



Treasury Committee

Oral evidence: [Competition and Markets Authority: Retail Banking Market Review](#), HC 566

Wednesday 4 November 2015

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Members present: Andrew Tyrie (Chair); Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, Chris Philp, Mr Jacob Rees-Mogg, Wes Streeting

Questions 1-122

Examination of Witnesses

Witnesses: **Alasdair Smith**, Chair, Competition and Markets Authority (CMA) Retail Banking Market Investigation, **Adam Land**, Senior Director, Remedies, Business and Financial Analysis, CMA, **Daniel Gordon**, Senior Director, Markets, CMA, and **Christiane Kent**, Project Director, CMA, gave evidence.

Q1 Chair: Thank you very much for coming to give evidence to us this afternoon. This is a subject that is of deep concern to MPs, who are besieged by people and have been for a very long time about patchy, to put it mildly, and often poor service they feel they are getting from their banks. They are upset about a very wide range of things and your inquiry is timely and it is extremely valuable that you should be doing this. “Timely” does not cover it either really, because it is about 15 years overdue, and indeed it is the latest in a long series of reviews, none of which seem to have cracked the problem. It is with that in mind that I would like to start by asking you—and perhaps I will start with you, Mr Smith—whether people are paying widely differing amounts for the same service between banks.

Alasdair Smith: I am not sure that people are paying widely different prices for the same service between banks, but different kinds of consumers are getting different levels of value for money from their banks. That is the phenomenon that we have particularly focused on.

Q2 Chair: Let us unpick what you have just said there. When you have said that you are not sure, are you sure that they are not paying a very different amount?

Alasdair Smith: We did look at price differences between banks. It is quite a complicated calculation to make, and some banks seem to have prices that, on average, are higher than others.

Q3 Chair: Why are you adding the word “seem” in there, if I may ask? You have been looking at this for a long time. Surely you know what these numbers are now.

Alasdair Smith: I say “seem” because one has to be careful in assessing quite complex evidence. Our best estimates are that there are price differences between banks, but the more significant changes on which we have focused are more at the individual level. Individual customers could get a much better deal for themselves, many of them, by shopping around and sometimes by switching from one product with their bank to another product with the same bank. The other important difference is, as I said, the difference between value for money and the different kinds that customers get from the current pricing system for banks.

Q4 Chair: Do the banks know how much it costs to run each customer?

Alasdair Smith: The answer that we got when we asked this kind of question to the banks was that they do not necessarily have a very clear picture, they told us, of their profitability.

Q5 Chair: Do you not find this an astonishing state of affairs? If you make or provide any other product or service, people know what it is costing.

Alasdair Smith: That is fair to say.

Q6 Chair: I am asking you if you do not think it is an astonishing state of affairs.

Alasdair Smith: It is fair to say that we were slightly surprised.

Q7 Chair: Slightly surprised?

Alasdair Smith: Yes, I choose my words carefully—at the fact that the banks, when asked about their views on the profitability of different products, seem to have less information than one might expect.

Q8 Chair: When you went to the banks and you asked them how much it is costing them to have these current account customers, they said they do not know.

Alasdair Smith: They said they tend to think about customer profitability at a higher level. They think about the value of customers over their lifetime, rather than the profitability of individual customers. I am, you understand, Mr Chairman, attempting to quote back to you what was said to us, not seeking to represent the views of the banks on the matter.

Q9 Chair: I am not asking you to seek to represent the views of the bank. I am asking you to tell us what you have found out and I would have thought the very first thing I would want to know, if I was running your inquiry, was how much it cost the banks to run one of these accounts and how much money they are making out of their customers, and then see what scope there is for generating competition between the institutions.

Alasdair Smith: I can add to what I have said on that.

Q10 Chair: You seem to be telling me that you do not know the answer to that. You have been working on this for a long time, and you say they “seem”. You have used words like “seem”, and it is all very complex and all very difficult. You are not even sure whether the banks indeed know these numbers.

Alasdair Smith: One aspect of the way the banks look at different customers that is very important is that we know, from the information that we have had from them, that different classes of personal customer make very different levels of money for the banks. The majority of personal current account customers are not particularly profitable for the banks. They cover their costs. There are customers who keep large deposits in their current accounts. Those customers are more profitable, although there are increasing levels of competition for them, but the customers from whom the banks make most of their profits on current accounts are customers who frequently go into overdraft, especially unarranged overdrafts. That aspect of the pricing of personal current accounts is one on which we have particularly focused. We do have a confident understanding of that dimension of differentiation between banks’ customers.

Q11 Chair: What you have just told me is that banks may have on their books quite large numbers of customers on whom they are losing a packet and another class of customers on whom they are making a packet, but they do not know who is who.

Alasdair Smith: I am sorry, Mr Chairman, if I was not clear.

Q12 Chair: They do know who is who.

Alasdair Smith: They do know who is who. I do not think that they are losing money on the majority of their current account customers. I said they do not make very much money out of the typical current account customer, who does not have a large overdraft and does not have a large balance, and gets their transaction banking for free.

Q13 Chair: You have a bank account. I am not going to ask you who you are banking with but, in the whole course of running this inquiry, did it not cross your mind it might be interesting to find out what someone like yourself was actually handing over to the bank each year for the privilege of having the account.

Alasdair Smith: As it happens, I have a pretty good idea of that, Mr Chairman.

Q14 Chair: You do have a pretty good idea.

Alasdair Smith: Yes, I do.

Q15 Chair: When you say “a pretty good idea”, to what order of error is a pretty good idea: 5%, 10%, 20%? I am not going to ask you how much—it is a personal matter—but do you reckon you know to within 5% what you are really being charged, now that you have been through this process and had the benefit of this expertise you have had at your disposal to help you find out?

Alasdair Smith: Yes, I do. I do not wish to be evasive in any way, and therefore I will give you a straight answer by disclosing more information than you asked me for. My current account is linked to a mortgage account, so all of the balances in my current account get credited with interest at the mortgage interest rate. Therefore, personally I have a very clear picture of the costs and benefits of my account, but I am not sure that that gets us very much further with a typical customer. The straight answer to your question is yes, I do know a great deal about the costs and benefits of my bank account, but I am not a typical customer.

Q16 Chair: The banks have repeatedly told us in evidence over the years how difficult it is to get to an accurate assessment of the costs of accounts, all things considered. Your opening answers and, if I may say so, their vagueness seem to suggest that that is the sort of reply you have been getting from banks, which you have largely accepted. It strikes me that you are in a uniquely healthy position, because you do know and, therefore, you might be in a position to go to another bank with exactly the same proposition and find out what they are prepared to offer you the service for. Have you considered doing that?

Alasdair Smith: Yes, I have considered it.

Q17 Chair: You reckon you have a good deal, one of the better deals on the block.

Alasdair Smith: Yes, I think that that is right.

Q18 Chair: Do you not think that those millions of people out there who are listening to this and watching this might think it might be quite attractive to have the same choice available to them?

Alasdair Smith: Absolutely.

Q19 Chair: Why have you ruled that out as a recommendation in your report?

Alasdair Smith: We have absolutely not ruled that out. On the contrary, that is the absolute centre of our recommendations.

Chair: But it is not.

Alasdair Smith: Sorry, Mr Chairman. It is to put tools into the hands of consumers that will enable them to do precisely what you indicate you wish them to be able to do.

Q20 Chair: You are not saying we should get to a particular number. You are saying instead we should rely on trigger points to write letters to secure switching and generate competition.

Alasdair Smith: We are suggesting letters and other possibly more effective trigger points that will encourage consumers then to go off to information tools that will provide them with a very rich source of information about the value for money that they are getting from their bank account and the alternatives that might be on offer in the market. Our central remedy proposals for personal current accounts, which are triggers, comparison tools and an improved switch service, have the potential to be a very powerful tool in the hands of consumers. We think that these, suitably developed, have the potential to do what you wish to see happening.

Q21 Chair: Benny Higgins of Tesco wrote to this Committee only a few days ago with respect to your report and concluded that this report “has only begun to scratch the surface. There is more that could be done to improve outcomes for customers...We must increase transparency around the true costs customers incur when using their current account—not just so those who are in the market for switching can compare accounts, but so that customers can really understand the cost and value of each account they have.” You are saying that that bottom-line number, as a consequence of your proposals, should your proposals be implemented, will enable every consumer in the land to know exactly what he is being charged each year for his account. Is that a yes or a no, because that is a key point? I just want to get a feel for that.

Alasdair Smith: I was going to answer not with a yes-or-no answer. If you would like to repeat your question, I will give you a yes-or-no answer.

Q22 Chair: Will customers get a number every period, which is a number on a comparable basis that they can use to assess whether they would be better off moving to another bank?

Alasdair Smith: The answer to your question is no. Currently, customers do not get that kind of number. It is worth emphasising that we have not produced a final report with a final set of remedies for the issues we have addressed in our provisional report. We have produced a provisional report of our findings and we have produced a remedies report, which sets out an agenda for discussion.

I do not in any sense disagree with your quotation from Tesco. Tesco's proposals for how we might address the objectives, which you have and the objectives which we share with you, are open for discussion and we are open to hear suggestions from everyone about things that can be done to provide consumers with better information.

Q23 Chair: I realise that these have been reasonably robust exchanges on this subject to kick off a hearing, but I am afraid you will have to put that down as no more than a consequence of being somewhat battle-hardened in this subject, over many years, having similar exchanges and getting proposals that we are promised will solve these problems, short of full price transparency, but which turn out not to deliver the goods.

Christiane Kent, I cut you off or you did not even get started, and I had a feeling you wanted to say something.

Christiane Kent: I think it moved on.

Q24 Mark Garnier: Mr Smith, I want to carry on with this free-in-credit model. You talk in your report about the idea that you want to present a lot of information to consumers, so they can make a decision of their own. You talk about your own bank account, and clearly you are a very intelligent person who understands the financial world very well. Did you see the Money Advice Service financial capability strategy launch last week and read their report?

Alasdair Smith: I have not read that report.

Q25 Mark Garnier: Have any of you read it, by any chance? This is the report that analyses the financial capability of the consumer in this country. I do not have it in front of me, because I did not think this would come up, but one of the numbers that did come up was that something like 36% of the population cannot work out what a 2% change in interest rates on £100 is going to do. That is 36%. You are proposing to present actually what is a lot more technical information to consumers who, according to the Money Advice Service in this report, do not know what they are talking about. I do not mean that in a disparaging sort of way. I think we have let them down in terms of financial education in school but, nonetheless, you are expecting people who are ostensibly financially illiterate to be able to work out fairly complex sums and assessments.

Alasdair Smith: I very much hope not, but let me re-emphasise that what we have presented at this stage is a menu of proposals for discussion and an indication that we are open for further proposals. We are very much aware that, when it comes to financial products, consumers need a lot of help, and we need the help to be carefully designed. We are not going to impose a set of remedies on this market that have not been carefully researched in order to make sure that they work for the ordinary consumers. The Financial Conduct Authority has recently done some very interesting work on what kinds of information works for consumers and what kinds do not. We want to work very much with the grain on that and ensure that whatever things are adopted, for example information remedies, are of a form that will be readily understood and readily useful.

Q26 Mark Garnier: The problem with the free-in-credit model is the simple most obvious flaw in this marketplace. In the banking commission, we looked at this extensively and had great debates about it. Any number of different people have made comments about the free-in-credit model just being a flawed model. Getting back to the Chairman's questions trying to ascertain what the cost is of providing a bank account, presumably at the most basic level this is an incredibly simple sum. You take a retail bank; you take the overall cost to the retail bank and divide it by the number of customers. That gives you a starting point of what the relative customer competitiveness is for the bank itself. I would have thought any bank director worth their salt would be looking at cost per customer, and that is your starting point.

You talk about the fact that there are some customers who suffer badly—those ones who have high deposits and are funding the bank because of forgone interest. You have those ones who are funding the bank even more, which are those ones who are running overdrafts and presumably unauthorised overdrafts. They are the real goose that lays the golden egg if you are a bank, which of course is slightly alarming, because those banks that obviously do have these metrics and do know how much it costs per customer are now seeing people who find themselves falling into financial problems as a mark that they can use to subsidise the cost of those people who are just marginally in credit. I am stunned that you have not even asked the question of the banks: what is their cost per customer on very simple management metrics?

Alasdair Smith: No, we have had a lot of information.

Mark Garnier: You have the answer to that question.

Alasdair Smith: We do have.

Q27 Mark Garnier: What is the range? Give us an idea of how much, on a basic metric for a retail bank, is the cost divided by the number of customers for high street banks. What is the range?

Alasdair Smith: Off the top of my head, I do not have the answer to that.

Mark Garnier: An order of magnitude.

Daniel Gordon: What we have been able to get, on an aggregate basis, is net revenue per customer. The difficulty with cost-based allocation is, when you have common costs, there needs to be a very strong element of judgment of what would be allocated to the different parts of the bank. No bank provides separate profit and loss accounts¹.

Q28 Mark Garnier: I am not entirely sure I agree with that. We have just brought in ring-fencing of retail banks. You can define it by what is within the ring-fence, but there are plenty of retail banks out there that are identified as retail banks.

Daniel Gordon: Prior to having ring-fences, the exact purpose of which is to create that separation, banks and all businesses will account in a way that accords with their business propositions. That would be to look at the aggregate consumer proposition and the driver of the business. That is not unusual, I do not think.

Q29 Mark Garnier: You were looking at net earnings per customer.

Daniel Gordon: There is an analysis of net revenues per customer. My memory, off the top of my head, and I think we might have to go back, is in the order of £150 per customer², and that has been declining over the last five years, I think, which is the period for which we have data. That does not relate to individualised costs. Individualised costs will obviously require some allocation.

Q30 Mark Garnier: For these numbers to make any sense, you need to know what margin that is. If the cost is £5 that is a huge return, compared to if the cost is £5,000. You see my point; you have to know what the cost per customer is for that number to make any sense.

Daniel Gordon: I do, but let us talk about cost and let us talk about price. That is the challenge on cost, which has always been the case with banking assessments, since Cruickshank onwards. That has always been a challenge to allocate. Your earlier question in relation to prices and what is a meaningful way for consumers to understand how much they are actually paying is very well made. There is one set of questions, which is whether they are getting the necessary inputs into that calculation. That is an important question and we are making recommendations along those lines, or intending to, but there is also how much consumers actually know about their usage patterns, which is a very big missing link, particularly for overdraft users, who we feel are leaving most money on the table in this area.

What we have learned more and more in other sectors is that the data going out there is not just for the consumer. What tends to be occurring more recently, and we have seen this in other sectors, is price comparison websites and other intermediaries providing services that take that 40% and make it an easier transaction and comparison for them to make.

¹ For personal current accounts and SME business

² The exact figure is £176.62

Q31 Mark Garnier: These are far too complex. I take your point that you gather the data about how you use your account and you put this into a price comparison website but, if you are a large high street bank, the way you can deal with that is just make everything much more complex so it does not fit in a price comparison website.

There are a lot of other people who want to ask a lot of questions in different areas, but I did want to just ask one point. One of the holy grails of all the legislation we are bringing in, the banking commission report and all the rest of it, is trying to drive better behaviour within banks, trying to get a better quality marketplace, so that people do not feel they are getting ripped off by banks. What troubles me about this is that the free-in-credit model, by the way it works, requires banks to cross-subsidise from other areas. What troubles me about this is that you end up with a situation where you could be forcing banks into a position where they could do questionable types of cross-subsidy. I personally think it is questionable to use somebody who falls into financial difficulty by having an unauthorised overdraft to cross-subsidise somebody who does not have a problem. That is just socially wrong. That is my view and it may be a slightly wet view, but I think it is important to look after people who do fall into trouble and not use them as an opportunity to subsidise somebody who is richer than them. It is this type of thing. What behavioural outcomes—there are probably none at all—have you looked at in terms of this free-in-credit model?

Alasdair Smith: We have looked very carefully at the free-in-credit model and at all of the reasons why banks do not have to compete hard enough for customers. That is the heart of the issue that concerns you. The thing that will make banks behave better towards their customers is often quality of service and, in other ways that they treat their customer well or badly, is if they feel that they are under competitive pressure. The work that we have done has indicated that it is not the free-in-credit model itself that leads banks not to have to work hard enough for their customers; it is the fact that customers do not do enough shopping around, so the banks do not have to worry about losing the customers.

Q32 Chair: So it is the customer's fault because they are not engaging. That is what you seem to be saying.

Alasdair Smith: It is absolutely not the customer's fault. It is the fact that financial products are complex and sometimes unnecessarily complex.

Q33 Mark Garnier: This is why there is a simple metric. You can identify a part of a bank that you are a customer of. You can divide the cost of that part of the bank by the number of customers and then you can have a charge that is levied against your account and see how that compares to the average.

Alasdair Smith: I am sorry. As Daniel said, the marginal costs per customer of a retail banking operation are very low. The costs of the banks are largely fixed costs, and allocating the fixed costs of the whole banking operation to individual customers is a very judgmental task to be undertaken by accountants, who notoriously give you the answer

that you want to have. I am sorry; I am just not convinced. Giving me as a customer of a bank information about how my bank allocates its fixed costs between its personal current accounts, small business accounts and its other activities is not going to help me be a better informed customer.

Q34 Chair: You have the information you need. You have told us that you are confident you know what you are being charged and you are being charged a reasonable amount compared to other customers. What we want to get to is those millions of people out there who would like the same privilege.

Alasdair Smith: Mr Chairman, I thought that Mr Garnier was suggesting that what I needed was information about how my bank allocates its costs between its customers.

Mark Garnier: Yes, I would.

Chair: He would like that too.

Q35 Mark Garnier: I would. You said it is difficult for them, but the Government do it. Every time we send out a tax return to people, we tell them how much of their tax is being spent on defence, police and all the rest of it. We can do that, and that is with a £700 billion budget. Do you not think a bank can do that? Banks are meant to be clever with money. We argue about that with the banking crisis but, nonetheless, let us assume they are quite good with money. They are running these banks, they have a huge amount of fiduciary duty to shareholders, to customers and all this kind of stuff; do you think a bank is not capable of working this out, or do you think that they are pulling the wool over your eyes and you have allowed them to?

Alasdair Smith: It is neither of things. It is not a question of capability and I do not think it is a question of pulling the wool over our eyes. It is a question that a large organisation, a large fraction of whose costs are fixed costs, asked what the costs are of serving individual customers, has a number of ways of answering that question and, therefore, the question is not necessarily the best way at getting at the issues of how we can get the banks to perform better for their customers. I am much more interested in what we can do to make banks perform better for your constituents than in how bank accountants allocate fixed costs.

George Kerevan: Chairman, a very simple point of information: airlines do this. They split up their costs as fixed costs and variable costs, as it moves along, and they give it to the customers to allow the customers to choose. It can be done.

Q36 Mark Garnier: HSBC in Bewdley has just closed down the last bank in the town. It is in the process of closing down. Do you think the customers of HSBC in Bewdley should be given reduced charges, because they have now lost a bit of the costs that were allocated to them? It does not make any sense. What you are coming up with and the answers you are giving just seem to be lazy. It seems to be the fact that you just have not gone in and looked into this in any proper way, and you have not challenged these banks to come up with the justification for the cost and to actually come back and answer the question of why you do not simply tell people how much you are being charged or even just give a proper charge. I

can understand it is a complex thing to unwind but, nonetheless, you just do not seem to have challenged them at all.

Alasdair Smith: With respect, you seem to be asking about two entirely separate things. On the costs to the bank of running bank accounts, there are inherent difficulties about answering that question. Providing information to customers about the deal that they are getting for their bank, that second thing, is something that is absolutely at the centre of what we are aiming to do for customers, providing customers with better information.

Q37 Mark Garnier: If you get rid of the free-in-credit model, then those costs would be allocated to an account on a per-month basis. It can be £5, £10, £25, £60 or whatever it happens to be, and that makes it very simple. You drive down the most simplistic thing. Bearing in mind this financial capability strategy that is being brought out by Money Advice Service, actually, at the end of the day, given what we know about the consumer's ability to understand complex, or even simple, financial measures, surely it has to be the right case to turn around and say, "The charge on your account, per month, is not going to be charged on overdraft or foregone interest." You can obviously compare the interest being paid by the bank but, nonetheless, you have a charge per month, which is the simplest, most basic measure that you can possibly have. Everybody then has full transparency and everybody has one number that works out as the way you pay your banks, and the consumers are better off. The banks do not get encouraged to drive bad behaviour by cross-subsidising.

Q38 Chair: Are you prepared to consider that?

Alasdair Smith: As I said earlier, we are prepared to consider all possible roads for giving consumers better information. I would need to see more detail of what Mr Garnier has in mind, because it is not entirely clear to me.

Q39 Mark Garnier: This is not new. This has been talked about for five years.

Alasdair Smith: For the reasons that we have been discussing, it is not entirely clear to me what cost information is given or charged to the consumer, as I understand it, every month for the cost of running their account.

Q40 Chair: Before bringing in Helen Goodman, let me try to put this differently. Do you think, if people are told that something is free, they are nonetheless likely to be able to make a meaningful assessment about how much it really is costing, even if they do get a heap of very detailed information, as a consequence of your report?

Adam Land: What we are looking to achieve in terms of intentions is essentially the comparison between one bank and another, and we think that is a comparison that people are capable of making if they have the right tools. That is really what we are focusing on.

Q41 Chair: Are those tools going to include a bottom-line number. This is the type of account you have. You know exactly the kind of account you have, Mr Smith. You have described it. I did not ask you to describe it, but you have divulged it and you know exactly, or pretty much, what you are being charged. Will the information that you are going to henceforth demand be enough to enable that individual, millions of customers, to know what they are being charged, just as they know what they are being charged for their insurance premium for their house?

Adam Land: What we are looking to do in terms of transparency, if you look at how people compare house insurance, they will typically use a price comparison website. They will put in details about their own house, they will get a quote that relates to their own circumstances and they will be able to make an accurate quote. At the moment, it is difficult to do that in relation to bank accounts, because the price you pay is a function of your usage of that bank account. The remedies that we are looking at are aimed at enabling customers to get an accurate price for the services that they consume.

Q42 Chair: Let me try to put this slightly differently. Once a customer has arrived at a point where he or she knows how much he or she is being charged, and there is a bottom-line number, he will know that free-in-credit banking is a myth, will he not, a con trick?

Adam Land: I suppose we are looking at getting customers a better deal. That is our focus. The key thing is to be able to compare what you are getting from one bank to a new entrant, another provider or someone else in the market.

Q43 Chair: Banks are not philanthropic institutions, are they? We know they are making money on their customers, so we know that they are not giving their customers something for nothing. Correct?

Alasdair Smith: Yes.

Q44 Chair: Therefore, they will then know that free-in-credit banking is a con, for sure.

Alasdair Smith: For a customer who is in credit on a free-in-credit banking account, if you want to give them the number of what their bank account costs them, the accurate number is zero. The service they are getting from their bank is all the transactions in exchange for putting their deposits in their bank account. You may not like that. There are lots of things not to like about that model and we are, I repeat again, open to all suggestions for what can be done to make it better, but providing consumers with a single number that says,

“This is what you pay for your bank account every month”, we do not necessarily see, for the reasons that Adam has just given, as the best way forward.

Q45 Chair: You have done more than not necessarily see; you have ruled it out and you are making clear that the distortions arising from the widespread use of free-in-credit bank accounts is something you are not minded to get rid of. You have made that clear; it is under a heading “remedies we are minded not to consider further”, paragraph 177.

Alasdair Smith: The word “minded” means we are still open to persuasion on everything that we have considered.

Chair: Then this hearing is certainly timely.

Q46 Helen Goodman: Thank you very much, Chairman. I am a little bit puzzled by the exchanges, because one number that you did use in your report was that, by switching, people could save £70. How were you able to reach that £70 figure if you do not know what the different costs and prices are of the different banks?

Christiane Kent: What we did is we undertook an analysis of the banks’ prices and charges for their different types of accounts.

Q47 Helen Goodman: What do you mean their prices for different accounts? You just agreed that there is no price.

Christiane Kent: Overdraft users clearly pay charges. For foreign exchange and certain core transaction services, charges are paid on those accounts. We looked at the average charges for a customer who was £500 in credit and had a number of foreign exchange transactions in a year, and tried to work out, if they switched to a different type of account, and we found that, if they switched to a reward account under which they received cashback rewards and interest on their credit balances, they would make the £70 saving. That is where it is from.

Q48 Helen Goodman: To be honest, I had never heard of a reward account before you just said that and I certainly had not heard of the kind of account that Mr Smith has. I am not a particularly stupid, uninformed person, so there clearly is a difficulty with how much information customers have.

Christiane Kent: I totally agree with you. Before starting on this inquiry, I would describe myself as a satisfied customer. I would describe myself as probably paying relatively low rates each time I accidentally went into overdraft. I totally agree with you; I was not aware of all the different offers from different banks, different types of accounts, whether they be packaged accounts, the newer reward accounts, in particular the Santander 123 and other accounts that are out there, Halifax’s and all these new accounts that have come on the market. I totally agree with you; I did not know they existed, and that is the core point of this.

Q49 Chair: Like Coleridge, you are a sadder and a wiser woman, are you not?

Christiane Kent: I am and I would like, as I am sure you do, everybody else to be somewhat wiser by giving everybody the information and transparency that there are different accounts out there that will suit different people. Everybody uses their account in a different way, and that is one of the key points, giving that information.

Q50 Helen Goodman: If people had more information, do you not think they might manage their money in a different way? At the moment, you are conscious of it when you are stung if you have an overdraft but, when you have too much money in the bank, you are not conscious of the fact that you are losing. The average person will be putting £3,000 in the bank every month and they will be running it down, maybe to the £500 level that you have suggested, and then it will flip up again at the end of the month. That is the pattern that most people will follow, if they are not saving anything. Do you not think that, if you followed the suggestions from the Chairman and Mr Garnier, it might help people to manage their money in a more intelligent way?

Christiane Kent: I quite agree that customers need more information on their usage and on their charges.

Q51 Helen Goodman: And on their lost income.

Christiane Kent: And on their lost income to enable them to be able to make effective choices. To go back to a previous point, they need the tools to do that. I personally do not particularly want to sit there trying to work out all my charges so I can compare that to another account, which may have completely different ways of calculating interest on overdrafts, whether it is APR or a daily rate fixed fee. That is why you need the price comparison website and tools to enable somebody just like me, who quite frankly has other priorities and does not want to spend hours and days working this out, to push that information in order to get the comparison number out.

Q52 Helen Goodman: Do you know how many people are not on the web? Do you know how many people in this country have never sent an email?

Christiane Kent: I do not know offhand.

Q53 Helen Goodman: It is 5 million people, and 11 million people are not functionally literate on the web. A constant reliance on the internet and price comparison websites is once again going to disadvantage those people who have the most financial difficulties. When you are thinking about your next set of recommendations at the end of this piece of work, will you make some

consideration of these 5 to 11 million people who have particular problems in interfacing with the financial institutions?

Christiane Kent: I totally agree, but I will not wait until the end of the inquiry to give thought to them. We are already giving thought to them, which is why we are looking at different options, whether in written form, whether in text or internet, to give people information about their charges and whether they are just about to go into overdraft. Also and more widely, if we can stimulate the market through customers switching and searching, that benefits all customers, because the banks have to respond to the competitive pressures that the customers bring. All customers, whether they have the benefit of the internet and switch, will benefit from that greater dynamic of competition and that is very important.

Q54 Helen Goodman: We have a parallel here with food labelling and the resistance that we get from the supermarkets on improving food labelling. Will you be requiring the banks to tell people, on their monthly bank statement, and give them the information in the same format, so that everybody has that information, without having to go somewhere else to find it?

Christiane Kent: The Payment Accounts Directive is already coming in to harmonise the terminology and information that banks have to provide to make sure that key terms mean the same thing.

Q55 Helen Goodman: Key terms yes, but will they know what they have paid on the same basis, whether you are with HSBC, Co-op, RBS or whoever?

Christiane Kent: Yes. We are certainly looking at it.

Q56 Helen Goodman: Are you looking at it or is that in train?

Christiane Kent: We are looking at what information, across the piece, customers need in order to be effective consumers. We certainly would look at what type of information they should be given and when they should be given it, in order to enable them to be effective consumers.

Q57 Helen Goodman: Mr Smith, you said that it was difficult to work out what the costs of an individual who had a personal account were for a bank, so how can it be that HSBC writes to me and tell me they have closed the branch in Shildon, in my constituency, because they are no longer making money on the 10,000 people who have their bank account at that branch?

Alasdair Smith: I am not going to try to speak for HSBC, but that is a different kind of calculation from the questions about the revenue made on an individual's bank account. It is simply a different kind of profitability calculation.

Q58 Helen Goodman: Why is it a different kind? It is the kind that affects people. When banks are being closed in poor communities, and I think we had 500 last year and more projected this year, what we hear from the banks is, “We cannot afford these customers.” How can they know that they cannot afford those customers if they cannot even give you the information as to what a bank account is costing?

Alasdair Smith: It seems to me that that is a different kind of calculation.

Q59 Helen Goodman: In what respect? Untease it then.

Alasdair Smith: With respect, I would suggest you address those questions to HSBC rather than us.

Q60 Chair: We have been working for years to have an inquiry of this type to get to answers and we are relying on you to provide them. Mostly, in almost every reply you are giving, you are saying, “Don’t worry. We are only halfway through this. We are going to do some more work.” For this relief, much thanks. You have been saying all along that you are relying on the use of comparison websites to develop, if you provide a range of quite sophisticated information to reflect the very complex calculations that are needed, you say, in order to arrive at a bottom line. Are you aware of the research by Pinsent Masons on the problems with using that information through price comparison websites?

Alasdair Smith: The CMA has done a lot of work on price comparison websites. We recognise that they work well in some areas and less well in other areas. A price comparison website, by itself, will not be a very effective tool in the area of personal banking. We know that. Indeed, they are not powerful tools in the area of personal banking.

Q61 Chair: Why not?

Alasdair Smith: As we have been discussing, the personal banking calculation is inherently a very complex calculation. We think much more than a price comparison website is needed.

Q62 Chair: I began by asking you whether you are aware of the Pinsent Masons survey. Are you aware of this survey?

Alasdair Smith: I am personally not aware of that work, no.

Q63 Chair: None of you is aware of the survey, which was recently done. That said, it was reported in the press—and that is how I found out about it—that 60% of people would be unlikely to use such a service, because it would mean

providing open data, and they are very nervous about providing that data to a third party. They are very worried, particularly in the light of these cyber-attacks, and quite reasonably, probably, judging by the scale of it. I am very concerned that you did not mention that as a key ingredient and a reason why we might be cautious about relying on these price comparison websites, an idea that years ago I had thought might be the way forward. I am also somewhat concerned that you have not seen this research. Is there anything you want to add to that?

Alasdair Smith: Yes, please, if I may. We are very well aware of individuals' concerns about personal data. Who could not be? The centrepiece of the remedies that we are putting out for discussion, at the moment, is a tool called Midata, which has been developed with government support. It has the potential to be a very powerful tool, by bringing together information about an individual's current account with information about the charging structure of different banks. The Midata tool is not widely used at the moment. It is hampered by a number of technical issues, including concerns about the security of personal data. One of the things we are going to be working on most intensively over the next few months is looking at ways that the Midata tool can be made effective, while assuaging legitimate concerns about the security of personal data. These concerns are absolutely at the centre of making progress in this area.

Q64 Helen Goodman: The market shares of the major banks have not changed very much in the last 10 years. In this situation, where they have high market shares and there is discontent about their behaviour, you seem to be relying on behavioural regulation, particularly directed at consumers, if I might say so, rather than structural change. How do you justify that?

Alasdair Smith: We justify that because our analysis suggests that it is the stickiness of consumers—and just to repeat, I do not believe that is a fault of consumers—but the stickiness of consumer behaviour in relation to banks is what makes these bank market shares very stable indeed. The share of the largest four or five banks, as you said, is high and stable. It is the stability of the market shares that worries us more than the share, because that is an indication that the banks that have higher charges and less satisfactory customer service, which you would expect to be losing market share, do not lose market share. When new players come on to the banking scene with offers that are apparently more attractive for consumers, they build up their customer base very slowly.

Those are the structural issues that we are particularly concerned about and, because we think that is the issue, we are not convinced that a very expensive process of breaking up banks and forcing divestments on to banks is the right way to proceed. If we had a larger number of banks and each of them still had a base of consumers who were sticky, and whom banks did not have to work very hard to hold on to, we would not have addressed the real problem.

Q65 Helen Goodman: It is not the view the European Commission took though, is it, when they recommended the carve-out from the big banks? Do you think the European Commission was mistaken in recommending those carve-outs?

Alasdair Smith: The European Commission carve-outs were driven by European Commission state aid policies and, frankly, we have not done any kind of assessment of the appropriateness of policies that the European Commission followed in 2009 and 2010. I am not commenting on the objectives behind those carve-outs and how well they were addressed by the policy that the European Commission adopted. What we do know, however, is that those two carve-outs have been extraordinarily expensive. Lloyds Banking Group has publicly said that the cost of carving out TSB was £1 billion more than the market value of TSB, which means it must have been of the order of £2.5 billion. Even allowing for a bit of creative accountancy, £2.5 billion is an enormous sum of money.

Q66 Helen Goodman: They would say that, would they not?

Alasdair Smith: As I said, Mrs Goodman, even allowing for creative accountancy £2.5 billion is a large sum of money. One has to assume that the Williams & Glyn divestment from RBS has cost the same order of magnitude, and the TSB divestment was also pretty disruptive for customers, who said, “Oh, I have been a Lloyds Bank customer all my life and now you are shunting me off to TSB”, or vice versa. These divestments we know have been very expensive, very disruptive and have the message that anyone who is advocating bank divestments needs to have a really strong case for the benefits of them before they embark on that road.

Q67 Stephen Hammond: Good afternoon. Thank you for coming this afternoon. Before I go on to where I wanted to start, can I just pick you up, Mr Smith, on your penultimate answer to Mrs Goodman. You describe stickiness. Is stickiness not really a barrier to entry and to competition put up by banks? That is really what it is. It is a lack of information and a lack of ability to move my account, because it will make me move every mandate here, there and everywhere. Actually, it is not stickiness from the customer at all; it is a barrier to competition and to entry.

Alasdair Smith: In some areas, banks and other sellers of financial products may appear to be making products excessively complex and therefore hard to compare. When Christiane talked earlier about the reward accounts that have come on to the market, when you look at the offers of different banks, they are very hard to compare. Some are offering interest on your current account balances. Others are offering cashback rewards on your direct debits and so on.

However, we do not think that that is a central issue. The central issue is that, inherently, the job of working out value for money on a bank account is a complex task, because it involves putting together the complicated pattern of the individual’s own banking needs with the complicated pattern of bank transaction and other charges. It is not the consumer’s fault.

Q68 Stephen Hammond: I accept your answer, but only halfway. It is not impossible for a bank to tell me how much they are charging me per £100 of overdraft. It is pretty easy for them to tell me how much each transaction costs. I

accept reward accounts and other things; you can work those out, but the very basic information is not being provided, and that is a barrier to entry and a barrier to competition, is it not?

Alasdair Smith: That is at the heart of the issue, in a way. As I keep saying, everything is still on our agenda. Your bank could provide you with information about their charges and, indeed on overdrafts, they should be providing you with information about your overdraft charges, if your overdraft is arranged in advance or not arranged in advance, if you get payments refused, what they are going to charge you for foreign exchanges, what rewards they give you for your current account balances or whatever. It is then very hard for you as the consumer to look at that, look at the equivalent sheet of paper from another bank, and say, “Actually, this one is a better deal for me.” That is the heart of the issue.

Q69 Stephen Hammond: Maybe, but we sometimes say that about people understanding complex democratic issues and the public generally understands them. We will leave that point. You will obviously be aware about the new basic fee-free bank accounts. What is the total cost to the industry for providing basic accounts?

Christiane Kent: I do not know the total cost, but certainly what the banks have said is that they are not profitable as bank accounts.

Q70 Stephen Hammond: On that basis, should we take it that for the banks, as you say they are not profitable, they are also inherently unattractive and there is no real incentive for the banks to compete for that business?

Alasdair Smith: Yes. It is the case that the banks are providing basic bank accounts because, following discussions with the Government, a number of the banks have agreed that this is a service they are going to provide, even though it is not a profitable service. Yes, that is the case.

Q71 Stephen Hammond: People on lower incomes or who have not accessed those accounts or are accessing them for the first time essentially are not going to get a better deal out of the banking system.

Alasdair Smith: The deal they are getting out of the banking system, following the discussions with the Government, is a bank account that is supplied to them at a loss. Whether you regard that as a good deal or not is a matter of judgment, but they are customers who are unprofitable to the banks who have been provided with basic bank accounts.

Q72 Stephen Hammond: In terms of the implementation of the Payment Accounts Directive, will that force any more competition in this area or should we just accept that there is not going to be any particular extra competition in this area?

Alasdair Smith: The remedies that we are looking at to provide much better information for consumers are compatible with the Payment Accounts Directive. One of the issues we will need to consider is to make sure that the Payment Accounts Directive works well for consumers, but our current view, and I am looking to Christiane again, is that the kinds of remedies that we are looking for will not run up against any problems with the Payment Accounts Directive. In itself, it does not do the full job, but it allows us to do the job that we think needs to be done.

Christiane Kent: It does not prevent us from going further, which is what we want to do through our remedies.

Q73 Stephen Hammond: Perhaps you could outline the areas where you intend to go further then.

Christiane Kent: One of the key issues is Midata, which we have just discussed, giving customers their account usage information in order to be able to make the comparisons. The Payment Accounts Directive has provision for an account-switching service. Obviously we want our account-switching service to potentially be indefinite redirection of transactions, so there are various areas where we would want our account-switching service to go further than the PAD wants.

Daniel Gordon: It is also worth mentioning that what we are learning more and more is that it is not just the “what information”; it is how the information is being provided. As the Committee will be aware, the FCA did a very interesting piece of work last year, which took stock of the impact of annual statements to consumers on the cost of their current accounts, and compared those to the impact of text messages being sent when people went into overdraft.

The first, which was a very well based recommendation from a past OFT investigation, had had no impact. Consumers had the information, but it had no impact on their behaviour. The second, which was timely because it was when people were actually hitting their overdrafts and had come through a text message, was having a significant impact. What is really important for us is to learn these new methods of communication that people engage with. That is one of the key differences in terms of how we will be approaching it, which is why we are talking about triggers and modes of communication. These things need to be drilled down into, because they are showing a difference.

Q74 Stephen Hammond: Picking yet again on one of the things that Mrs Goodman said, I take that point, but these particular accounts are people on the lowest incomes. Some of those will not have that method of communication and that effectiveness.

Daniel Gordon: Text messages and mobile usage is pretty entire. We are all on the same page in trying to find the means by which consumers can get the right information, process the right information and act on that right information. What we are all trying to do is to try to explore the best ways, in the light of what we have learned, for achieving that. More information is good if it causes people to make the right choices as a result, so we need to take steps beyond that to make sure that activity takes place as a result.

Q75 Mr Jacob Rees-Mogg: Moving on to the barriers to competition and on capital issues, in your findings, you found that regulations regarding risk weightings of capital may have an impact on competition. How big a problem do you think that is?

Alasdair Smith: We have not completed our work on that issue, because it is quite a complex issue. If I can take a little bit of time to go through the complexity of it, the new banks regard it as a very important issue, but it is a very complex issue in the way it works out. The area where it is most striking is in the area of domestic mortgage lending. I can see that I am saying things that you already know, Mr Rees-Mogg, but I nevertheless will say them.

Mr Jacob Rees-Mogg: It is very important to explain them.

Alasdair Smith: The rules about the amount of capital that banks have to hold against their lending vary between different banks, depending on whether they have internal models for calculating the risks of their assets or whether they have to use the standardised model produced under the auspices of the Basel Committee. In the area of domestic mortgage lending, I suspect partly because the UK housing market operates so differently from other countries' housing markets, there is a very large differential. A bank under the internal ratings system—typically the big banks or the very large building societies—has to hold capital against a risk-weighted asset that has a risk rating of under 10%. A bank on a standard model has to hold three or four times that amount of capital. If you are going into the banking business and thinking of the return to equity that you are going to earn on your bank, you basically have to earn profits at four times the rate of an established bank if you are going to match their return on equity.

Now, our inquiry is not concerned with the economics of mortgage lending; it is concerned with the economics of retail banking. On the face of it, because domestic mortgage lending is a very big part of the loan books of many of the UK financial institutions, discrimination on that scale in this area of lending is a material issue at the level of the retail banking operation as a whole. The work that we need to do is to look at the extent to which these differences between established banks and new banks in their prudential regulation act as a barrier to entry to new banks. The new banks certainly think they are. We need to do some further work and, if we find that they are, then we will have some strong things to say about them in our final report.

Q76 Mr Jacob Rees-Mogg: What is the barrier to the challenger banks using their own capital models? Is it that the PRA will not accept them and will insist that they use the Basel models?

Alasdair Smith: It is that exactly. It is a PRA requirement, which in turn derives from Basel. Basel requires you to have at least five years of lending experience before you can use an IRB model.

Christiane Kent: That is from Basel rather than from the PRA, but the PRA is responsible for determining whether a bank has met the requirements of Basel, in terms of being able to run an internal risk model.

Q77 Mr Jacob Rees-Mogg: What outcome would you like to see as the CMA? What are you hoping the PRA will come up with or how this will develop?

Alasdair Smith: If we found that this was a problem, while it is a strength of the CMA system that we have legal powers to enforce changes in various areas, this is not an area where we would have legal powers to enforce change. In our report we would be making some kind of recommendation or observation, which we would hope would be helpful to the PRA, which understands this issue perfectly well, in ongoing discussions in Brussels and Basel on these issues.

Q78 Mr Jacob Rees-Mogg: This came up last year when I was not on this Committee, but I understand this point came up then. Is the PRA taking any notice? Is it not being pushed enough or is it just, by its nature, something that takes a very long time?

Alasdair Smith: The PRA is certainly very alive to this issue. It is a very high-profile issue, prudential regulation, but the PRA operates within the Basel system and within the European Union.

Christiane Kent: There are various consultations currently occurring looking precisely at this issue, the differential between the standardised and the internal weighting approach, and the PRA has been commenting very positively about reforming the system in order to reduce the differentials. Their view is very much that you need to attack it from both sides. It is not just a question of changing the standardised approach or changing internal risk. You need to attack it from both sides as part of your process.

Q79 Mr Jacob Rees-Mogg: That is potentially very important. If the large banks had to increase their risk weighting on mortgages, the cost of mortgages would inevitably go up. I am not sure that most of our electors would be hugely keen on that as a prospect. Mr Smith, you said there is an “if”, if small banks are right in thinking that this is a barrier to entry. In your own personal view, and in the provisional report, it is not much of an “if”, if it is such an increased cost in terms of making a mortgage loan then it must be a barrier to entry.

Alasdair Smith: It is a barrier to entry if the new bank wishes to go into mortgage lending. As it happens, I was talking to the chairman of a new bank yesterday who had no ambitions to do any domestic mortgage lending, so it is not an issue for them.

Q80 Mr Jacob Rees-Mogg: On the competition objective that the FCA now has, I wonder if you could give views on how effective that is and to what extent regulation remains a barrier to competition, in terms of getting new businesses up and running, and getting the flexibility that they need. People talk theoretically about welcoming new competition, but when they actually have to do anything to introduce regulation, they are suddenly frightfully worried that the new bank might run off with all its investors’ money and, therefore, they clamp down and do not make anything happen.

Daniel Gordon: It is probably beyond the remit of this investigation to express a view on the FCA's primary duty. For the CMA executive and for the wider competition landscape, it was a good thing and it is good to see, following Cruickshank's recommendation all those years ago, that it will finally be enacted. The FCA does have a very strong competition team that is taking that duty seriously, from what we can see.

On regulation and barriers to entry, for those of us who have looked at this sector over a number of years, there has been a major change. At the time of Cruickshank, for example, no entry had taken place in the previous century, I think. In the last 10 years, there has been quite significant entry, which is a recognition of the change of the barriers to entry and the prudential requirements being more competition-friendly, but it is not entry that is so much the issue now. It is growth, so it is entry at scale. That constraint is the point we keep returning back to. If you are a good competitive bank offering a good proposition to a consumer, how do you win customers? That is about unlocking these barriers to choice and to movement.

Q81 Mr Jacob Rees-Mogg: This comes back to Mr Hammond's question and the question that keeps on reverberating. Why do people not want to change bank? What is the obstacle? This moves on to another side of regulation; is it all the money-laundering stuff, not necessarily because the money-laundering stuff is enormously onerous, but because people think that it is onerous. I do not think I have a declaration of interest to make on this occasion, but I am also an investment manager and therefore I see this in my business. Money-laundering regulation is onerous on the bank, so they are very nervous of making mistakes, but it is a bore for customers. As a customer, one of the reasons I do not want to change bank—I think my bank is absolutely superb, provides me with wonderful service, has jolly good people and so on—is that you have to turn up with your passport, utility bills, inside leg measurement and all of this. That discourages people.

Adam Land: That is certainly an area we are looking at in terms of remedies, particularly for small business account opening. Our assessment of the issue is essentially more or less as you have said it. The regulations are what they are and they need not be a barrier, but there is a high degree of caution, quite understandably, on the part of the banks and then they all have their own slight spin on how you meet the obligations. One of the areas we are keen to explore is whether it is possible to have a simpler standard opening procedure, which still complies with anti-money laundering obligations, but which does not pose the same sorts of barriers to the small firms, in particular, for switching. That is definitely something that we will be looking quite closely at over the next few months.

Q82 Mr Jacob Rees-Mogg: It is difficult for individuals, but even more complex for firms.

Christiane Kent: We have not found it a particular difficulty for individuals. Our survey evidence did not find that the account-opening process was a big barrier to people switching and thinking about that. For a lot of banks now, you can walk in and open an account. Yes, you have to bring ID, but it is a fairly quick and speedy process.

Q83 Mr Jacob Rees-Mogg: Whether it will be for any of us politically exposed persons, I do not know, but that is another regulatory issue I might leave to one side. The ring-fencing regulations may be creating increased costs for banks. Do they become a regulatory burden that makes competition harder or, even if it does not make competition harder directly, puts pricing up for consumers?

Alasdair Smith: In all our dealings with the major banks, we asked them about the read-across from ring-fencing to the areas of banking in which we are interested, which are all very firmly inside the ring-fence. They did not have very strong messages for us to say that it was a problem for competition in retail banking. Given that they are not entirely enthusiastic about ring-fencing, if they could have mustered arguments to say that ring-fencing was going to cause problems for personal customers or small businesses, they would not have been reluctant to come forward with these arguments. One bank, which for commercial reasons said it wished to put some of its services to SMEs outside its ring-fence, said that was going to be a problem for it but, as we understood it, that is a business decision they were making, rather than an inherent problem in the ring-fencing system.

Q84 Mr Jacob Rees-Mogg: It does not increase their cost of capital because it is harder for them to use more sophisticated techniques to get extra value that their capital, particularly binding mortgages and so on.

Alasdair Smith: It may well increase their cost of capital somewhat, but they did not come forward with any argument that that was somehow going to distort competition for retail customers.

Daniel Gordon: There is clearly an overlap between the “too big to fail” argument and competition. A healthy competition landscape typically requires a risk of losing business and suffering as a result. That is probably the major factor and was clearly discussed by Sir John Vickers and the commission, in the ICB report.

Q85 Mr Jacob Rees-Mogg: I do not know whether you have read the brief, because you have gone on exactly to the next question, which is that Mr Bailey, when he gave evidence to us, said that there was not a single large bank that you could be certain would not fail, so the “too big to fail” issue remains a real problem. Do you think that competition may become an answer to that, if you have small banks, or does it just eventually make the UK banking industry hopefully inefficient? If you have endless small banks, they may not be too big to fail, but you do get the scale and the advantages that come from that.

Daniel Gordon: There is a risk of failure and bankruptcy as a result of losing business, and there is a risk of failure and bankruptcy as a result of taking excessive risks. Clearly our remit is on the first and the PRA’s is on the second. If you compared the pressures on most retail outlets and retail sectors, as a result of commercial decisions and the impacts that those commercial decisions have on day-to-day business, they are much greater, by and large. That goes back to the points that Alasdair was making about the stability of market shares and competitive banks with new propositions not winning business. It is not just

about consumers and SMEs leaving money on the table, in the sense that there are gains for them today from switching; it is actually the innovation in the sector. You do want good commercial banks with lower costs that can offer those things, innovating and winning business as a result. That is where the real efficiencies will come.

Q86 Mr Jacob Rees-Mogg: Thank you very much. Earlier, Mr Gordon, you were reluctant to comment on the FCA, saying it was outside your remit. I am now going to ask you to comment on the Chancellor, which you may think is even bolder, and the banking surcharge and its effects. I am happy for anyone to answer this question of whether the extra surcharge on corporation tax deters competition or whether the £25 million exemption is sufficient to ensure that the new competitor is protected and is an appropriate level for more profitable, bigger banks.

Alasdair Smith: The simple answer to that question is that it is an important issue for us to look at. It came up relatively recently. We are proudly an evidence-based decision-maker. We wish to take evidence and consider evidence on this issue before making a statement on it. We could not do that in time for our provisional findings for the report. We will do it in the next stage of our work, so we will comment on whether the bank surcharge is a barrier to entry in our final report.

Q87 Chair: When are you going to do the final report, Mr Smith?

Alasdair Smith: It is due by May. The beginning of May is our statutory deadline for the final report.

Q88 Chair: Might you be able to do that piece of work earlier, so that it can influence the Budget in March?

Alasdair Smith: As I said, our processes are evidence-based. They also involve lots of consultation with parties, and that is why we have a provisional findings report.

Chair: Fine, we do not need a long discussion on it. Would you take that thought away?

Alasdair Smith: I am sorry; I was saying we are institutionally sympathetic to that idea. If we were going to make a strong statement about the banking tax, we would like to put out a provisional view in the form of a consultation on it. I can see the attraction of doing that before the Budget.

Chair: As early as possible next year.

Q89 Mr Jacob Rees-Mogg: My final question is on deposit insurance. That is obviously something that helps competition. Ordinary customers and SMEs know that their deposit is insured. That is a very important factor in opening an account with a smaller rival. This has just been reduced from £85,000 to £75,000 though, during the crisis, it was unlimited anyway, so whether it is a real figure is a debateable point. Do you think that is helpful to competition or that actually we

ought to be looking at having levels of deposit insurance anyway—that the £85,000 was too low? I asked for your comments on the FCA and the Chancellor. Now let us go higher still, to the European Union. Is having its level set by the European Union in euros unhelpful for competition and unhelpful for the market?

Adam Land: Our focus in this investigation has been on current accounts. Even Alasdair might not have that much in his current account. I am not sure, but it has not been the primary area that we have been looking at on the regulatory side.

Christiane Kent: We have not found evidence to suggest that it is a factor in switching.

Alasdair Smith: I would have thought it is inherently pro-competitive in the sense that, for someone who is thinking about whether to put their deposit in an established bank or a new bank, deposit insurance gives them assurance that a new bank is not going to run away with their £50,000.

Christiane Kent: Whether that is £75,000 or £85,000, we do not have a view.

Q90 Mr Jacob Rees-Mogg: For someone at the margin, it is less competitive. The better-off customers who may have £85,000 are unlikely to move to a smaller bank if it is a £75,000 limit, but this is probably pretty marginal on the grand scheme of things.

Daniel Gordon: Nothing comes without cost. Insurance comes with a cost. What we would say here is two things. One is that nobody has really raised it with us as a barrier. The challenger banks have not really raised it with us as a barrier and, when we looked at the factors that have determined people's choice, this really was not on the list.

Q91 George Kerevan: You will forgive my inelegant splutterings earlier. It is just that it has been the sine qua non of economic competition theory for over 100 years that, when it comes to competitive markets, it is the marginal cost and not the fixed overheads that are key. The marginal cost pricing and customers knowing the marginal cost actually drives competition and maximises profits, but we can come back to the theory another day.

I want to talk about another issue of the markets, which is the payment system and barriers to entry. For colleagues and those listening in, the payment system, standing orders, ATMs, point of sale, is all handled for the banks by a standalone organisation called VocaLink. VocaLink is essentially owned by a cartel of the major banks and, in paragraph 110 of your report, you say, "We have identified a number of issues, with respect to payment systems, which suggests that indirect participants," i.e. new and smaller banks, "may be at a competitive disadvantage compared to direct members," i.e. those who own the VocaLink system. If new banks are at a competitive disadvantage, what are you doing about it?

Alasdair Smith: We have had discussions with the newly established Payment Systems Regulator about this. These issues are not just at the heart of the remit of the Payment Systems Regulator; they are the remit of the Payment Systems Regulator. We would be

reluctant to get involved in duplicating the work of the Payment Systems Regulator, and the discussions that we have had with the Payment Systems Regulator reassure us that they have a sensible agenda for doing their work on these important issues. We think that it is appropriate to leave that to the PSR to deal with.

Q92 George Kerevan: If I said that that sounded very much like passing the buck, what would you say?

Alasdair Smith: I would say it is absolutely not passing the buck. Parliament has set up the Competition and Markets Authority to do a range of tasks and the Payment Systems Regulator to do a range of tasks. The subjects of regulation, the customers of the banks and the banks themselves, have a reasonable expectation that regulatory agencies will not fall over each other and try to do a double job of one task.

Q93 George Kerevan: There is mounds of research on this. You have produced interim reports on this very subject. If it is not your responsibility, why are you wasting your time doing it?

Alasdair Smith: I am sorry; we are not wasting our time doing it. We have talked to the PSR about it. We are happy with the PSR's work programme, and it is efficient from every perspective that the PSR should proceed with this work and that we should not.

Q94 George Kerevan: What is worrying this Committee is delay. The regulator Hannah Nixon has been talking to CMA and she says, "We share their concerns"—your concerns. What is happening, though, is that the regulator was set up in April, but there had been work going on for a year before that. You have produced lots of interim research. You have talked to various companies. You have talked to all the people involved in VocaLink. It just might be interesting if you had some views on how the architecture of the payment system and access to the payment system might be affected, in order to improve competition. You have gone through the exercise of presenting the information, but there are no conclusions.

Alasdair Smith: We have had a lot of discussions with the banks that are the owners of VocaLink. In our discussions, particularly with the new banks, they have expressed a range of concerns about payment systems, the ownership of payment systems, indirect access and direct access to payment systems. We have not done a lot of work on payment systems for the reasons that I have said. We think it is appropriate that that work should be done by the PSR, and the PSR's timetable pretty much runs in parallel with our timetable, so there would not even be an advantage in timing for us to duplicate the work of the PSR. Duplication simply would not make sense and would not be a good use of the resources of the two organisations.

Q95 George Kerevan: Do you have any views at all on how access to the VocaLink cartel could be improved for new and challenger banks?

Alasdair Smith: We know that there are serious issues there and, incidentally if I may say so, these were issues that were identified in the Cruickshank report. It is very good, since people often make remarks that say that nothing has moved on since Cruickshank; all the Cruickshank problems are still there. Things did not move on from Cruickshank quickly enough, but the establishment of the Payment Systems Regulator is a very important, if somewhat belated, outcome of the Cruickshank report. It is very welcome. The problems are very real problems. I am in no way saying that we think they are not problems worth looking at. We think they are very substantial issues that need to be looked at by the PSR.

Q96 George Kerevan: You will forgive me if I think that, both from my point of view and the point of view of constituents, simply creating another regulatory body is not progress. It is simply creating another regulatory body, another set of reports and more discussion. As I understand it from Ms Nixon, she is going to present interim findings early next year. I presume therefore that we might get a final report maybe at the end of next year so, yet again, we have more and more delay. The issue here for this Committee is to improve competition in the banking sector. I will ask you again if you think, for instance, that challenger banks as a rule should be allowed access to the board of VocaLink, rather than have to go through as clients of the existing banks.

Alasdair Smith: We have not formed a view on that. We think it is an important question. We are content with the PSR's plans to address these issues. We are content with the timetable of the PSR. I completely understand why it is frustrating for people who see problems and want them addressed quickly. We all want to address the problems quickly, but the issue of the payment system raises some quite fundamental questions, for example the question of whether the whole payment system is, as you said, managed by a group—I will not repeat the word that you used.

George Kerevan: “Cartel” was the word I used.

Alasdair Smith: I would use the neutral word “group”. It is managed by a group of banks. One alternative would be to treat it as a public utility, which would be regulated. That is the kind of issue that I imagine the PSR is going to look at. That is not an issue, with respect, that you can knock off in six weeks and make a decision on. It is an issue that will require careful study by the PSR.

Q97 Chair: You do not think it is a cartel.

Alasdair Smith: It is not an issue that we have looked at and you will understand, Mr Chairman, that a competition agency must necessarily be extremely cautious about the use of such words that have heavy legal meaning. We have not looked at the issue, so we have no view on it, other than, as I said to Mr Kerevan, we recognise that the ownership of the payment system is an important issue that deserves to be looked at carefully.

Q98 George Kerevan: I accept that you say that but, in your discussions with Ms Nixon, have you advised her in any way on how you think the architecture of the payment system should be reconfigured in order to reduce barriers to entry?

Alasdair Smith: No, because we are happy that the PSR has the resources and the work programme that will enable it to address this issue. We have had important and productive discussions with them. If we had set out on these discussions by telling them how to do their job, the discussions would have been less productive than they were.

Q99 George Kerevan: I appreciate that, but you seem to have suggested that you had no views to express.

Alasdair Smith: No, on the contrary, I expressed the view that these are important issues. They are potentially serious barriers to entry, and it is appropriate for the PSR to address them. These are the views that we have to express.

Q100 George Kerevan: Therefore, without crossing the line into advising, there must be a broad category of things that you would like to see the regulator achieve, which you would then come back to if they did not achieve. In broad outline, what do you think needs to be changed? What is it that you think the regulator should be addressing? If you think there are potential barriers to entry, presumably you think the market should be opened up to more involvement.

Alasdair Smith: I will bend a little bit and say that I agree with you that the ownership of a payment system that serves all of the banks, by a subset of banks that happen to be the large and well established banks, which then provides a different level of service to its owners from the service it provides to its customer banks, the smaller banks that have secondary access to the payment system, is a system that raises important questions about competition. We are pleased that the PSR is addressing them.

Q101 George Kerevan: If somehow those issues were not addressed, as the body overseeing general competition, you would come back to that.

Alasdair Smith: I do not speak for the CMA. The market investigation is an 18-month investigation conducted by an independent panel, and we are not accountable to the CMA management or part of the ongoing work of the CMA.

Let me answer instead a hypothetical question. Suppose that the PSR had been in being for the last five years and we heard from the challenger banks that the PSR had failed to address those issues. We would then have looked at the issues and would have put—the polite word is—recommendations into a report about the PSR getting its act together, but that is not the situation we are in. The PSR is newly established. We are confident that it has the right agenda and the right timetable, and we will have finished our work long before the time comes to make an assessment of the effectiveness of the PSR.

Q102 George Kerevan: You are sounding very happy about that.

Alasdair Smith: Yes, I am indeed happy.

Q103 George Kerevan: You do not have to express an opinion.

Alasdair Smith: No, on the contrary. If anything this afternoon, I perhaps have given you too much of an impression of my willingness to express opinions about various things. I am happy because I agree with you that the issues of the payment system are very important issues about competition and free entry into banking. They are very big issues, as Cruickshank addressed. I am unhappy about the fact that it took a long time for the issues addressed by Cruickshank to be addressed. I am happy that the PSR is now addressing these issues. These are the things that make me happy. You may feel that I am too easily pleased, but that is where we are.

Adam Land: I worked on Cruickshank on the payment system stuff, so I am even happier than Alasdair that we have established the PSR, just to make it clear.

Q104 Wes Streeting: I want to stick with how we generate more competition. As George says that is really where we are focusing our attention. Just very briefly following on from Jacob Rees-Mogg's questions about the impact of the banking levy, I have seen a copy of the letter that John Kirkpatrick sent to the Treasury on 29 September, explaining some of the practical barriers to the CMA making an assessment at that stage of the impact of the broader changes in the Finance Bill. Can I just clarify? Before that letter was sent, did any discussion with the Treasury take place about the timeliness or suitability of the CMA looking at the provisions in the Finance Bill?

Daniel Gordon: As Alasdair was saying, this is an independent investigation that is carried out by an independent panel. It is probably best for us to get back to you separately, through Alex Chisholm, as the Chief Executive of the CMA board, on those explicit points. Those requests were made under powers that are a bit different.

Alasdair Smith: I am happy to add for a piece of information that John Kirkpatrick certainly talked to me and said there had been some communication with the Treasury about this. I am sorry; my memory is imperfect. He may simply have been reporting the fact that you, Mr Chairman, had expressed the hope that we would look at this issue.

Chair: That is correct.

Alasdair Smith: I had a conversation with John Kirkpatrick, in which I said it seemed to me that it would be very odd for a different part of the CMA to look at the competition implications of the banking tax, while this investigation was looking at the range of issues we have been discussing this afternoon. It would be natural for us, in the second phase of our inquiry, to do whatever it was sensible for the CMA to do on the banking tax.

Wes Streeting: I appreciate that. I think that underpins the Chairman's point about the timeliness of seeing that analysis ahead of the budget.

Chair: If there is something the matter with this tax on those grounds, then we had better find out about it as soon as possible. I wrote to you almost immediately after the budget, I think. When was that? That was in the summer and we are now in November, so we are hoping that this work is well advanced and that you are going to be able to give us an answer very shortly.

Q105 Wes Streeting: Absolutely. Turning to challenger banks, in your view, have any of the challenger banks reached the necessary scale to exert competitive pressure on the big guys, across the whole suite of retail banking products?

Alasdair Smith: Off the top of my head, I would say that in London Metro Bank has had that kind of impact on banking in London. Within the London metropolitan area, they have a large and apparently very well situated branch network offering services to personal customers and to small businesses. I believe, from what we have heard of Metro Bank and the responses of other banks, for example in relation to opening hours—it is not something we have looked at systematically, so I am talking rather casually—that Metro Bank has had an impact in London.

The other striking new entrants are at an earlier stage. We are about to see a wave of internet-only banks coming on to the market, it would seem, most of them focused on current account customers. Probably because they are internet or mobile-phone-based banks, they are orientated towards younger customers, but some of them are orientated towards business customers. We are at too early a stage to make judgments about how successful these banks are going to be.

Q106 Wes Streeting: There is one breakthrough. Others are trying. It is not that challenger banks are not trying hard enough. They are trying, but levels of concentration in retail banking are still high. One of the things that we have picked up, which is borne out in some of the frustration of colleagues this afternoon, is that many in the banking industry itself, particularly at the smaller end, seem disappointed with your provisional findings and were hoping for something more ambitious. Do you think that, at this stage, there has been a missed opportunity to generate some real competition, particularly to allow some of the challenger to break through?

Alasdair Smith: I would say two things in response to that and other colleagues may wish to add to it. When the smaller banks look in detail at what we are proposing and the fact that, in relation to remedies—I am sorry to repeat the point again—we are laying out an agenda, rather than a final menu of things that we want to address; when they look at the detail, they will see that, actually, there is a lot of agreement between what we are looking at and the things that the new banks wish us to look at.

If I just take the example of TSB, a week before we produced our report, TSB produced a very interesting statement about the things that they thought needed to be done to improve competition in banking. While our report was already written, I was very reassured that we were addressing the issues that TSB wished to address. Obviously we will look very carefully at the various concerns and the various questions that the new banks have raised, under the generalised heading of disappointment that we are not going far enough, not that we are promoting them, but their agenda is very much our agenda. We think that new banks coming on to the scene is a very important part of increasing competition in the market. If there are things that the new banks think ought to be done that we are not doing, we will look at them very carefully.

Just to pick one example, not wishing to resurrect the slightly more painful part of this afternoon's discussion, Virgin Money has made a statement in relation to free-in-credit banking about what they would like to see. They would like to see us forcing banks to pay interest on current account balances. We will look at that. We start off, I have to say, with a degree of scepticism about paying, for most people, relatively modest interest on current account balances and presumably also hitting the same customer with monthly charges being either pro-competitive or popular.

I think I know the answer to the second question. It will not be popular, except incidentally with the big banks, which would probably have been quite happy had we imposed monthly charges on all bank accounts. Sorry, I am going on too long, but we will look carefully at what Virgin and other new banks have proposed and make sure that all of the proposals are looked at very carefully.

Q107 Wes Streeting: It is also worth pointing out that the frustration that we are picking up is not just from the smaller end of the banking industry. It is also from wider business. Recently, I was speaking to my local Chamber of Commerce in Redbridge. I am sure others get the feedback, which is now well known, which is the frustration of lots of small and medium-sized businesses in particular that they are finding it harder to get access to finance from their banks and they would benefit from competition.

When the British Chamber of Commerce is saying, as they did in late October, that they feel that, while you have chosen to avoid massive structural change in the business banking market, "The CMA could have suggested further remedies to boost competition, or signalled alternatives to Government, such as a beefed-up British Business Bank," do you accept that there is a broad criticism from consumers and also from the industry in terms of what they were hoping for? There is still an opportunity in terms of the final report. They want to see some really concrete proposals that will lead to direct competition and breaking up some of the hegemony that the big guys still exert in the banking sector. Is that lack of specific recommendations coming through a criticism you would accept and something you would reflect on, ahead of the final report?

Alasdair Smith: It is not a fair criticism in relation to personal banking, where we have put forward a very specific and potentially powerful package of remedies. It is fair to say that the problems in SME banking are seen as more deep-seated. Competition problems in SME banking are really deep-seated, partly because businesses are very much tied to the relationship with their existing bank. There are good business reasons why you do not change banks lightly, which gives existing banks a strong competitive advantage in holding on to their customers.

We will certainly be looking at anything concrete that the British Chamber of Commerce has to suggest. When people are disappointed, they have a duty to say, "I am disappointed because you did not do something." Just to say, "You did not do something better," is not enough. They have to say, "Because you did not do the following things, which we would like you to pursue." We are keen to hear those kinds of suggestions.

Daniel Gordon: If I could add, this is not an easy issue. We all know this. There have been many investigations along these lines, for a long time. If there were an easy nut to crack, it would have been cracked already. It is the same issue internationally, in every member state in Europe and beyond that, this absence of switch. If there was a radical solution, we would think very seriously about it. If it involved structural remedies, we would have thought seriously about it. The reasons for not going for those things is, on a plain and straightforward assessment, they do not look like they will work. They look like they will create more damage than they will create good. That is our initial thoughts and we are looking for feedback on that and for responses to that.

If there is a concern about the lack of specificity of our recommendations and our proposals, this is the initial remedies notice. This is exactly the time to get that input. That remedies notice is not intended to be totally specific. It is so we can get meaningful consultation and be pointed in the right direction on the evidence that will work. However, the reasons for optimism are along the lines that we have been talking about. The changes are in terms of data availability, and we are learning better ways of prompting people and getting people engaged. We have tried for a long time to throw more information at them, and getting the right information to people is important, but it has not been enough, and there are further steps that need to be taken. We are learning that.

Q108 Wes Streeting: Finally, one thing I do want to pick up on is the CMA's broader view of Government policy and whether it is sufficiently supportive towards challenger banks. Could you just outline what your view of what the impact of the Funding for Lending Scheme has been on competition? If you think it is positive, do you think there is a danger that, when the scheme ends, challenger banks will find it harder to compete?

Alasdair Smith: The challenger banks have certainly told us that the Funding for Lending Scheme has been very helpful to them. They have told us that they are keen to have some kind of successor scheme to it. Beyond that I do not think I have anything to say. I think that is as far as we can go on that one.

Q109 Stephen Hammond: I just want to make sure we put this on the record, because it is quite important about the basic bank accounts. You clearly said that these are being provided at below economic cost and at a loss. Therefore, there is no reason to suppose that there will ever be competition in this market. That must be your view.

Alasdair Smith: Yes, these accounts have been provided as a result of a deal between the banks and the Government, because they would not have been provided by the market.

Q110 Stephen Hammond: Broadly speaking, they are just window dressing. Banks are going through the motions. They do not really want to increase access to low income, because they cannot provide a low-cost product. It is basic window dressing.

Alasdair Smith: I would not use the term “window dressing”. There are objective reasons why provision of basic bank accounts is uneconomic. People who have basic bank accounts necessarily tend to have low balances. They typically do not have overdraft facilities. They are probably not the kinds of customers who do lots of foreign exchange transactions, but they nevertheless have free access to ATMs and so on. It is good that we have a system for providing such people with bank accounts, and it is not window dressing to have them provided for them.

Q111 Stephen Hammond: I will not use the term “window dressing”, but it is a regulatory necessity.

Alasdair Smith: Yes.

Q112 Stephen Hammond: I just thought it was important to have that very clearly on the record. I have two quick questions about SMEs. We had a long discussion earlier in the evidence session that price comparison websites were difficult for personal accounts. On the basis that the banks are still seeing the same sorts of concentration in the SME market, but one might suppose that the SME is a more sophisticated customer, do you not think, for want of a better word, a price comparison website or information available in that market would actually encourage a greater breakdown of that concentration?

Adam Land: We have a few thoughts about SME lending, in terms of possible remedies, which we are exploring. Some of the things we are looking at in terms of switching and comparisons have the potential to work well with SMEs, so the Midata initiative that we have discussed makes sense for SMEs insofar as they are incurring all those charges and they are quite specific. Actually getting a simple quote that they could compare is something that would work well for SMEs. That is one area.

We have put on to our remedies notice and are consulting on a price comparison site for SMEs. There are various things out there, but nothing really powerful at this stage, so we are certainly consulting on that. The other big area that we are thinking about in terms of SMEs is what you would call open data, so at the moment small companies, but whoever is their current banker has an information advantage or an incumbency advantage in lending to them. Empowering SMEs to share their data either through credit rating agencies or through open data initiatives, with other lenders, gives a real chance to break into that cycle. At the moment, our estimate is that over 90% of SME loans come from the current account provider. We think there is a real opportunity to break into that, by giving other people a shot at that business.

Q113 Stephen Hammond: Within that open data provision, do you not think that one of the things that might be significant in your list of remedies would be if you were to make available or force greater availability of the benefits of alternative funding platforms, such as peer-to-peer lending?

Adam Land: That is potentially quite an important part of that solution. One thing we have found is that, if you are a small firm and you are looking to apply to a bank other than your own bank, it is quite difficult to find out whether they would want to lend to you, under what terms and so on. It takes a long time and there is nothing upfront about that. We would think about measures partly targeted at the existing banks to be more proactive in terms of quoting but then, as you say, at the moment the peer-to-peer lending sector is small, but growing rapidly. They are clearly keen to get this business, so we would see that as being an important part of that. Having online marketplaces where people needing the capital can meet the people with the capital seems like a very good way to go.

Q114 Stephen Hammond: I take it that you view that as a viable potential alternative for SMEs.

Adam Land: It is very difficult to judge at this sort of stage, when you have something that is very small but growing rapidly. It is one of those S-shaped curves. You are right at the bottom and it is sort of going up and you do not know how far it will go, but that is certainly that we would be keen to explore and encourage, in terms of making the SME lending market work better, which everyone here has said is a real challenge. We appreciate that it is a real challenge, but we would certainly want to encourage alternative lending models, as well as greater competition between the existing players.

Alasdair Smith: Just to go back briefly to the issue of price comparison websites, Adair Turner said some interesting things at the weekend about why price comparison websites, on their own, are not the answer to SME banking. The banking relationship involves issues that are not easy to convey in a comparison website, so it can only be part of a wider programme.

Q115 Stephen Hammond: I take that point. The point I am making to you is that, earlier on, we had a long discussion about these being very difficult for personal accounts to access, for all sorts of reasons. The reality must be that the SME user potentially has a slightly more sophisticated relationship with banks, so it ought to be easier for them to use price comparison websites. I accept it is not the only answer.

Adam Land: I think it potentially has a role as part of a package. That is our position, so we are definitely looking into that.

Christiane Kent: A large number of SMEs are sole traders, so they are personal customers who happen to have a business. I do not think one can state that they are necessarily more sophisticated than most personal customers. One of the things that we are looking at is what role intermediaries can play in helping to support SMEs in lending and advising on lending options. That is certainly a role we want to look at.

Q116 Stephen Hammond: Could I just follow on from that? You would also take the point, a bit like the analogy from TSB in the personal market, that the breakout of Williams & Glyn in the business market has made relatively little

effect or is showing no signs of making any effect on the concentration of small business accounts.

Christiane Kent: It has not broken out yet.

Q117 Stephen Hammond: It is on its way. We all know it is coming.

Christiane Kent: Obviously it has not had an impact yet. We will have to wait and see.

Q118 Stephen Hammond: Sorry, it is likely to make an impact.

Christiane Kent: It is going to have a minimal impact if we have the same situation as we have now, with customers unable and finding it very difficult to switch. They are going to face exactly the same problems as current new entrants and current smaller banks in trying to acquire customers.

Q119 Chair: Have any of you switched banks as a consequence of what you have found out?

Christiane Kent: I am more than happy to say I have become a multi-banker, rather than a full switcher.

Daniel Gordon: Yes, I gain a bank account every time I do a banking inquiry.

Chair: That is two out of four.

Alasdair Smith: No, I confess to not having switched for the reasons that I have already disclosed.

Adam Land: I have been with my bank for longer than I have been married and I have been married a while, so I am one of those people, I am afraid.

Alasdair Smith: You are doubly faithful.

Q120 Chair: You have had access to a unique amount of information. It is likely to be more than anybody out there is going to be able to obtain, any ordinary consumer, and your task is to find a way of putting together that information in a way that can give the same advantages that you have had. If the Pinsent Masons survey is right and the perception of open data security problems will deter the majority of consumers from using price comparison websites, a central part of your approach is vulnerable, is it not? In effect, that would have shot a key fox in your recommendations.

Alasdair Smith: I would prefer to take the optimistic perspective, Mr Chairman. I agree with you that the central part of our recommendations, not just for professional customers but business customers as well, is this suite of tools to encourage customers to engage, to provide the information and to provide them the confidence about switching.

Chair: We have heard that several times.

Alasdair Smith: I agree with you the security of personal information is at the centre of that package, and we very much hope that we will crack that problem, because it is central to what we want to do.

Q121 Chair: With respect, we have been hearing about a suite of tools that is about to crack this problem for the whole time that I have been in Parliament. I was on this Committee as a Member shortly after the Cruickshank report was published, all those years ago. That was 15 years ago and we are not really much further forward. If you look at concentration ratios, partly as a consequence to the crash and our response to it, we are pretty much where we were. The customers still feel pretty much as they always did about their bank account. It is Hobson's choice; there is not a ha'p'orth of a difference between them. It is risky switching anyway. Whatever the reality, those are the perceptions, so you have a heap of problems to address here and an extremely important issue.

Parliament is very concerned about it and I hope you have a sense of just how concerned today. It is quite likely we will want to take more evidence even on your interim report, never mind your final report. It has been the view of Parliament for a long time that, unless you can get to a point where an individual pretty much knows what he is being charged by his bank each year, and can go with what he is receiving from his bank as a list of services to a rival and ask them how much he would be charged, we are not going to get meaningful competition in the UK banking market, and that is your challenge. I will not have the last word. I will leave you to have the last word, Mr Smith.

Alasdair Smith: Mr Chairman, we very much share these concerns. If it would be helpful for the Committee for us to come back, even before a final report, we would be very happy to do so.

Christiane Kent: Can I just mention that we will be publishing our provisional decision on remedies, which is far more detailed and is obviously an area we have focused on today? That is due in early February.

Q122 Chair: That did not inspire confidence, because it ruled out one of the things that many people in Parliament have been arguing for for about eight or 10 years, as I pointed out earlier.

Alasdair Smith: We will indeed be looking at whether the provision of information to consumers, which could include something of the nature of, "This is what your bank has cost you," will be an effective prompt of better behaviour. In spite of us having had a welcome exchange of views this afternoon, in which we did not always seem to be in agreement, I want to emphasise that we very much share your concerns and we hope that, when we produce our final report, you will share our optimism about its likely efficacy.

Chair: I will have the last word. Optimism has been in scarce supply in recent years, in the banking sector generally and in competition in retail in particular. Thank you very

much for coming to give evidence to us this afternoon. I suspect that this is not the last that we have seen of you before this Committee. We look forward to the further work you will be undertaking shortly.

Alasdair Smith: Thank you for the discussion.