigate the market? The experience of multi-bankers in making the market works for them seems to suggest the latter.

BARRIERS TO COMPETITION FOR NON-MULTI-BANKERS?

Some consumers are getting good value in the current account market and wider financial services, but it isn't clear that less active and potentially more financially vulnerable customers are benefiting. This leaves us with questions about why other consumers aren't shopping around, and what can be done to help them win better value from banks.

One possibility is that while experienced multi-bankers are engaged with the financial services sector, others find it hard to navigate and are worried that switching or using other providers will be difficult and time consuming. To test this, we asked people how long they thought it would take to switch bank accounts – that is, to have a new account opened, all direct debits and standing orders transferred, to receive a debit card and PIN code.

Figure 14: Time expected to take (in days) to completely switch current accounts, percentage of consumers

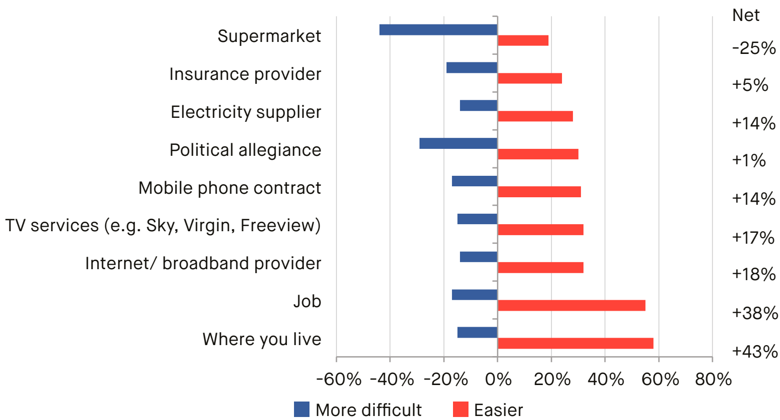


Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Respondents were able to answer freely, with their response coded in days by the SMF for comparability. Base: All those with a bank account.

More than half of all consumers (56%) when asked without any prompting thought it would take seven days or fewer to switch accounts – in line with the CASS guarantee. Among those either unaware of or unconvinced by the CASS offer, the most common answers were 14 days (17%) or 28 days (7%). An additional 4% of respondents, not all shown in Figure 14, expected switching to take longer than 28 days, with 0.3% of consumers thinking it would take at least a year.

While there are clearly some who are still sceptical about changing banks, this generally demonstrates that consumers don't think switching banks is a particularly lengthy or difficult process. This is compounded by the data illustrated in Figure 15.

Figure 15: Ease of switching bank compared to other services



Source: SMF/Populus, Multi-banking research, Online fieldwork 17-19 April 2015. Base: All respondents. Easier means 'easier to switch bank account than….'

While it isn't surprising that most consumers think it is significantly easier to change your bank than where you work or live, the fact that more than one in ten consumers think these things are easier to change than a current account should perhaps ring some alarm bells – there are clearly a minority of customers who feel that changing bank accounts is a mammoth task. Across a wide range of household utilities, however, consumers are significantly more likely to say that it is easier to change banks rather than more difficult. For example, 18% more consumers say it is easier to change bank accounts than internet provider than report the opposite – that changing banks is more difficult. Across this range of common household services, changing bank is only consistently reported to be more difficult than changing supermarkets. There are no noticeable patterns among which consumers are most likely to view switching bank accounts as relatively easy or relatively difficult. For the most part there's consensus about the relative difficulty of switching different utilities across age, income and social class groups.

This evidence undermines some theories that consumers are in general inert because they think switching is difficult. Instead it seems a broad range of consumers are simply choosing not to engage in the market. This might be because they're already satisfied with their current account, and don't see it as a market where they need to seek value. It might be because they're unaware of the cost of their bank services, and struggle to compare offers. Or it might be a consequence of Britain's relatively low financial literacy – although consumers recognise that the process of changing banks isn't that difficult, they don't know where to start looking. Each of these poses a potential barrier to greater consumer engagement across the board and stronger competition.

Multi-banking and the strength of competition between current account providers in recent months suggests that consumers can drive stronger competition and better value in financial services markets. The question for policy-makers is how to ensure that all consumers are able to benefit from this.

CHAPTER 4: DEMANDING BETTER COMPETITION

HOW TO STRENGTHEN DEMAND SIDE COMPETITION IN BANKING

Our survey analysis shows that although some consumers are playing the field and getting good value from banks, others remain inactive and unengaged. Moreover, the people typically shopping around are those who are least vulnerable – the affluent and financially sophisticated. Those with lower incomes and less wealth, who generally use fewer financial services and are less likely to recognise when they're being given a rough deal, are least likely to engage with the market, although they probably have more to gain from lower fees.

The growing competition in Britain's current account market shows that consumers can drive stronger competition and better outcomes in banking markets. The question now for policy makers is how to ensure everyone can benefit. The following three recommendations explore ways in which policy could ensure that all consumers, particularly those who use just one bank, benefit from stronger competition in the market for personal financial services. Our policy recommendations thus aim to reduce the cost of finding the best deals, to prompt consumers to look for a better value at certain opportune moments, and to support new entrants, helping to increase choice and make competition sustainable.

Policy objective

Multi-banking, like switching, is helping the most engaged and financially sophisticated consumers to extract good value from financial services, across a wide range of products.

But this shopping around takes time and effort. For many consumers this just isn't going to be a way they want to spend their time. Not everyone is going to be a multi-banker. By remaining inactive, however these consumers are missing out on the best deals, as banks tailor their offers to attract the most active customers. There is competition in the market, but at present only a select few are benefiting, while many other customers are buying products from their main bank provider without shopping around, and are getting a worse deal as a result.

Policy should aim to help these customers access the best deals too, not just by encouraging multi-banking, but by reducing the costs of shopping around, providing nudges to look around the market and maximising the number of attractive choices available.

RECOMMENDATION 1 – MAKING IT EASY TO FIND THE BEST DEAL FOR YOU

The people multi-banking and playing the market at the moment are characterised by their willingness to bargain hunt. Doing this successfully takes time, however, and requires an appreciation of both your financial circumstances and needs. With financial literacy lamentably low and many consumers lacking confidence making financial decisions[72], it is probably overoptimistic to expect the majority of consumers to actively seek a good deal in financial markets. Given the plethora of different rewards and eligibility criteria attached to different current accounts, calculating the best offer is far from straightforward. And when consumers find comparisons difficult, the appeal of the familiar is understandable. Furthermore, given the complexity of most financial products and the time involved, it might not even be efficient for most people to shop around more – it's entirely reasonable and rational for people to view the costs of searching for better banking deals as too high to justify any savings. While we can attempt to encourage more people to multi-bank, we also need to accept that a substantial chunk of the population just want their financial services to be as simple as possible. The trick will be to make it as easy as possible for these customers to get the best deals, even if they're not going to do that by multi-banking.

A priority, therefore, should be making it easy for these consumers to navigate markets for financial services and to find the best value, reducing implicit search costs. The government's midata programme aims to do this by providing customers with access to their own current account data. The idea is that customers are able to feed this data into comparison websites and get personalised recommendations about which current account is right for them, given their typical balance, overdraft use and level of fees they have incurred over the past 12 months.

The use of data to create these recommendations is a great idea – making recommendations personal will bring home to consumers the value (or cost) of their current account in a way that figures on paper can't when most consumers are blissfully unaware of their own usage patterns. But the way the program is structured at present is likely to severely limit uptake among those with the most to gain. By requiring consumers to actively go fetch data from their account provider, then upload it to a separate site, we have placed a significant barrier to all but the most active consumers making use of this facility. When search costs, both in terms of time and effort, are a barrier to switching and shopping around, this process needs to be simpler and quicker.

Given that the data provided by current account providers for these comparisons is already anonymised, with key identifying details of transactions removed, there appears to be little preventing consumers from taking greater ownership of this data. Rather than putting the responsibility on consumers to download their data themselves, this could mean that consumers have the right to share their anonymised data as they see fit, putting the onus on banks to make data available through APIs for comparison sites and competitors to access.[73] Rather than uploading data themselves, consumers could simply using existing login details for their online banking to grant permission for data to be shared in its anonymised form with third parties – much as we currently use Facebook or Twitter to generate credentials at other websites.

This is no panacea. Consumers would still need to be sufficiently motivated to go to another provider or comparison website and look for better deals. But making this easier to do, and using real data to avoid some of the uncertainty about the relative costs and values of an account for that specific consumer, based on their actual behaviour, the value of this comparison could be made more obvious. This recommendation doesn't rely on dramatically increasing consumers' engagement with financial services markets. Instead, the idea is to make it as easy as possible for them to find the best deals.

Giving consumers this ownership and control over how and when their data is shared could have value beyond this, too. One clear weakness of the existing current account switching process is that there is no facility for customers using an overdraft to know that their borrowing will be supported by their new provider before the switch is initiated. As a switch can't be stopped once it has started, this can leave those reliant on overdrafts stranded without access to the lending facilities they need.[74] Given that the complexity and incomparability of overdraft charges is a particular area of concern for the CMA[75], using midata to estimate these charges for consumers should be a clear priority.

Banks say that the reason they cannot immediately approve overdrafts for new customers is that they rely on observing data over a period of several months to assess the risks involved. If a potential new provider could have access to the consumer's existing data, this should easily solve the problem, allowing them to reach an informed decision on lending and make a clear offer to the consumer in question. By making it much easier to compare the costs of overdraft borrowing, this should also pressure providers to offer their existing customers a good deal on overdraft facilities. The ability to share current account data automatically at the click of a button could thus help to break down several barriers to competition at the less affluent end of the market.

RECOMMENDATION 2 – CLEAR COSTS FOR 'FREE-IF-IN-CREDIT' BANKING

British multi-bankers are hunting for value in the current account market and beyond, and finding it. They're already able to compare the fees, charges and rewards provided by different products – partly through first-hand experience. For other consumers, however, the price they pay for banking services is less transparent. Given that many of these consumers won't want to spend time evaluating different offers, how can we make sure they also feel the benefits of stronger competition? One way is to increase the salience of the price they're paying for banking services, as a nudge to consider what's on offer elsewhere in the market. This is unlikely to increase multi-banking– but it could encourage them to switch, and make sure they benefit from the competitive pressures multi-bankers generate.

A constant complaint about the banking industry over the years has been that free-if-in-credit (FIIC) current accounts make it very difficult for consumers to detect and assess the full price they pay for banking services. However, more than thirty years after the introduction of free-if-in-credit banking, it has become a strong norm. Consumers simply don't expect to pay for banking, which leads to fears that any bank which attempted to introduce charges could face a rapid loss of custom.[76] Nearly two-thirds (62%) of consumers are unwilling to make any payment at all upfront for their current account, and a further 17% would only be willing to pay a peppercorn fee of less than £5 a month, although a clear majority (66%) are aware that they pay for their banking through extra charges.[77]

Introducing compulsory charges is unlikely to improve market outcomes – there would still be consumers who pay less attention, and who would get a worse deal accordingly. This might lead to calls for stronger regulation, which could end up completely diminishing price competition. That's probably not a road we want to go down. As there's a clear consumer preference for free banking, we would expect it to be offered in a genuinely competitive market (although it is also apparent from the growth of fee-paying accounts in recent years[78] that some consumers will pay if the value proposition is sufficiently clear).

Given this, it seems futile to waste more time discussing the downsides of the free-if–in-credit model. Instead, policy should focus on ways to make charges as transparent and predictable as possible, to help foster competition around price. Although current account customers are now provided with an annual statement of charges paid and interest earned over the past 12 months by their bank, to give an idea of the net cost of holding an account, the evidence is that this well-meaning intervention by the OFT has achieved little. Instead, technology appears to have played a significant role in improving consumers' control of their accounts, with text messages warning customers when they're about to go into their overdraft credited with significantly reducing the amount paid in fees.[79]

Given the success of these texts in improving consumer outcomes, making this simple nudge obligatory could be a simple way of making sure the least active consumers are prompted to consider the charges they may be paying for their accounts, and to take control of their accounts. When arranging an overdraft receiving text alerts when you start to borrow should be a condition of arrangement. As well as potentially helping consumers to manage their finances better, this direct, timely message would provide a prompt to consider the fees charged by a bank, potentially strengthening competition.

The power of text messages could also be harnessed to raise consumer awareness of the costs of banking more generally. Those persistently using an overdraft, for example, could be prompted, after, say, three months of consecutive use, to consider a more cost-efficient form of lending. With net credit interest still making up the greatest share of bank revenues from current accounts despite the narrowing of interest rate spreads[80], there is also a case for consumers with substantial credit balances to be reminded to consider higher interest products. Those with credit balances in the top quartile, for example, could be told that they are keeping a large amount of cash in their account, and that they may be able to earn more interest on it in an alternative product. By increasing the number of times consumers are prompted to consider the costs and value of their current account, we can increase the salience of price in the market and help to strengthen this dimension of competition.

We can also learn from the tools used to tackle consumer inertia in other sectors. In the energy market, providers must tell consumers if they could pay less on a different tariff and consumers still using tariffs which are no longer offered to new customers ('dead tariffs') have been automatically moved to the cheapest tariff their provider offers.[81] A similar commitment from banks, to tell consumers when they are not using the current account that best meets their need from their provider's portfolio, could act as a prompt to internal switching, and help protect some of the most inactive customers. Encouraging internal switching, which is usually perceived as being less risky, in this way could be a helpful first step towards greater engagement with the market and stronger competition. Equally, ensuring non-switchers are moved into new accounts rather than remaining in 'dead' accounts no longer offered to new customers would help the benefits of competition driven by switchers and multi-bankers spread across the market.

In energy markets, this reform has been combined with a limit on the number of tariffs that providers can offer, this has limited their ability to tailor products to the specific needs of different consumer groups, and to compete for their custom, and has led to price increases for some customers.[82] Without this limitation, however, this policy should help less active customers to get a better deal while leaving providers free to innovate and compete for multi-bankers' custom. Automatic switching may pose some problems as fees become more commonplace in the current account market, but the FCA should assess how these barriers can be overcome. Compelling banks to offer better value to their least active customers in this way may change the range of products on offer in the market – it might make it unsustainable to offer expensive incentives to active switchers. But this could encourage competition on more fundamental, potentially more sustainable lines – in customer service, for example – and help new entrants to compete on a level footing. As long as firms remain able to innovate and find creative ways to attract new customers this policy should help keep competition going at the top of the market, while ensuring the benefits trickle down.

RECOMMENDATION 3 – LEVELLING THE PLAYING FIELD FOR NEW ENTRANTS

Multi-banking relies on strong supply side competition – the increase in attractive current account offers in recent years seems to be a significant factor driving consumers to use more than one account in search of the best deals, and in turn value-seeking by multi-bankers drives banks to up their competitive game. So to maximise the competitive pressure created by multi-bankers, we need to do what we can to encourage a diverse set of banks offering different services, supporting new entrants through the crucial early years of their business.

Our analysis shows that new entrants can successfully win custom from multi-bankers. But with multi-banking this current account custom no longer guarantees access to a steady stream of deposits. Without a sizeable deposit base, new entrants will struggle to meet the capital requirements to enter more lucrative elements of the retail banking market. How can policy-makers support these new entrants through their vital but fragile early years?

New entrants face a balancing act between winning customers and managing their start-up costs. They are increasingly finding novel ways to reduce costs, including 'bank in a box' IT systems and abandoning branches to operate online only. Payments systems membership, however, is an unavoidable cost for any bank wishing to offer a current account - and current accounts are essential to be perceived as a 'full-service' bank[83], and to win sufficient deposits to back more profitable lending activities. This first stage of this process involves developing the IT capacity needed to access payments systems; a fixed cost which is relatively higher for new entrants with fewer customers. This alone is a significant barrier to entry. However the number of new entrants in the market at present suggests it is not insurmountable. A further cost barrier, is created by the need to purchase access to these payments systems from another bank. Most new entrants are unable to meet the strict criteria to become a direct member of payments systems and are instead forced to enter an agency agreement with a larger bank that has direct access.[84] The terms of this agency agreement are negotiated between the two banks – a discussion in which the larger bank, the gatekeeper to this essential infrastructure, has significant market power[85], and can impose costs on the new entrant. Smaller banks put their business out to tender and direct members bid to offer the payment services they need. This should provide a competitive market, but with only four banks able to place bids, there are concerns that they may have significant market power and could make abnormal profits on these services.

This market structure, combined with the substantial costs of acquiring the IT infrastructure necessary to hook into payments systems, means that new entrants can face higher costs per transaction than incumbents.[86] If we're hoping to strengthen competition in the current account market, these higher costs could put new entrants at a significant disadvantage and potentially make their entry to the current account market untenable. If they face significantly higher costs for access to core infrastructure like the national LINK ATM network, BACs for direct debits and cheque clearing, they will struggle to put together offers that can compete with incumbents and price competition could lead to further consolidation and reduced consumer choice. Additionally, the quality of payments services offered to agency members is not always of equal quality to that direct members enjoy. Slow communications to agency members and a lack of voice in new developments can prevent new entrants from innovating[87], and in the past have failed to put the consumer first – for example in the hasty decision to withdraw cheques.[88] Broader involvement from agency banks and a voice for new entrants could provide an impetus to improve the end-service received by customers across the sector.

The sector's new regulator, the Payments Systems Regulator (PSR), has just begun market review of indirect access, and has the power to regulate if terms are seen to be impeding competition. It has already called for sponsor banks to publish information about the access they provide, to help strengthen the position of smaller banks seeking an agency agreement and can, if sufficiently concerned about the market either make a referral to the CMA or make regulatory recommendations itself.

We suggest that the PSR should go a step further: rather than just publishing information on the terms of payments systems access they offer, member banks should be compelled to share information on the marginal cost they face for these services, and to offer this price to agency members. This would reduce the cost per transaction for new entrants to the same level enjoyed by member banks, reducing the size of the barriers to entry involved in payments systems access. Over the past few years, payments systems have been a notable focus of innovation, with the introduction of Paym for mobile payments and contactless payments, for example. It is entirely understandable that the bigger banks who have invested in this infrastructure would want to earn a return on their capital. By using the cost member banks face internally as a reference point, rather than a price set by the regulator, we could ensure the price offered is sustainable, ensuring payment system access is maintained and capital is available for further investment, while preventing member banks from abusing their quasi-monopoly powers in the provision of these network services. Equal access to the payments system should also ensure that all banks have access to the same quality of service, so new entrants can offer their customers the same service as larger incumbents in terms of speed and reliability of payments and can drive the market forward through payments innovations.

Levelling the playing field in this way would help new challenger banks to put forward price-competitive, innovative propositions in the current account market[89], and help them to deal with the rigours of competition for multi-bankers' custom.

CHAPTER 5: CONCLUSIONS

Competition in retail banking can take many different guises – from multiple current accounts to shopping around for different products, searching online comparison sites to toes dipped in the waters of fintech. The measures we're currently focusing on – market concentration and outright switches through CASS are likely to underestimate that competition. Other indicators, such as variety of current accounts and the returns on offer suggest that things are changing and banks are increasingly fighting for customers.

While multi-banking might still be a relatively minority pursuit in the current account market, our data suggests consumers are engaging with a range of financial services providers. This more sophisticated behaviour suggests that, rather than relying on supply side interventions, consumers themselves might increasingly drive stronger competition in banking services.

In the recommendations section of this paper, we have offered a variety of ways in which the structure of market could help provide prompts and cues for consumers to consider the value their current account is offering them. These nudges avoid the costs associated with divestments of existing banks, and instead work with the direction of consumer behaviour and psychology to increase engagement. By strengthening the demand side of the market, these reforms could be decisive in increasing competition across the retail banking sector and ensuring that even the most inactive consumers aren't left behind.

FINAL THOUGHTS – COULD TECHNOLOGY SOLVE THE CURRENT ACCOUNT PROBLEM?

For now, technology-based financial services innovations remain something of a minority pursuit. But they are growing rapidly. Compared to the growth of internet banking before it, mobile banking has taken off like a rocket. Nearly two-thirds of all transactions are expected to take place on mobile devices within three years.[90]

With current accounts increasingly managed via our mobile phones, it become easier to see how we might shift to this form of management for most other financial services too. And, once we're managing our financial products with just a few clicks, the role of the current account as a front-line bundle of services becomes less obvious. When you can apply for a loan at a cheaper rate rather than use your overdraft, and move cash in and out of savings with just a few taps, the role of a current account is reduced to ledger and payments services. Banks are already aware of that the landscape is changing in these peripheral markets, and are busy building capacity to meet consumers' demands for quicker, easier decisions.[91]

But neither of these is sacred either. Online wallet services, particularly those which are integrated with the online services we use most – Google and Apple, for example, could quickly become the cornerstone of our day to day transactions, rather than a credit card. At present, both of these services work through a debit card linked to a bank account. But there's little reason why these wallets couldn't play a role more like a current account in future – particularly as moving money around becomes easier and so leaving an idle balance in a current account less necessary. Services such as Moven and Simple are demonstrating how a current account could offer streamlined budgeting support, adding consumer value to the ledger and payments functions. Block-chain technology, most famously the basis for Bitcoin, allows a ledger of transactions to be maintained without a centralised authority (a bank) coordinating transactions. While we're still a long way from this technology being used in our currency, it isn't inconceivable that central banks will eventually move in this direction, given the sizeable cost savings available. This isn't likely to spell the end of banks entirely – the role of credit intermediary, linking borrowers and savers and managing the risk of loans in a way peer-to-peer operators don't will continue to be of vital economic importance. But the day-to-day way we interact with our finances is likely to change dramatically in coming years.

Thanks to the role current accounts play in our daily lives, the quality of service and value they offer to consumers has been top of the regulatory and political agenda for decades. But as their constituent parts are increasingly opened up to competition, it's reasonably easy to imagine a world where we have no need for current accounts at all. In a future tech utopia, with quotes for any financial service available from a wide range of providers at just the click of a button, and the data they need to make decisions all easily shareable, competition concerns in the current account market may be a thing of the past.

APPENDIX A: REASONS FOR USING MORE THAN ONE CURRENT ACCOUNT

Reason for having more than one active current account	Answers coded within group
Managing finances	To help keep track of payments or direct debits
	To keep household and personal expenses separate
	One is a shared account with a partner or housemates
	One is for my business
	One is for a club or a charity
	One is a betting account
Left account open	Left account open after opening a new one
To generate returns or get good value	Use one as a savings account
	To take advantage of a cash bonus
	To earn a better rate of interest on credit balances
Paying off debt	Unable to pay overdraft on old account and wanted a fresh start
	Paying off an old overdraft in monthly instalments
To access services from other banks	To access other services from each bank or building society
	Wanted to try out a different bank or building society or a different account type

APPENDIX B: DEFINING BROAD MULTI-BANKING

Broad multi-bankers are those who buy financial products from more than one bank or building society. We wanted to capture the widest possible range of multi-banking behaviours, so consider all the following products as evidence of multi-banking behaviour:

- Current accounts
- Savings product (e.g. savings account or ISA)
- Personal loan
- Credit card
- Mortgage
- Investment
- Private Pension

Any consumer who buys products from more than one bank or building society is defined as a broad multi-banker.

EXAMPLES OF BROAD MULTI-BANKERS

A consumer with a current account at Bank A and a credit card at Bank B.

A consumer with a current account and a savings account at Bank A, a mortgage at Bank B and a savings account at Bank C.

Narrow multi-bankers are a specific sub-set of this group, who in addition to any other products have current accounts at multiple providers. For example:

A consumer with a current account at Bank A and a current account at Bank B.

A consumer with a current account and a savings account at Bank A, a current account and a credit card at Bank B, and a mortgage at Bank C.

In each case our data is filtered to ensure we capture on those products which are being actively used. This allows us to isolate the competitive impact of multi-banking behaviours, excluding those products which are open but dormant, on the basis that accounts which are actively used allow consumers to take advantage of the best deals across different products and to actively seek and take advantage of information about differences in price and service. Dormant accounts are better viewed as a form of slow switching rather than a type of multi-banking.

ENDNOTES

1. APIs are sets of rules which allow the exchange of data between software programmes. For an explanation of API technology and its potential in financial services markets, see Open Data Institute and Fingleton Associates, "Data Sharing and Open Data for Banks: A report for HM Treasury and Cabinet Office" (London: Open Data Institute and Fingleton Associates, 2014)
2. Throughout this report we refer to banks – by which we mean both banks and building societies, including non-traditional new entrants to the market such as Tesco Bank, M&S Bank and Atom Bank
3. House of Commons Treasury Committee, "Competition and choice in retail banking, Ninth Report of Session 2010-11, Volume 1: Report, together with formal minutes" (London: House of Commons, 2011)
4. Ibid.
5. Santander, although now among the biggest banks in the UK, is a relatively new brand, launched in 2010 through the merger of Abbey National, a de-mutualised former building society, with the savings business and branches or Bradford and Bingley, another former building society which failed during the financial crisis. Alliance & Leicester PLC was merged into the business shortly afterwards.
6. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement" (London: Competition & Markets Authority, 2015). The market shares reported here only take volume of accounts into account – which will include inactive and empty accounts. With present publicly available data there is no way to calculate market share by value, which would be a better measure of market power.
7. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement, Appendix B: Products and initial evidence on outcomes" (London: Competition & Markets Authority, 2015)
8. Katie Evans, "Good Culture: Does the model matter in financial services?" (London: Social Market Foundation, 2014)
9. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement, Appendix D: Personal current account customer engagement indicators" (London: Competition & Markets Authority, 2015)
10. Competition & Markets Authority, "Personal Current Accounts: Market study update" (London: Competition & Markets Authority, 2014)
11. Financial Conduct Authority, "Making current account switching easier: the effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability" (London: Financial Conduct Authority, 2015)
12. Office of Fair Trading, "Personal Current Accounts in the UK: An OFT Market Study" (London: Office of Fair Trading, 2008)
13. Ibid. Banks do not usually assess the profitability of individual products, so it is difficult to update this figure, but in more recent studies including the ongoing CMA investigation banks have suggested that personal current account provision remains profitable.
14. Some of this revenue is generated by interchange fees which are not directly experienced by customers (though they do increase prices in shops). In other countries, however, these fees are paid through monthly charges for use of a debit card.

15. This is largely due to the difficulties of identifying the underlying costs of infrastructure, which are often shared across customer groups or banking products – for example, a bank uses the same IT system, branches, ATMs and call centre staff for its current accounts, savings products and personal loans, and can't easily estimate the proportion of those costs that should be allocated to current account provision. Competition & Markets Authority, "Retail banking market investigation: Approach to market-wide financial and profitability analysis" (London: Competition & Markets Authority, 2015)
16. House of Commons Treasury Committee, "Competition and choice in retail banking, Ninth Report of Session 2010-11, Volume 1: Report, together with formal minutes" (London: House of Commons, 2011)
17. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement" (London: Competition & Markets Authority, 2015)
18. Competition & Markets Authority, "Retail banking market investigation: Statement of issues" (London: Competition & Markets Authority, 2014)
19. As the Office of Fair Trading noted in 2008, under the free-if-in-credit model, to understand the cost of a current account a consumer would need to know their average balance, the interest rate their provider paid on balances, and how this compared to those offered by other providers/other accounts in the same bank, the likelihood that they will use both arranged and unarranged overdrafts, and the associated fees, charges and interest rates applied – a list even most finance professionals would struggle to come up with – Office of Fair Trading, "Personal Current Accounts in the UK: An OFT Market Study" (London: Office of Fair Trading, 2008)
20. Office of Fair Trading, "UK payment systems – how regulation of UK payment systems could enhance competition and innovation" (London: Office of Fair Trading, 2013)
21. Nick Moon, Sarah McHugh and Natalie Cass, "Personal Current Account Investigation: A report for the Competition and Markets Authority by GfK NOP" (London: GfK NOP, 2015)
22. J. Barty and T. Ricketts, "Promoting competition in the UK banking industry" (London: British Bankers' Association, 2014)
23. House of Commons Treasury Committee, "Competition and choice in retail banking, Ninth Report of Session 2010-11, Volume 1: Report, together with formal minutes" (London: House of Commons, 2011)
24. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement" (London: Competition & Markets Authority, 2015)
25. Ibid. Unfortunately these figures do not capture those consumers who switch personal current account product within their existing provider, and so may underestimate the strength of competitive pressures in the market.
26. FCA research found that fewer than half of all consumers (41%) were aware of CASS more than a year after its launch. The government target for 75% of consumers to be aware of the service by December 2015 is widely expected to be missed. Financial Conduct Authority, "Making current account switching easier: the effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability" (London: Financial Conduct Authority, 2015)
27. Ibid.
28. Ibid.

29. The importance of diversity as a dimension of competition in this market was initially raised in the Cruickshank Review: Don Cruickshank, “Competition in UK Banking: A report to the Chancellor of the Exchequer”, (London: Stationary Office, 2000)
30. The decision to launch the CMA investigation was made as a direct result of the fact that the introduction of CASS and the divestment of TSB did not have as positive an impact on the market as the Office of Fair Trading hoped they would at the time of the last investigation into the sector, in 2013. Competition & Markets Authority, “Personal Current Accounts: Market study update” (London: Competition & Markets Authority, 2014)
31. Financial Conduct Authority, “Making current account switching easier: the effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability” (London: Financial Conduct Authority, 2015)
32. Clive Maxwell, “Competition in the Financial Services Sector”, Speech at the Global Competition Review Conference, 20 June 2012
33. Metro Bank, for example, call their branches “stores” and aim to provide a high level of customer service; Barclays, meanwhile, have moved some services out of branches and into supermarkets.
34. Financial Conduct Authority, “Making current account switching easier: the effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability” (London: Financial Conduct Authority, 2015)
35. Ibid.
36. Competition & Markets Authority, “Personal current accounts: Market study update, Appendix A” (London: Competition & Markets Authority, 2014)
37. Institute of Grocery Distribution (IGD), Shoppervista research http://www.igd.com/About-us/Media/IGD-news-and-press-releases/savvy-shopping-tactics-become-norm/ August 2014 (last accessed 01/07/2015)
38. Author’s calculation from market share data in the Guardian, 8th April 2015: http://www.theguardian.com/business/2015/apr/08/aldi-overtakes-waitrose-to-become-uks-sixth-largest-supermarket-chain (last accessed 01/07/2015)The Herfindahl-Hirschman Index is a measure of market competition calculated by finding the percentage market share of each provider and summing the squares of these shares. A score close to zero indicates a very competitive market, while a market with a single player serving all consumers would score 10,000.
39. Readings under 1,000 are usually seen as clearly indicating a competitive market, while those between 1,000 and 2,000 usually indicate sufficient competition and are only subject to investigation if a merger triggers a dramatic change in concentration and HHI score. European Commission definitions of concentration using HHIs, online http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52004XC0205(02) (last accessed 25/06/2015)
40. Competition & Markets Authority, “Retail banking investigation: Updated issues statement” (London: Competition & Markets Authority, 2015)
41. Ibid.
42. Competition & Markets Authority, “Personal current accounts: Market study update” (London: Competition & Markets Authority, 2014)
43. Mintel, Packaged and current accounts, July 2013, quoted in Competition & Markets Authority, “Personal current accounts: market update 2014” (London: Competition & Markets Authority, 2014)

44. Financial Conduct Authority, "Making current account switching easier: the effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability" (London: Financial Conduct Authority, 2015)
45. J. Barty and T. Ricketts, "Promoting competition in the UK banking industry" (London: British Bankers' Association, 2014)
46. Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014)
47. Competition & Markets Authority, "Retail banking market investigation: Statement of issues" (London: Competition & Markets Authority, 2014)
48. GfK Financial Research Survey data shows that the percentage of consumers who have taken out a personal current account in addition to their main current account in the last 12 months increased from 2.8% in 2008 to 4.0% in Q1 2014, quoted by the Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014). It is not clear, however, that this change is sufficiently large to really market a significant increase in the prevalence of multi-banking, and Mintel data, by contrast suggests that the proportion of consumers multi-banking has actually fallen back slightly since 2011.
49. Proportion of consumers who use more than one bank across a range of financial products, not just current accounts. Ernst & Young, Consumer Banking Survey 2012, http://www.ey.com/Publication/vwLUAssets/Global_Consumer_Banking_Survey_2012/$FILE/Praesentation-Bankkunden-Befragung%20EY.pdf (last accessed 01/07/2015)
50. Katie Evans, "Good Culture: Does the Model Matter in Financial Services?" (London: Social Market Foundation, 2014)
51. Competition & Markets Authority, "Retail banking market investigation: Updated issues statement" (London: Competition & Markets Authority, 2015)
52. Katie Evans and Emran Mian, "Savings in the Balance: Managing Risk in a Post-Crisis World" (London: Social Market Foundation, 2014)
53. Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014)
54. Competition & Markets Authority, "Retail banking market investigation: TSB case study" (London: Competition & Markets Authority, 2015)
55. We are focusing here on those who actively use more than one account. Those who have multiple accounts open but do not actively use them are unlikely to be engaged with the different offers of each account, and so are unlikely to be exercising competitive pressure.
56. J. Barty and T. Ricketts, "Promoting competition in the UK banking industry" (London: British Bankers' Association, 2014)
57. Since the 2008, only Tesco bank, Marks & Spencer's and Metro Bank have launched full service current accounts. Virgin Money has also launched a basic bank account.
58. The Herfindahl-Hirschman Index is a measure of market competition calculated by finding the percentage market share of each provider and summing the squares of these shares. A score close to zero indicates a very competitive market, while a market with a single player serving all consumers would score 10,000.
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60. Etno, the lobby body for European mobile phone operators acknowledged as

early as 2012 that revenues from traditional mobile communications products were in decline and alternative models needed to be created. http://www.ft.com/cms/s/0/3d976108-3f77-11e1-ad6a-00144feab49a.html#axzz3dQTHt9nm (last accessed 01/07/2015)

61. Figures are proportion of all those who reported that they had a bank account. Approximately 9% of our original sample reported that they did not have a bank account, and were excluded from subsequent analysis.
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63. Our methodology, in contrast to that used by IFF Research, Mintel and others, focused on consumers using more than one provider. As a result, we identify slightly fewer narrow multi-bankers than other datasets.
64. Office of Fair Trading, "Review of Personal Current Account Market: Annex C" (London: Office of Fair Trading, 2013)
65. Market Strategies International, "Marketing to Millenials" June 10 2014, emarketer.com http://www.emarketer.com/Article/How-Old-Fashioned-Baby-Boomer-Shoppers/1011021 (last accessed 01/07/2015)
66. Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014)
67. Ibid
68. Financial Conduct Authority, "Cash savings market study report: Part I Final Findings, Part II: Proposed Remedies" (London: Financial Conduct Authority, 2015)
69. Financial Conduct Authority, "Credit card market study terms of reference" (London: Financial Conduct Authority, 2014)
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73. Open Data Institute and John Fingleton Associates, "Data Sharing and Open Data for Banks: A report for HM Treasury and Cabinet Office", (London: Open Data Institute and Fingleton Associates, 2014)
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75. Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014)
76. The experience of a Chicago bank which tried to introduce counter charges, described in Richard H. Thaler's "Misbehaving" suggests that attempts to disrupt free banking norms can have serious negative commercial implications – Richard H. Thaler, "Misbehaving: The Making of Behavioural Economics" (London: Allen Lane, 2015)
77. PWC, "There's no such thing as a free lunch: Why fees are the future for current accounts", January 2015 http://pwc.blogs.com/press_room/2015/02/pwc-current-account-fees-are-the-future.html (last accessed 01/07/2015)

78. Interest bearing current accounts, which usually incur a small monthly fee, accounted for 25% of new personal current accounts in 2011, up from 8% in 2011. Competition & Markets Authority, Retail banking market investigation: Updated issues statement, Appendix B: Products and initial evidence on outcomes (London: Competition & Markets Authority, 2014)
79. Competition & Markets Authority, "Personal current accounts: Market study update" (London: Competition & Markets Authority, 2014)
80. Competition & Markets Authority, "Personal current accounts: Market study update, Appendix A" (London: Competition & Markets Authority, 2014)
81. Department for Energy and Climate Change, "Helping Consumers with Energy", October 2013, https://www.gov.uk/government/publications/helping-consumers-with-energy/helping-consumers-with-energy (last accessed 01/07/2015)
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Playing the Field
Consumers and Competition in Banking

Competition in banking is under scrutiny. But all too often the focus of the debate is on the supply side: the market share of the big banks; the emergence of new entrants; and the case for regulatory action that creates a more diverse range of providers. Yet new entrants are queuing up for banking licences and the industry is innovating, suggesting competition isn't as weak as some reports suggest.

Playing the Field explores the demand side of the retail banking market and how consumer behaviour is strengthening competition. Focusing on the rise of multi-banking – the practice among customers of using more than one bank to access the services they want – the report assesses the implications of this trend for competition in the market, and how policymakers should respond.

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