Financial Conduct Authority

Making current account switching easier

The effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability

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Contents

Although not a formal consulation we welcome feedback on this report.

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Abbreviations in this document

AER	Annual equivalent rate
ANP	Account number portability
ATM	Automated teller machine ('cash machine')
Bacs	Bacs Payment Schemes Ltd
BCA	Business current account
CASS	Current Account Switch Service
CMA	Competition and Markets Authority
CPA	Continuous payment authority
FCA	Financial Conduct Authority
IBAN	International Bank Account Number
ICB	Independent Commission on Banking
MIR	Market Investigation Reference
OFT	Office of Fair Trading (the CMA's predecessor)
PAD	Payment Accounts Directive
PCA	Personal current account
PIN	Personal identification number
PSF	Payments Strategy Forum
PSR	Payment Systems Regulator
SME	Small and medium-sized enterprise
ToDDaSO	Transfer of Direct Debits and Standing Orders
the ombudsman service	Financial Ombudsman Service
the Treasury	Her Majesty's Treasury

1. Executive summary

Introduction

1.1 A key driver of effective competition in a market is consumers' ability to exercise choice. If consumers can switch easily between different products and providers, firms will have strong incentives to improve the products and services they offer to retain and attract customers. The ability for consumers to switch easily and with confidence fosters competition in a market.

1.2 The Current Account Switch Service (CASS) was launched in September 2013. It is a voluntary scheme set up as part of an industry wide programme by the Payments Council and owned and operated by Bacs Payment Schemes Ltd (Bacs). It makes switching current accounts simpler and quicker for customers. Some 40 bank and building society brands participate, accounting for over 99% of the current account market. It is available to all individuals, as well as some small businesses and charities.[1]

1.3 The Financial Conduct Authority (FCA) agreed with Her Majesty's Treasury (the Treasury) that in September 2014 it would launch a review to consider (i) the effectiveness of CASS, and (ii) the costs and benefits of account number portability (ANP) as a means of increasing competition in retail banking. In the December 2014 Autumn Statement, the Chancellor also asked the FCA to advise on whether a reduction in the minimum switching time from seven to five working days would deliver significant benefits to consumers. This report sets out the findings of the review of CASS, the benefits of reducing the switching time and the initial evidence gathered in relation to ANP.

1.4 This report will interest industry, including existing and potential current account providers and industry organisations, as well as consumer groups, individual consumers and small businesses seeking improvements to current account markets. It will also be relevant to organisations such as the Payment Systems Regulator (PSR) and the proposed Payments Strategy Forum (PSF). The report will also inform the Competition and Markets Authority (CMA), which is currently carrying out a market investigation into retail banking.

1 Eligible small business accounts are those with an annual turnover and/or balance sheet total that does not exceed €2 million (or sterling equivalent) and employ fewer than 10 people referred to as 'microbusinesses'. Small charities have an annual income of less than £1million and small trusts with a net asset value of less than £1 million. Changes to extend eligibility to larger businesses and charities will be implemented by the end of March 2015.

The effectiveness of CASS

CASS has made the switching process simpler and easier, though a small number of operational issues remain

1.5 CASS addresses the main practical barriers to switching that were raised by consumers in our consumer research, such as the transfer of incoming and outgoing payments and a guarantee in case something goes wrong.

1.6 Information from the Payments Council suggests CASS is operating well. Once started, 99% of switches are completed on time[2] and 89% of switches completed without any errors.[3] In addition our research found that satisfaction with the service is high, with 85% of personal current account (PCA) customers and 91% of small and medium-sized enterprises (SMEs) that used CASS satisfied with their experience.

1.7 However, we have identified a small number of operational issues, the most significant being the risks arising when the redirection service ends. Currently, incoming payments are routed to a customer's new account for up to 13 months. This gives third parties a period of time to update their records with a switching customer's new account details and means that payments to switching customers should not go astray in that period. Currently, around 8% of switched accounts still have at least one redirected payment after 12 months,[4] after which the proportion of accounts with at least one redirection falls further but much more slowly. If this is not addressed, there is a risk that when the redirection period ends, the number of payments that fail to be redirected will cause detriment to those directly affected customers and could also be sufficient to undermine confidence in the service. This will be temporarily mitigated by a planned extension to the redirection period to 36 months by the end of March 2015, but the issue still remains.

CASS has led to a small increase in switching volumes, though this needs to be seen in context

1.8 Our research shows that, for consumers who have not recently switched (in the last 12 to 18 months), their main barrier to switching is inertia. By this we mean that consumers do not even consider switching, for example because of the lack of a trigger to consider switching, a perception that it is not worth switching or that a customer has grown comfortable with their bank. Account opening and switching processes (which are seen by consumers as one and the same process) are typically cited as the second most important barrier.

1.9 The existence of other significant barriers to switching does not diminish the importance of establishing an effective switching process – it is an important element of a well-functioning market. But it does mean that simplifying and speeding up switching in isolation can only have a limited impact on switching volumes. This is reflected in the switching volumes reported by the Payments Council.

1.10 In October 2014, the Payments Council reported a 22% increase in annual switching volumes to 1.2m switches over the first 12 months that CASS had been in place, in comparison with switches under the previous industry switching process. Since September 2014, annual switching volumes have begun to fall back and by January 2015 were 16% higher than when CASS was launched and only 2% higher than the November 2012 peak in switching volumes using the previous switching mechanism.

2 The Payments Council, Switching Dashboard, January 2015. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/dashboards/cass_dashboard_-_jan_15.pdf

3 The Payments Council, The Current Account Switch Service One year on, September 2014, p13. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

4 Information provided by Bacs

1.11 We have found that awareness and confidence in CASS is low. If consumers are unaware CASS exists or are not confident using it, the service is likely to have a more limited impact. While figures published by the Payments Council reflect fairly high levels of awareness of CASS (69% of consumers aware in December 2014), our research finds much lower levels of awareness, with only 41% of consumers and 47% of small businesses having heard of CASS prior to completing our survey. This is supported by other surveys and anecdotal evidence from PCA providers – one found awareness as low as 16% among consumers surveyed in their own research.[5] Nevertheless, all results are lower than the target of 75% awareness set by the Treasury for June 2015.

1.12 Consumers' confidence in CASS is also currently below the Treasury's target of 75% of consumers confident by June 2015. The Payments Council regularly reports a score for consumer confidence that reflects survey responses to five measures of confidence (ease of switching, effort, speed, control and risk of error). The average score in December 2014 was 65%. However, our consumer research found that consumers' biggest fear when switching is something going wrong and that, in line with Payments Council findings, the measure for confidence in an error-free process is much lower than the average score. For example, in December 2014, when the average score was 65%, the Payments Council reported that fewer than 50% of consumers were confident CASS would complete their switch without error. Given that an error-free switch is the biggest concern for consumers, confidence in CASS is likely to be better reflected by this measure and is therefore still relatively low.

A reduction in switching time from seven to five days is unlikely to deliver significant benefits to consumers

1.13 As announced in the Autumn Statement, we have considered whether a reduction in the number of days it takes to switch to five working days, from the current seven, would lead to significant consumer benefits.

1.14 Our consumer research indicates that consumer interest in a five day switch service hardly differed from interest in a seven day service, in terms of whether the consumer would be more likely to consider switching. Speed of switching was not spontaneously mentioned by consumers as a reason why they are not switching, nor was it identified as a potential improvement to CASS. Consumers perceived some advantages of a shorter period, for example a shorter period to be concerned about something going wrong but also disadvantages as it was perceived the likelihood of something going wrong, such as an old account closing before a new personal identification number (PIN) and debit card had been received was greater in a more compressed time period. The time the switching process currently takes is in line with consumers' expectations and any reduction in the time taken is less important to consumers than it being easy and error-free.

1.15 All the findings mentioned above are broadly similar for retail consumers, small businesses and charities.

1.16 Consumers also told us that knowing the switch will happen on a particular date was more important than it being completed more quickly. Evidence from a small number of large banks indicates that between 10% and 50% of consumers choose an alternative date rather than having the switch completed within seven days of account opening.

5 The range of estimates for consumer awareness of CASS are likely to be the result of differences in survey design and methodology. Possible contributing factors for differing survey results include the point at which the question was asked in the survey and whether it was made clear that the question was about awareness of CASS prior to taking the survey. In addition the nature of the sample used can introduce a bias, for example if a sample is repeatedly taken from a larger panel of consumers, the same consumers may eventually begin to participate repeatedly in surveys.

Evidence gathered on account number portability

1.17 There are a number of other measures that may make switching easier for current account customers. ANP is one potential solution that we have specifically considered in this review.

1.18 ANP could potentially make switching simpler and easier for consumers by allowing them to change banks without changing their bank account details (the account number and sort code). One key area where perceived or actual problems can exist with switching is incoming payments going missing. Although CASS deals with such payments through the redirection service, ANP would eliminate concerns about the CASS redirection service ending and may further reduce the perceived and actual risk of error.

Retaining account details is attractive to a significant minority of consumers when switching

1.19 As part of our consumer research, we looked at the potential benefits to consumers of being able to retain their account details.

1.20 We have found that ANP may increase confidence among retail consumers in a smoother, error-free switching process. SMEs and charities that receive a high proportion of their income electronically also saw obvious practical benefits from their customers not having to update records. In line with this, we have found that a significant minority of both retail and SME customers say that they would be more likely to switch if they were able to retain their account details.

Further work is appropriate to study the costs and benefits of the options we have identified in more depth

1.21 There are a number of potential ways to enable portability of account details, but any solution is likely to require a number of features:

- routing of incoming payments from an old account to the new one (recognising that a customer may switch multiple times)
- a record of all current and previously issued account numbers, to prevent banks reallocating any numbers until such time that an account is closed (when, after an agreed period, a number may be re-used)
- a record of the payment mandates to be transferred from old bank to new bank and
- the capability to switch any existing balance from the old bank to the new bank

1.22 These requirements could broadly be delivered in two ways. Both achieve the benefits of 'portability' described above but involve varying degrees of complexity and cost:

- Building and managing the above functions within the existing market structure. Under this model, the additional infrastructure (i.e. the databases used to route payments, transfer balances and retain information on payment mandates and account details) would be built and run centrally as is currently the case with CASS. Banks and building societies would also retain their own existing systems.
- A 'central utility model' based on a central, shared banking platform providing back-office functions to the subscribing banks and building societies (including all the functions listed above). Banks would be able provide customers with differentiated products and services, different charging structures and interest rates, internet banking sites, or mobile banking applications, all using a common payment infrastructure. A variety of features could be developed depending on the ambition of this 'utility' model.

1.23 Notably, even enabling customers to keep their account details would not necessarily remove the need for them to change some payment details. For example, international inward payments refer to the International Bank Account Number (IBAN), which is a separate identifier not automatically linked to the customer's account details. Similarly, continuous payment authorities (CPAs) – regular payments associated with customers' debit cards – would not be transferred unless separate and specific arrangements were incorporated into the system.

1.24 The two options would involve very different costs and complexities, and involve different risk and benefits. They also have different incentives relating to ongoing investment and innovation in payment systems. The central utility model may provide an opportunity for investment in a new operating system, but it is not clear what incentives a single utility (effectively in a monopoly position) would have to either keep pressure on costs or to innovate in the longer term. This model might also make it more difficult or slower for innovation to occur at the individual bank level (e.g. if there was inflexibility in the central solution or banks had to queue up for development slots). However, it could also provide a common access platform for challengers.

1.25 The evidence we have gathered indicates that further work to quantify the potential benefits and costs of these options would be appropriate. However, given our conclusions on CASS, it is important to recognise that ANP can only help reduce barriers to switching that relate to the switching process itself. Changes to shopping around and switching would also depend on measures taken to address the other barriers to switching that exist (such as consumer inertia). Without other measures to encourage consumers to act, the impact of ANP alone may be limited.

Recommendations and next steps

1.26 We have developed a small number of recommended areas for further enhancements to CASS. These include:

- measures to raise awareness of the service, such as a targeted marketing campaign
- identifying ways to raise confidence levels in the service via the marketing campaign (for example by publicising customers' positive experiences) and refining the targets around consumer confidence to better reflect customers' concerns (such as an error-free switch), and
- working with Bacs to investigate and identify a technical or other solution to the problems that may occur if/when the redirection service comes to an end (this could include an unlimited extension to the redirection service)

1.27 We have provided the evidence we have gathered in relation to ANP to the PSR, the newly-created regulator of the payments industry. The PSR will take this work forward. It has recently consulted on a proposal to create a forum, the Payments Strategy Forum (PSF), to develop and agree strategic priorities and how to best implement these. The proposed PSF will be led by an independent chair, with members from a broad range of service users and industry participants. It is expected that the proposed PSF will use our findings, alongside any emerging findings of the CMA retail banking market investigation in relation to customer mobility, as it develops and agrees its strategic priorities for the payments industry.

1.28 Our recommendations will not seek to address other barriers to switching, such as those concerning the account opening process. These are in any case being more fully considered by the CMA as part of its market investigation into retail banking, due to report provisional findings in September 2015.

2.
Introduction

2.1 In this chapter we outline:

- the scope of the review
- the evidence gathered to support our analysis
- the structure of this report, and
- who this report affects

Scope of the review

2.2 This review considers the effectiveness of CASS as well as the costs and benefits of account number portability (ANP) as a way of increasing competition in banking.

2.3 As part of our assessment we have gathered some evidence on the broader issues affecting competition in current accounts to provide necessary context for assessing the effectiveness of CASS. We have not sought to draw explicit conclusions in relation to the effectiveness of competition in current accounts markets but have passed our evidence to the CMA, which is currently conducting a market investigation addressing these broader issues. Solutions to barriers earlier in the consumer journey, for example difficulty in accessing information about and comparing different accounts, are therefore out of scope of this review.

2.4 For CASS to be considered effective it should run smoothly – a simple switching process is an important element of a well-functioning market. The effectiveness of the switch service includes operational aspects such as the speed and accuracy of switching as well as customers being aware of and confident in the service. We might also expect to see the following:

- Changes in consumer behaviour – if effective in delivering the broader policy objectives that the creation of CASS was designed to support, namely more active and engaged consumers shopping around for better products then, given the relatively low switching rates for personal current accounts (PCAs) and business current accounts (BCAs), we would also expect CASS to lead to a material increase in the numbers of consumers switching.
- Changes in provider behaviour – higher switching levels may drive changes in the profitability of providers, with those offering the best products and services retaining and winning the most customers. However, even in the absence of switching, it may be that simply the threat of increased switching drives providers to improve the products and services they offer to consumers.

- Improvements in consumer outcomes – if providers are driven to improve the products and services they offer to consumers, we would expect to see higher levels of satisfaction with current accounts, which may for example be reflected in complaints figures.

2.5 We have also considered some potential improvements to the switching process, including ANP. In particular, we have gathered evidence of the potential benefits to consumers of being able to retain account details (account number and sort code). We have also identified a number of solutions to enabling portability of account details as there are different models through which this could be achieved.

Evidence gathered to support our analysis

2.6 In the course of this review, we have gathered data and information from a range of sources, which we describe below.[6]

Information from firms

2.7 We issued an information request to a sample of firms participating in CASS, relating to product range, recent and planned changes to product design/range, views and information on switching, and information on product profitability.

Information from other industry participants

2.8 We have received information, including detailed data on current account switching volumes from the Payments Council and Bacs.

Consumer research

2.9 We commissioned two pieces of consumer research, one qualitative and one quantitative.

2.10 Optimisa Research carried out qualitative research into the consumer journey to understand the reasons why consumers do not switch.[7] The research was conducted across four key groups (retail consumers, microbusinesses, charities and SMEs) at different stages of the switching journey (those who have switched within the last 12 to 18 months, those who have actively considered switching but have not switched, and those who have neither switched nor considered switching). It was conducted as 16 group discussions with between 5 and 8 participants, and 22 in-depth interviews with individual participants.

6 The FCA has also conducted a review of the impact of annual summaries, text alerts and mobile banking apps on consumer behaviour. Our research complements this review and helps build understanding of how initiatives are driving change in the PCA market. This paper is available at: http://fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-10

7 Qualitative research is the practice of collecting information from research participants through speaking with them in depth. Interviews are conducted in a non-standardised, semi-structured or unstructured manner to explore an issue or set of issues. This type of research is used for understanding an individual's or group's knowledge, behaviours, motivations and experiences from their perspective. The sample is unlikely to be representative of the population and views will be indicative of certain groups of people.

2.11 YouGov conducted a quantitative survey, in order to build on some of the insights from the qualitative research and to gather the views of a larger audience.[8] This enabled us to improve our confidence in the findings of the qualitative research. The research was carried out online in January 2015, involving 2,117 retail consumers and 1,030 small businesses.

2.12 Our assessment of the potential benefits of the effectiveness of CASS and the potential benefits of certain enhancement measures is based on the evidence formed by both kinds of consumer research.

Product data

2.13 We have data from Defaqto, an independent researcher of financial products, providing information on product features of PCAs over the last four years.

Advice on potential solutions to enabling portability of account details

2.14 We commissioned analysis from Moorhouse Consulting aimed at identifying and evaluating (at a high level) a range of potential technical solutions for ANP.

2.15 We also received advice from Kevin Brown, Senior Advisor on global payments issues at KPMG LLP, a member of the proposed PSR Advisory Panel and formerly Managing Director and Global Head of Transaction Services, (International Banking) at RBS.

Views from stakeholders

2.16 We spoke to a number of firms and consumer groups. The main findings from these discussions are set out in more detail in Annex 1.

Publicly available information

2.17 We also considered a range of publicly available information, for example reports by the CMA, reports by consumer bodies, and data on complaints to firms and the Financial Ombudsman Service (the ombudsman service).

Structure of this report

2.18 In this report:

- Chapter 3 sets out background information on CASS, ANP and our review, and an overview of current account markets
- Chapter 4 considers the operational effectiveness of CASS, as well as confidence in and awareness of the service
- Chapter 5 considers how consumer behaviour, including switching, has changed since CASS was launched

8 Quantitative research involves using a structured questionnaire to ask respondents a series of questions. This type of research is most commonly used to provide a metric to assess an issue – such as an amount or a percentage. It is particularly useful when trying to estimate the number of people within a population (e.g. consumers or firms) that have a certain characteristic, or a certain opinion or view. Conducting quantitative research through an online panel of respondents (who have signed up to be part of a research experiment) is likely to introduce some unavoidable research bias. This is a tendency for a group of people who have one characteristic – such as volunteering to take part in research – to also share other characteristics. Other biases present in this type of research include suggestive bias, where an idea presented through a questionnaire seems like a good idea at the time leading to over-optimism or an intention to act, whereas when the idea is thought through in more detail or action is attempted, unexpected barriers present themselves which prevent the action from taking place. Bias can be controlled, to some degree, through weighting the data to population and through questionnaire design, such as splitting the population to compare groups, as was done in this survey.

- Chapter 6 considers how supplier behaviour, including product design and profitability, has changed since CASS was launched
- Chapter 7 considers any changes to consumer outcomes
- Chapter 8 covers evidence gathered on ANP and some other potential measures to reduce barriers to switching, and
- Chapter 9 sets out our conclusions and recommendations on CASS and ANP

Who does this affect?

2.19 This report is relevant to:

- industry, including (existing and potential) current account providers, industry organisations such as the Payments Council and Bacs, and payment systems/infrastructure providers
- consumers, consumer groups, small businesses and charities, and
- Government and other regulatory bodies – the report has been produced for the Treasury and will be relevant to the PSR and the CMA

3.
Background and market overview

Current accounts provide the facility to hold deposits and make and receive payments. Many also offer overdraft facilities. They are provided to both retail and business consumers.

The ability for a consumer to switch current accounts to one that better suits their needs is a key feature of a competitive market and switching levels are one indicator of the degree of competition present in a market.

Switching volumes in relation to both personal and business current accounts are low compared to other financial products and ongoing services such as gas, electricity and broadband.

The Payments Council worked with industry to develop a new switch service, known as CASS, which launched in September 2013, designed to make switching simpler and easier for customers.

3.1 This chapter provides a short overview of the PCA and BCA markets. It also sets out background information on the introduction of CASS as well as its key features.

Overview of the current account market

3.2 A current account provides the facility to hold deposits and to receive and make payments by a number of different means (for example cheques, direct debits and standing orders). Many current accounts also enable consumers to make payments directly using payment cards, using the VISA Debit or Switch/Maestro networks. Additionally, many current accounts have overdraft facilities allowing customers to borrow. Our particular interest is in current accounts that serve either personal customers or businesses (including SMEs and charities).

Personal current accounts

3.3 PCAs are used for consumers' personal finances. As well as enabling consumers to make and receive payments, they also allow account holders to use automated teller machines (ATMs) and to transfer money. There are several different types of PCA, the most common being standard accounts which typically have no regular fee for the account or for using core services but charge for overdrafts and certain other services (they are also referred to as 'free-if-in-credit'). These represented around two-thirds of the PCA market in 2011.[9] There are also some standard accounts that charge a small monthly fee and offer benefits such as cashback or credit interest.

9 OFT, Review of the Personal Current Account Market, January 2013, p27. http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev

3.4 Other types of PCA include packaged bank accounts (also known as added-value accounts, which charge a larger monthly fee and typically offer additional benefits such as insurance products), premium accounts, basic bank accounts, student accounts and youth accounts.

3.5 According to the CMA, some 94% of UK adults have at least one PCA and there are over 76m PCAs in the UK, of which more than 61m are used regularly.[10]

3.6 In July 2014 the CMA found that the PCA market remained characterised by continuing barriers to entry and expansion, relatively high levels of concentration and relatively stable market shares, low levels of switching (despite the introduction of CASS) and a lack of transparency, especially with regard to charging structures. Despite customer satisfaction levels below 60% for the four largest PCA providers, there is little switching and market shares are stable. Moreover, the PCA providers with the highest satisfaction levels have not been able to gain significant market share.[11]

Business current accounts

3.7 BCAs have similar functionality to those provided to individual consumers – they are core business-payment accounts generally used to make and receive payments and to manage cashflow. The biggest difference to PCAs is that there is no free-if-in-credit model in business banking: customers generally pay for accounts and/or each transaction.

3.8 There are over 4.5 million SMEs in the UK and BCAs are an indispensable service to the large majority of them, generating well over £2bn in revenue a year for BCA providers.[12] According to data provided by our sample of firms, in the third quarter of 2014 there were at least 4.6m BCAs in the UK.

3.9 In our joint market study with the CMA[13], we found that, despite some important improvements in recent years, this sector remains characterised by a number of features which, particularly when taken together, appear to result in a sector where a perceived lack of choice of providers combines with, and reinforces, a lack of switching. In particular, the providers with the highest customer satisfaction scores are not winning significant market share, while the banks with the lowest satisfaction rates are barely losing market share.

Why is switching important?

3.10 A key driver of effective competition in a market is consumers' ability to exercise choice. They need access to information in order to compare different offerings and, once they have chosen the one that best satisfies their needs, they must be able to act on this choice. The threat of consumers switching to a competitor provides incentives for firms to improve the products and services they offer, for example by lowering prices, improving quality and investing in innovation and product development.

3.11 The ability for consumers to switch easily and with confidence is therefore an important element of a competitive market. Without the ability to shop around easily, consumers can end

10 OFT, Review of the Personal Current Account Market, January 2013, p26. Available at: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev

11 CMA, Personal current accounts: Market study update, July 2014, p4. Available at: https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf

12 CMA and FCA, Banking Services to Small- and Medium-Sized Enterprises, July 2014, p4. Available at: https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf

13 CMA and FCA, Banking Services to Small- and Medium-Sized Enterprises, July 2014, p5. Available at: https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf

up paying higher prices and receiving lower-quality goods than might otherwise be the case. In the case of current accounts, many of which do not have a monthly charge, this could be reflected in lower (or no) credit interest, higher borrowing costs or poorer quality of service.

3.12 Low switching rates can reflect weak competition. For example, in markets where consumer engagement is low, customers may not switch because they believe it is too much hassle or not worth it. Although complicated in retail banking by an increase in multi-banking (where consumers 'add' an account rather than switch between them), the complex nature of the product (making switching more complicated than some other sectors), and the difficulties in measuring switching volumes, switching levels can provide one indicator as to the level of activity and hence the degree of competition present in a market.[14]

3.13 There is no set target for levels of switching necessary to drive effective competition in a market. In some markets a high level of switching may be necessary to create incentives for providers to improve their products and services. In others, a fairly low level of switching may be sufficient to do this and switching by an active minority may be sufficient to provide firms with incentives to offer better products and services to their customers. The key factor is that firms have strong incentives to discover and provide what customers want; this is more likely to be the case where customers can find alternative suppliers and switch easily.

Switching in the current account market before CASS

3.14 Levels of switching in the PCA market have historically been lower than switching levels for other financial products and products/services in other industries.[15]

3.15 In June 2010, the Government established the Independent Commission on Banking (ICB) to consider reforms to the UK banking sector to promote financial stability and competition. In its final report published in September 2011[16], the ICB found that switchers were put off by worries about the switching process, with the process taking around 18 days and requiring action by a number of parties aside from the consumer. Despite the improvements reported by the OFT, the ICB concluded that even a small risk of a problem may be enough to deter potential switchers, with the perception of ease of switching as important as actual levels of problems experienced. The research found that 41% of customers were not confident moving their account and 55% thought it would be a lot of hassle.

3.16 Given these findings, the ICB recommended the early introduction of a redirection service for personal and SME current accounts which, among other things, transferred accounts within seven working days, provided seamless redirection for more than a year and was free of risk and cost to customers. The ICB also considered recommending ANP, however, it concluded that the costs and benefits were uncertain relative to redirection. It recommended that once

14 However switching levels are not a perfect indicator and given their limitations are better considered alongside a series of other indicators. For example switching rates do not normally reflect that some consumers may switch between products and services offered by the same provider, for example between a value, standard or luxury product offered by one retailer. This is referred to as 'internal switching' but still reflects engaged consumers exercising choice and so driving competition within a market. In addition those consumers who do not switch may still be driving effective competition if they make an active decision that their current provider best satisfies their needs.

15 For example, in their July 2014 PCA market study update, the CMA reported the switching rate for PCAs to be around 3% in the first quarter of 2014. This is lower than the switching rate for easy access savings accounts which we found to be 15% (FCA, *Cash savings market study,* January 2015). It is also lower than the switching rate for credit cards where estimates range from 7 to 20% (FCA, *Credit card market study terms of reference*, November 2014). Annual switching rates are typically 10 to 15% in energy, around 10% in mobile telephony, and around 30 to 35% in car insurance.

16 Independent Commission on Banking, Final report, September 2011, p17. Available at: http://webarchive.nationalarchives.gov.uk/20131003105424/https:/hmt-sanctions.s3.amazonaws.com/ICB%20final%20report/ICB%2520Final%2520Report%5B1%5D.pdf

the redirection service had been implemented, the FCA should assess whether it was delivering enough of an increase in willingness to switch to lead to effective competitive tension and that, if not, then the costs and benefits of ANP should be considered.

3.17 The banking industry via the Payments Council committed to implementing the ICB's recommendations on switching by introducing a new switching service by September 2013, which would guarantee that the process would take no longer than seven working days. Once operational, the Government[17] committed to assessing whether the service had delivered the expected consumer benefits and to considering further measures such as ANP if this was not the case.

About CASS

3.18 CASS was launched in September 2013 and is a voluntary scheme set up by industry to make switching current accounts simpler and quicker for customers. Some 40 banking brands participate, accounting for over 99% of the current account market, and it is available to a range of consumers, including:

- retail consumers
- small businesses with an annual turnover and/or balance sheet total that does not exceed €2m (or sterling equivalent) and fewer than ten employees
- small charities with an annual income of less than £1m, and
- small trusts with a net asset value of less than £1m[18]

3.19 CASS is owned and operated by Bacs. It is estimated to have cost £750m[19] to develop and implement the service, funded by the Payments Council account switching participants. Ongoing operational costs are covered by switching fees split equally between the customers' old and new bank providers.

3.20 The CASS process is led by the 'gaining-provider' in that the customer's new provider has responsibility for processing the switch. Given that the switch enables this provider to gain a customer, the incentive to complete the switch successfully is aligned with that of the customer. The customer no longer has any need to liaise with their old provider.

17 The Treasury and BIS, *The Government response to the Independent Commission on Banking*, December 2011, p8. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31585/govt_response_to_icb_191211.pdf

18 Changes to extend eligibility to larger businesses and charities will be implemented by the end of March 2015.

19 The Payments Council, *Independent review on the recovery of costs for the Current Account Switch Service,* July 2013, p1. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/independent_review_on_the_recovery_of_costs_for_the_current_account_switch_service_summary_and_onclusions_july_2013.pdf

3.21 Key features of CASS are illustrated in the following box taken from the Payments Council website. These features form part of the 'Switch Guarantee':

Current Account Switch Guarantee

We have designed the Current Account Switch Service to let you switch your current account from one bank or building society to another in a simple, reliable and hassle-free way. It will only take seven working days. As your new current-account provider we offer the following guarantee.

- The service is free to use and you can choose and agree your switch date with us.
- We will take care of moving all your payments going out (for example, your Direct Debits and standing orders) and those coming in (for example, your salary).
- If you have money in your old account, we will transfer it to your new account on your switch date.
- For 13 months, we will arrange for payments accidentally made to your old account to be automatically redirected to your new account. We will also contact the sender and give them your new account details.
- If there are any issues in making the switch, we will contact you before your switch date.
- If anything goes wrong with the switch, as soon as we are told, we will refund any interest (paid or lost) and charges made on either your old or new current accounts as a result of this failure.

For more information go to **www.simplerworld.co.uk**

3.22 The Chancellor announced changes to CASS in the 2014 Autumn Statement.[20] These changes include the Payments Council extending the eligibility criteria to include larger charities and businesses with a turnover of up to £6.5m, meaning CASS will now be open to 99% of UK SMEs. It was also announced that the current redirection period will be extended to 36 months. Both of these changes are to be implemented by the end of March 2015.

Our review

3.23 In the March 2014 Budget, the Government announced that in September 2014 we would launch a review into the effectiveness of CASS and start a study of the costs and benefits of ANP as a way of increasing competition in banking.

3.24 In the 2014 Autumn Statement, the Chancellor also asked us to consider whether reducing the switching time from seven to five working days would deliver significant benefits for consumers and to advise the Treasury of this before the 2015 Budget.

20 HM Treasury, *Autumn Statement 2014*, p47. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf

Other relevant developments

The CMA retail banking market investigation

3.25 On 6 November 2014 the CMA announced that it would launch an in-depth market investigation into the PCA and SME retail banking sectors.[21] This confirmed a provisional decision in July 2014 made alongside (i) the CMA publishing an update on its PCA market study[22] and (ii) the FCA and CMA publishing the findings of a joint market study into SME banking.[23]

3.26 Provisional findings and a possible remedies notice are expected to be published in September 2015, with a provisional decision in relation to remedies (if required) expected in January 2016 and the final report published in April 2016.

The Payment Systems Regulator

3.27 The newly established PSR will be fully operational by April 2015 and has three objectives which can be summarised as follows:

- to promote effective competition in the markets for payment systems and the services they provide
- to promote the development of and innovation in payment systems and
- to ensure payment systems are operated and developed in a way that takes account of and promotes the interests of service users

3.28 In November 2014 the PSR published a consultation on its proposed regulatory framework and policy proposals.[24] The consultation period ended on 12 January and the PSR is now considering responses. It is due to publish a Policy Statement in March 2015, providing feedback on responses received.

3.29 As part of this consultation the PSR recognised the need for a mechanism to facilitate the development of collaborative strategy through which industry and other stakeholders can together identify, assess and agree strategic priorities and how to best implement these. This mechanism needs to ensure greater representation from all stakeholders in the industry, and drive collaborative innovations and infrastructure-related developments in a timely manner.

3.30 To achieve this, the PSR proposed establishing a Payments Strategy Forum (PSF). The proposed PSF would be led by an independent chair, with members from a broad range of service users and industry participants.

3.31 It is our expectation that, if confirmed, the PSF will use our findings, alongside the findings of the CMA retail banking market investigation in relation to customer mobility, as it develops and agrees its strategic priorities for the industry.

21 CMA, *Personal current accounts and banking services to small and medium-sized enterprises: Decision on market investigation reference*, November 2014. Available at: https://assets.digital.cabinet-office.gov.uk/media/545aa20bed915d138000001a/Decision-MIR-Final_14.pdf

22 CMA, *Personal current accounts: Market study update*, July 2014. Available at: https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf

23 CMA and FCA, *Banking Services to Small- and Medium-Sized Enterprises*, July 2014. Available at: https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf

24 Payment Systems Regulator, *A new regulatory framework for payment systems in the UK*, November 2014. Available at: http://www.fca.org.uk/static/documents/psr/psr-cp14-1-cp-a-new-regulatory-framework-for-payment-systems-in-the-uk.pdf

The Payment Accounts Directive

3.32 The Payment Accounts Directive (PAD) was adopted in July 2014. Among other things, this makes certain requirements in respect of payment account switching within an EU Member State.

3.33 From 18 September 2016, providers must make a switching service available to individual customers. The switching service must include the transfer of existing standing orders and direct debits. The directive permits Member States to maintain or introduce switching arrangements that differ from those set out in the directive, provided that this is clearly in the interest of the consumer, there is no additional burden for the consumer, and the various stages of switching are completed within the same overall timeframes as defined in the directive. We expect the Government to consult on the implementation of the PAD during 2015.

MiData

3.34 The Government's Midata initiative will launch by the end of March 2015, enabling customers for the first time to get detailed comparisons of which personal current account is best for them based on how they use their bank account. The Government expects that, alongside CASS, this will better enable challenger banks to attract new customers, build their customer base and compete with the incumbent banks on more even terms.

4.
Operational effectiveness and consumer awareness and confidence

The principal features of CASS address key practical barriers to switching spontaneously raised by consumers in our research.

The majority of switches through CASS are completed error-free and within seven working days, and most consumers were satisfied with their experience. However, there are some remaining operational issues, the most significant being the risk of undermining confidence in the service when the redirection service ends (if third parties have failed to update account details and incoming payments go missing).

Our consumer research and anecdotal evidence from banks, indicates that awareness and understanding of CASS is materially lower than reported by the Payments Council. Both sets of results show awareness of CASS to be lower than the Treasury's target for June 2015.

Our consumer research suggests that consumers' biggest fear when switching is something going wrong. Both our and the Payment's Council's research finds that fewer than 50% of customers have confidence that the process will be error-free. This suggests confidence is likely to be lower than is reflected by the headline score for confidence currently reported by the Payments Council.

There are a number of wider issues that go beyond the narrow scope of the effectiveness of CASS that we have become aware of during the course of our review.

4.1 This chapter sets out evidence in relation to consumers' awareness of CASS, their confidence in it and the robustness of the design and operation of CASS. It also sets out some wider issues we have come across during the course of our review.

Measuring the success of CASS

4.2 The Treasury agreed three criteria with the Payments Council in order to measure the success of CASS. These relate to:

- customer awareness of CASS – that 75% of the public be aware of the service by the end of June 2015
- customer confidence in CASS – that 75% of the public are confident in the service by the end of June 2015, and
- performance of CASS[25]

4.3 To measure the ongoing awareness of and confidence in CASS, Bacs runs a monthly monitor of omnibus surveys and the Payments Council has published the output of this research quarterly on its website alongside other performance information and switching levels.

4.4 We have supplemented this information with our own research and that undertaken by third parties such as banks and consumer groups in order to provide a fuller picture as to the success of CASS in relation to these measures.

Operational effectiveness

4.5 The Bacs operational statistics published by the Payments Council set out that CASS had successfully processed over 1.5 million switches by January 2015.[26] Key to CASS operating effectively is that these switches are completed to the timescales requested by the customer and are error-free.

4.6 The seven-day switching period starts six working days before the switch date chosen providing the new account is open and able to receive debits and credits. The Payments Council reports that more than 99% of switches that successfully start are completed within the seven-working-day timescales.[27] Research published by the Payments Council reported that 89% of consumers experienced an error-free switching process.[28]

4.7 However, evidence from the consumer group Which?[29] finds consumers reporting switching taking longer than seven days and a higher proportion of consumers experiencing problems. Its research highlights how some consumers conflate the account opening and switching process and so reflects consumers' views of switching more broadly.

4.8 Which? found that 27% of consumers it surveyed said the process had taken eight working days or more to complete, with delays mainly occurring where personal information held by the old and new banks did not match up – for example where the customer had recently moved house or got married. Such issues would delay the switch 'start date' and so be excluded from the scope of the Payments Council data.

4.9 In addition, Which? found that 65% of respondents had had problems when switching. Again, some of these problems relate to account opening rather than CASS specifically. Problems included one or more direct debits or standing orders not being carried across to the new

25 These are set out in The Payments Council, *The Current Account Switch Service One year on*, September 2014, p7. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

26 The Payments Council, The Current Account Switch Service One year on, September 2014, p13. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

27 A successful start to a switch requires the new and old banks being able to identify the customer from the information both hold. A switch can sometimes be held up by a customer's failure to update address details at the old bank. The Payments Council, Switching Dashboard, January 2015. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/dashboards/cass_dashboard_-_jan_15.pdf

28 The Payments Council, The Current Account Switch Service One year on, September 2014, p13. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

29 Which? Response to CMA provisional decision, November 2014. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/370929/Which_response.pdf

account during the switch (15%), not receiving a PIN before their old account was closed (12%) and having the old account closed before the new one was opened (10%).

4.10 CASS also guarantees that if anything does go wrong with the switching process, the customer will be refunded any interest paid or foregone, or charges made on either the new or old account as a result of this failure. Research by Which?[30] found that this had been the case for the majority of respondents, but that 26% said they had received no compensation. We cannot, however, be clear that these consumers had an issue covered by the CASS guarantee and so were actually due compensation.

4.11 Finally, concerns have been raised by banks about the need for manual intervention (by third parties) in order to amend details for payments into the switcher's account before the CASS redirection period comes to an end. Bacs actively works with payment originators to manage the number of redirections down as much as possible, but around 8% of switched accounts still have at least one redirected payment after 12 months[31], after which the proportion of accounts falls further but much more slowly. If this is not addressed, there is a risk that when the redirection period ends, the number of payments that fail to be redirected will cause detriment to those directly affected customers and could also be sufficient to undermine confidence in the service. This risk will be mitigated temporarily by the planned extension to the redirection period to 36 months by the end of March 2015, but the issue still remains.

Satisfaction with CASS

4.12 Despite the problems some consumers appear to have experienced in using the switching process, evidence suggests that a clear majority of consumers had a positive experience with the CASS switching process.

4.13 Market research commissioned by the Payments Council explored the experience and perceptions of consumers who had switched both before and after the implementation of CASS. This research found increases in the proportion of consumers with positive perceptions of switching, particularly those who agreed 'there was very little work or effort involved on my part' from 74% in 2012 to 88% in 2014.

Figure 4.1: Consumers' perceptions of switching (%)

Perceptions of switching (consumers who have switched)	2012	2013	2014
It was quick to switch banks	88	85	88
There was very little work or effort involved on my part	74	76	88
I felt in control of the process	82	80	88
The process was error-free	86	81	89
I would be happy to switch bank accounts in future if I felt it would be beneficial to me	81	82	81

Source: Payments Council, *The Current Account Switch Service: One year on*, (September 2014[32])

4.14 Among small businesses, the Payments Council also found that those who had switched had had positive experiences, with 87% of small businesses saying they had found it easy to move bank accounts and 86% saying they had felt in control of the process.[33]

30 Which? Magazine, *Bank switching: A slow start*, February 2014.

31 Information provided by Bacs.

32 Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

33 Ibid.

4.15 This is supported by evidence from TNS market research[34] and our consumer research. TNS market research found almost two-thirds of switchers (63%) were very satisfied with the switching process in the last six months of the survey (the second and third quarters of 2014), up from just over half (54%) pre-CASS. A further 21% were quite satisfied. In addition, our research found 56% of consumers were very satisfied and 29% fairly satisfied (85% in total) with how CASS managed the account switch. A similar result was found for small-business customers with 46% very satisfied and 45% fairly satisfied (91% in total).

4.16 The ombudsman service has received a number of switching-related complaints since the launch of CASS, although switches leading to complaints remain an extremely small proportion of the total number of switches that take place. There were 249 complaints to the ombudsman service about account switching in 2014, compared with around 1.2m full and partial switches through CASS.

Consumer awareness of CASS

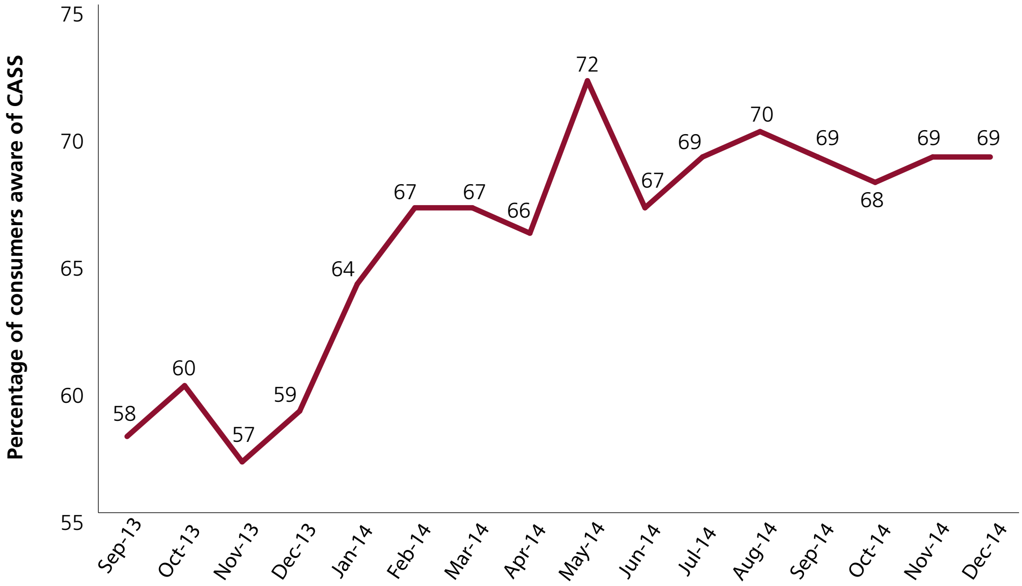
4.17 Our consumer research found awareness and understanding of CASS to be materially lower than that reported by the Payments Council.[35] However, both results are lower than the target of 75% awareness set by the Treasury for June 2015.

4.18 According to figures published by the Payments Council, awareness of CASS amongst the public is relatively high, at 69% in December 2014.

34 TNS are a market research company who has undertaken a major research programme on the market for current accounts, including exploring what happened when CASS was launched. Their research involved surveying 16,500 current account customers in the immediate run-up to the September 30, 2013 launch of CASS, and 143,000 in the subsequent four quarters after it was introduced. The findings of their research 'Current Account Switching Index one year on' are available at: http://www2.tnsglobal.com/l/36112/2014-12-30/2q2hcr/36112/69004/CASI_white_paper.pdf

35 The range of estimates for consumer awareness of CASS are likely to be the result of differences in survey design and methodology. Possible contributing factors for the different results include the point at which the question was asked in the survey and whether it was made clear that the question was about awareness of CASS *prior* to taking the survey. In addition the nature of the sample used can introduce a bias, for example if a sample is repeatedly taken from a larger panel of consumers, the same consumers may eventually begin to participate repeatedly in surveys.

Figure 4.2: Customer awareness of CASS



Payments Council research – Question asked: Have you heard of the Current Account Switch Service? Graph shows those who answered 'Yes.'

Source: Payments Council, Switching dashboard, September 2013 – December 2014[36]

4.19 However, these results are generally slightly higher than those obtained in third-party market research and materially higher than those obtained by an omnibus survey commissioned by the FCA. TNS market research finds awareness of CASS among current account holders to be fairly stable at 59% in Q3 2014.[37] The FCA-commissioned quantitative research carried out in January 2015 found 41% of consumers and 47% of small businesses had heard of CASS prior to taking the survey.[38] This is supported by other surveys and anecdotal evidence from PCA providers – one found awareness as low as 16% among consumers surveyed in their own research.

4.20 The Payments Council commissioned market research, both before and after the launch of CASS, which also considered consumers' and small businesses' awareness of features of CASS among those who had not switched. This research found increases in both consumers' and small businesses' awareness of all features of CASS post its launch, with fairly high levels of awareness of key CASS features in 2014.

36 Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/dashboards/cass_dashboard_-_jan_15.pdf

37 TNS, *Current Account Switching Index one year on*, January 2015. Available at: http://www2.tnsglobal.com/l/36112/2014-12-30/2q2hcr/36112/69004/CASI_white_paper.pdf

38 Base = all survey respondents who are GB adults and have current accounts (2,117). Question asked: Before taking this survey, had you heard of the Current Account Switch Service?

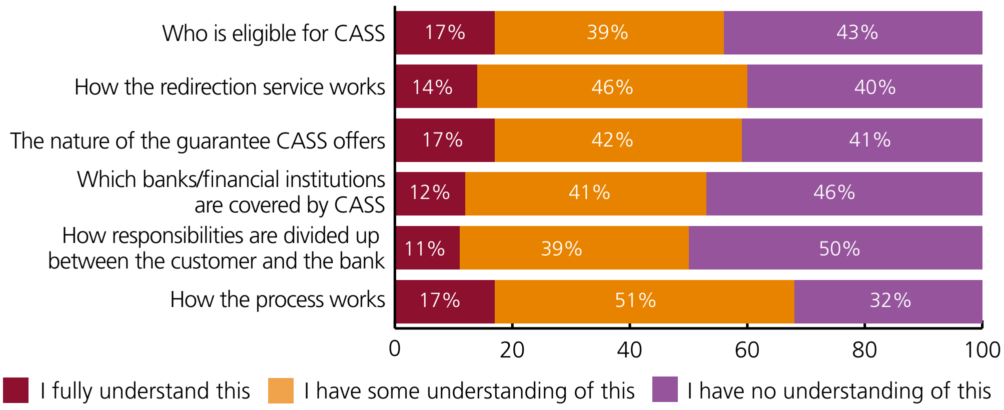
Figure 4.3: Consumers' awareness of what the switching service does (% who believe statement is true)

Awareness of what CASS does % who believe statement is true	Consumers who haven't switched			Small businesses that haven't switched		
	2012	2013	2014	2012	2013	2014
They will switch your current account within seven working days	58	63	70	59	62	70
The service guarantees that the customer will not suffer financially if anything goes wrong	64	64	75	64	63	74
The service is standardised across all the different banks	42	45	61	44	51	66
They will redirect all incoming payments to your new account	73	76	80	69	72	83
The switching service closes the old account once the switch to the new account is complete	60	57	66	57	53	72

Source: Payments Council, *The Current Account Switch Service – One Year On* (September 2014)[39]

4.21 These figures are again, however, generally higher than those from our research. When those consumers who were aware of CASS were asked about its features, 55% were aware of the length of time it took to switch current accounts. As set out in Figure 4.4, when those consumers who were aware of CASS were asked about their understanding of these features, 32% had no understanding of how the process worked, 40% had no understanding of how the redirection process worked and 41% had no understanding of the guarantee CASS offers.

Figure 4.4: Consumer understanding of CASS features



Omnibus survey research commissioned by the FCA - Question asked: Still thinking about the Current Account Switch Service (CASS)... To what extent, if at all, do you understand each of the following:

Source: FCA-commissioned omnibus survey

4.22 In relation to small businesses, our research found only 16% of small business customers responding that they had no understanding of how the process worked, whereas 37% stated that they had no understanding of how the redirection process worked and 36% said that they

39 Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/cass_one_year_on_report_-_sept_14.pdf

had no understanding of the CASS guarantee. As with the Payments Council research, our survey found awareness and understanding to be higher among small businesses than consumers.

4.23 Interestingly, our qualitative research uncovered a sense that CASS was much less well known in business banking than in personal banking, something we did not find in the quantitative research. The qualitative research also showed that while it has become easier and faster to switch banks, important parts of the process, including what it entails and how long it takes, are still unfamiliar. Increasing awareness further is made more challenging by the different features of CASS, meaning there are several messages that need to be communicated before a consumer can get a full sense of what the service does. Across all audiences, the extent to which an individual is financially 'savvy' also has a strong bearing on their level of awareness and understanding of CASS.

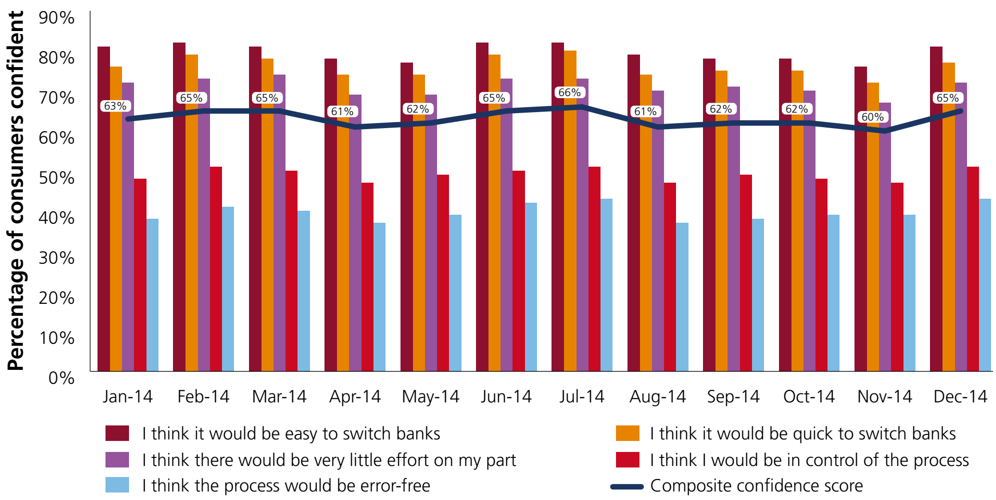
Consumer confidence in CASS

4.24 Consumer confidence in CASS, as measured by Bacs is an average measure which takes into account the percentage of consumers who, following an explanation of what CASS is and how it works, agree that:

- it would be easy to switch banks
- it would be quick to switch banks
- there would be very little effort involved on their part
- they would be in control of the process, and
- the process would be error-free

4.25 The overall measure has been stable over the last 12 months, with the December 2014 figure of 65% up only 2% on the figure for January 2014. A relatively high proportion of consumers appear to be confident the process would be quick and easy (around 70 to 80%). However consumers appear less confident that they would be in control of the process or that it would be error free (40 to 50%).

Figure 4.5: Customer confidence in CASS



Source: Payments Council, Switching dashboard, January 2015[40]

40 Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/dashboards/cass_dashboard_-_jan_15.pdf

4.26 FCA consumer research finds that the risk of error in the switching process is a significant concern for both consumers and SMEs, and is partly driven by a lack of trust in banks not to make mistakes (see Chapter 5). The results of the Payments Council survey in relation to confidence in an error-free process chimed with our own survey results which showed around 51% of consumers and 42% of SME customers fairly or very confident that a switch would be error-free. Given that an error-free switch is the biggest concern for customers, we believe that the composite score can mask the lower underlying figures of confidence in an error-free process, and that confidence in CASS is likely to be better reflected by this statistic and is therefore still relatively low.

Wider issues

4.27 The review has shown up a number of issues that go beyond the narrow scope of the effectiveness of CASS. These include:

- access to CASS to providers offering alternatives to traditional current accounts
- issues with using CASS for customers requesting overdrafts or with overdrafts they are unable to repay through a debt management company and
- the use of Continuous Payment Authorities (CPAs)

Access to CASS

4.28 To be a participant member of CASS a provider has to offer a current account and meet the initial technical requirements of membership, including issuing a directly accessible unique 6-digit sort code and 8-digit account number combination to all customers. This is because CASS uses these details (along with others, such as name and address) to identify a customer, an account balance, and the incoming and outgoing payments to transfer and redirect after the switch date. This requirement enabled a quicker build of the service and enabled the majority of current account providers to join at launch, thereby offering customers a wide choice of providers via the service.

4.29 Some smaller banks that offer current accounts do not hold customers' deposits themselves; rather they have specific arrangements with a larger bank to hold their customers' deposits in Trust. Some e-money providers[41] have similar arrangements with a larger bank, enabling them to offer services that have much in common with current accounts, in that they include a place to store money as well as other transactional services such as debit cards (but they may not be protected by Financial Services Compensation Scheme).

4.30 With effect from the end of April 2015, we understand CASS will offer access to any authorised payments institution (API) offering an account with the same features as a current account, providing the API is able to obtain their own 6-digit sort code and meet the account switching service requirements. This will widen the range of firms eligible to join CASS. It will be important that CASS continues to evolve and accommodate institutions that offer products or services that are comparable to typical current accounts. While technical restrictions are unlikely to have an impact in the short term on the effectiveness of CASS (or on the PCA and SME banking markets overall), in the longer term this may inhibit innovation by retaining a more significant barrier to switching away from the 'traditional' accounts provided by larger banks.

41 Electronic money (e–money) is electronically (including magnetically) stored monetary value, represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions, and which is accepted by a person other than the electronic money issuer. Types of e-money include pre-paid cards and electronic pre-paid accounts for use online. E-money providers are those who issue e-money.

Consumers in overdraft

4.31 We have received anecdotal evidence from firms and consumer groups in relation to a problem experienced by consumers requesting an overdraft on their new account. CASS is designed so that a switch starts once the account opening process is complete, hence once the consumer has been informed whether their application for an overdraft on the new account has been successful. However, we understand that at some banks this does not happen and a switch can be initiated before a decision on an overdraft is made. Once initiated a switch cannot be stopped.

4.32 For some customers who do not use overdraft facilities, or who receive a satisfactory decision on an overdraft, this may not be an issue. However, for others, a satisfactory overdraft facility may be a key aspect of their choice of current account and they may find themselves in a situation where the product they have switched to does not meet their needs. This brings at least a degree of inconvenience in that the customer has to manage with a lower facility, build up a credit history with the new bank, or switch to a different provider. Whilst this may affect only a small proportion of customers switching (possibly around one percent), it could lead to financial difficulties for some customers and we are beginning to work with industry on a solution to this issue.

4.33 We have also received anecdotal evidence from a charity about an issue experienced by consumers with an overdraft on their current account which they are unable to repay. Where this is the case, we understand it is common practice for consumers to open a second bank account which they use for income and expenditure. They (or a debt management firm on their behalf) then make monthly repayments to the old account to repay the overdraft. However where the new account was opened using CASS these 'repayments' are sometimes being redirected to the customer's new account. This does not appear to directly reflect the effectiveness of CASS in switching the accounts and falls outside the scope of our review. However, we note that some banks have developed a solution to deal with this issue and would expect others to do likewise.

Continuous payment authorities

4.34 A CPA is a recurring or regular payment taken from a customer's debit card (rather than a bank account number and sort code). It involves a customer giving a third party (e.g. an online retailer) their card details, which are then held by that third party. While CASS deals with the transfer of standing orders and direct debits between accounts, it does not deal with transferring CPAs.

4.35 We have received some anecdotal evidence of issues regarding CPAs that were not transferred when the customer switched. However, this is not something that arose as a major issue in our consumer research and not something that appears to have directly impaired the effectiveness of CASS. CPAs are already widespread but as online retail continues to grow, CPAs are likely to become more important and this could become a greater issue.

5.
Consumer behaviour

CASS does appear to meet the needs of consumers by addressing the main practical switching barriers they identified.

However, for the majority of consumers who have not switched, the two main barriers to switching are (i) inertia (by which we mean a tendency not to shop around or switch providers, which can be caused by a variety of factors), and (ii) the account opening and switching processes.

This does not diminish the importance of establishing a simple switching process as an important element of a well-functioning market. But it does mean that simplifying and speeding up switching is likely to have limited impact on switching volumes in isolation.

As such, CASS has not yet led to a material, sustained increase in switching. While switching volumes grew by 22% in CASS's first 12 months, they have fallen back to 16% above the level at the launch of CASS and are only slightly higher than as recorded in November 2012 (around a year before the launch of CASS).

5.1 In this chapter we set out the key barriers to switching experienced by consumers, the extent to which CASS addresses these, and the changes to consumer behaviour we have observed since CASS was launched.

Why consumers don't switch

The aims and approach of the research

5.2 We commissioned qualitative consumer research into consumers' switching journey to understand why consumers are not considering their options or are not switching when they find better alternatives. This focused in particular (but not exclusively) on the switching process.

5.3 The research also examined the extent to which potential enhancements of CASS and alternative measures such as ANP could address the current barriers to switching. Chapter 8 sets out our findings in relation to potential additional measures to increase switching. A detailed written report on the findings from the qualitative consumer research is published alongside this report.

5.4 The qualitative consumer research was conducted across four key customer groups: retail consumers, microbusinesses, charities and SMEs. Within each of these, it incorporated consumers at various levels of engagement with the switching process:

- Switchers: those who have switched within the last 12 to 18 months, with a mixture of those who have and have not used CASS.
- Considerers: those who have actively considered switching[42] but who have either decided not to or not got around to it.
- Non-considerers: those who have not switched, and have not considered switching.

The consumer journey

5.5 We developed a consumer journey[43] model to frame our research and analysis. The model pinpoints the various steps on a consumer's journey to switching their current account:

- initial engagement with the idea of switching (often prompted by a trigger to switch such as a bad experience with an existing provider)
- awareness of alternatives[44]
- ability/willingness to access relevant information
- ability to assess relevant information
- ability/willingness to change account, and
- decision to switch/remain with current provider.

5.6 We explored these stages with consumers and mapped how their attitudes and perceptions varied along the journey. This process highlighted where and why consumers experienced difficulties, became disengaged, and 'dropped out' of our consumer journey.

5.7 When considering the switching journey we were predominantly interested in the barriers to switching which may occur once a consumer has decided to switch. However we were also interested in the extent to which consumers' perception of any such switching barriers may affect their progression at earlier stages of the journey. For example, the perceived time and hassle of switching may cause a lack of initial engagement, whether or not such switching barriers actually exist. We therefore needed to consider the entire consumer journey rather than the switching process in isolation.

5.8 This section focuses on the biggest barriers to switching. A more detailed description of the consumer journey and what the research found about the different stages in the process can be found in the research report published alongside this report.

The main barriers to switching

5.9 The different barriers to switching raised spontaneously by consumers when thinking about current account switching can be grouped into two areas: (i) inertia, and (ii) account opening

42 To have actively considered switching respondents must have completed one or more of the following activities: looked at various deals offered by different current account providers, actively researched current accounts with other providers, looked at what alternative current accounts their own bank offers, spoken to potential new banks about what current accounts they offer and/or found out what they need to do to switch current accounts.

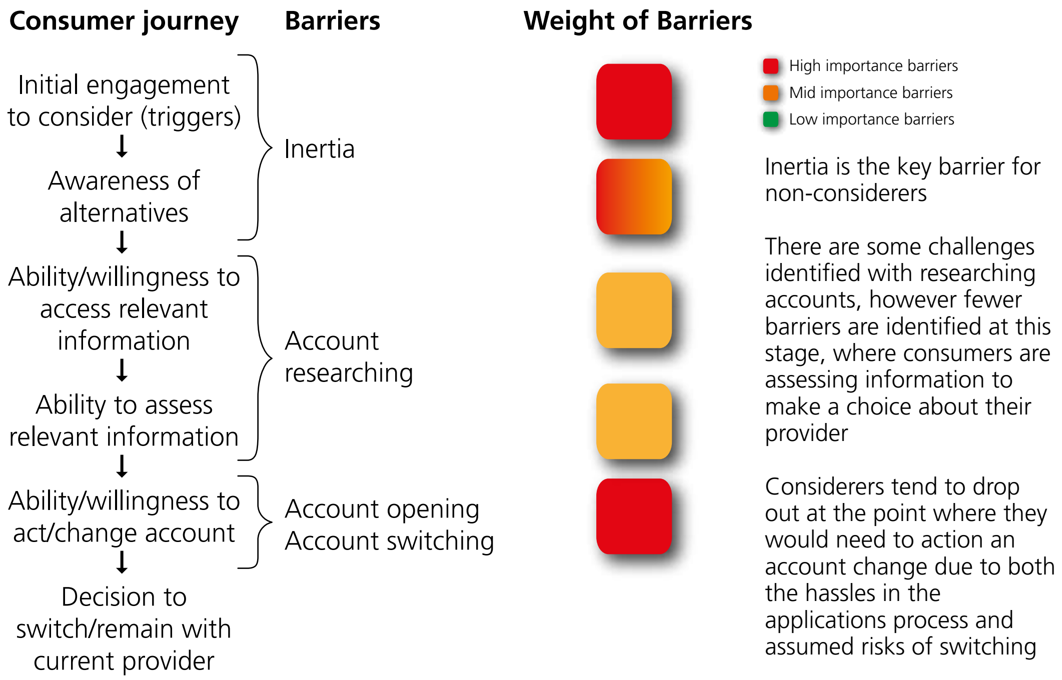
43 This is informed by the consumer journey developed in the recent UK Regulator's Network statement on Consumer Engagement and Switching: http://www.ukrn.org.uk/wp-content/uploads/2014/12/Statement-Consumer-engagement-and-switching.pdf

44 In some cases awareness of alternatives is a pre-requisite to engagement – for example if a consumer is unaware that alternatives are available and they can switch then they are unlikely to engage in the idea of switching. However in the case of current accounts we assume consumers are generally aware of alternatives and their ability to switch and so initial engagement is followed by awareness of specific potentially suitable alternatives.

and switching barriers. The second area comprises barriers which exist at two different stages of the consumer journey but are conflated by some consumers, as described in more detail below. While these barriers are not necessarily always faced in sequence (as the research found, consumers' concerns about the switching process are in the back of their minds throughout the journey), inertia and account opening barriers generally need to be overcome before account switching barriers become important.

5.10 These barriers are shown in Figure 5.1 below, together with a weighting reflecting the relative importance of that barrier compared to others.

Figure 5.1: The consumer journey and barriers to engagement



Source: Optimisa Research

5.11 There were differences in the perceived significance of barriers depending on the respondents' progress along the consumer journey. As is to be expected, non-considerers focus on inertia barriers, and may not see the value in switching, whereas considerers have overcome this initial barrier and therefore focus on barriers which occur further along the journey.

Consumer inertia

5.12 Inertia is a broad term capturing a tendency not to shop around or switch providers. This could be caused by a variety of factors such as consumers feeling comfortable with their existing service, thinking switching was unlikely to make them better off or not trusting other providers to provide a better service.

5.13 Significant components of the inertia which occurs at early stages of the consumer journey are consumers' relative satisfaction with their existing provider and the lack of a trigger to engage with the current account market. Given the ongoing nature of a customer's relationship with their current account provider, they do not receive triggers, such as renewal notices, which in other markets may act as triggers to shop around and switch between providers.

5.14 In this review, we have explored consumers' attitudes to and perception of their current accounts and current account providers. Attitudes are broadly similar across the different groups of customers. Customers view their relationship with the current account as mainly transactional: essential but not engaging. It is convenient and low-maintenance; this means that it is a low-priority area for customers to think about.

5.15 This is consistent with the relatively high levels of satisfaction found in a variety of quantitative studies. Our own research showed that 82% of consumers are very or fairly satisfied with the service they receive from their current account provider, and 81% with their current account as a product.[45] Among businesses satisfaction is lower, with 63% fairly or very satisfied with the service and 66% with the product they receive. At the other end of the scale, 3% and 4% of consumers and 5% and 7% of businesses consider themselves fairly or very dissatisfied respectively with the product or service they receive.

5.16 According to the GfK Financial Research Survey (FRS), 91% of PCA customers are extremely, very or fairly satisfied with the service they receive from their PCA provider (23%, 45% and 24% respectively). This compares to 3% of customers expressing dissatisfaction (fairly, very or extremely dissatisfied).[46]

5.17 A recent survey by Mintel[47] also shows that the majority of respondents are 'pretty happy' with the service their bank provides, and concludes that 'this satisfaction reduces the appetite for switching, however this satisfaction is passive and is driven by neutral experiences as opposed to positive experiences.'

5.18 Our qualitative research provided more insight into businesses' satisfaction with their current account and provider. Microbusinesses are relatively more frustrated than larger SMEs about what they perceive as an impersonal service that does not particularly cater to their needs and which has suffered from a decline in relationship management. Similarly, charities feel that organisations of their kind are not well catered for by banks, and that the need for multiple signatories means that there are additional challenges with managing finances.

5.19 Notably, even though some customers surveyed identified instances in which they valued help from their bank (for example in cases such as fraud, or when a business needed lending to support cashflow, or a charity wanted to change the signatories on an account) the perceived 'happiness' typically appeared more accurately described as the respondent being 'not unhappy'. On the whole consumers appear content and comfortable with their existing provider, as long as they have never had any problems and are used to the service offering.

5.20 The inertia faced by some consumers can be overcome if a customer is exposed to a sufficiently strong pull factor towards another product or provider, or a push factor away from their current one. We encountered numerous examples of both pull and push factors and concluded that push factors are more likely to influence behaviour.

5.21 With respect to pull factors we found the following:

- According to our qualitative research, better interest or lending rates are very important to all audiences; switching incentives (for example cash for switching) offered by other

45 The questions are "Thinking about your MAIN current account... Overall how satisfied or dissatisfied are you with the service you receive from your main current account provider?" and "And overall how satisfied or dissatisfied are you with your main current account as a product (i. e. does it meet your needs)?" respectively.

46 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA). Other possible responses were 'neither satisfied nor dissatisfied', 'not applicable/no experience', or 'Don't know'.

47 Mintel, Consumers and Retail Banking (September 2014)

providers are relevant for retail consumers in particular. However all audiences felt that there is currently very little variation in financial incentives among providers.

- This is confirmed by the GfK FRS survey[48], which shows that 25% of retail consumers who have switched state 'any reward' as a reason for choosing their new provider (there is a nominal difference between those who stated credit interest and those who cited incentives/vouchers/cash as the reason for switching to their provider: 16% and 14% of switchers respectively).

- A Mintel survey[49] focusing on those retail consumers who indicated they will or are likely to switch their PCA in the next 12 months found that 52% named a cash incentive as the most appealing product feature.

- International presence is more important for businesses (in particular larger SMEs) than other audiences. Charities mention the desire for an 'ethical' bank.

5.22 However, we found that decisions to switch are driven primarily by push factors, such as:

- errors made by the bank
- branch closures
- charges and fees, and
- for businesses the end of the free banking period or a lack of lending or cashflow support

5.23 This is in line with the GfK FRS survey[50], which shows that the top reasons for switching current account provider are largely push factors, for example account charges being too high (16%), unhelpful staff (12%) and poor advice (10%).

Opening and switching accounts

5.24 While account opening and account switching are different processes comprising different elements, consumers do not appear to recognise them as separate, and so the hassle and time involved in both are seen as part of the same issue.

5.25 According to our research, the perceived hassle of account opening comes from issues such as having to go into a branch, learning to use new online banking sites (for retail consumers), having to wait for approval (businesses) and ID verification (for charities). This is a major barrier for considerers, while for non-considerers this is less important.

5.26 For SMEs, there is a need and desire to build a relationship with the new bank and therefore it is a concern that choosing a new bank will be a lengthy process. For charities, and to a lesser extent SMEs, it can be a challenge to organise multiple signatories to make a decision and do the account opening paperwork.

5.27 Whilst the switching process itself may be a secondary consideration at the outset of the consumer journey, perceptions of the hassle and risk involved can reinforce the sense that it is not worth the effort of switching. The risk of error in the process came up as a significant concern across all groups of customers and is partly driven by a lack of trust in banks not to

48 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA)
49 Mintel, Consumers and Retail Banking (September 2014)
50 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA)

make mistakes. For businesses, especially micro-enterprises, this issue is more important as errors can affect cashflow and reputation, and in the worst case scenario put them out of business.

5.28 Switchers report notably fewer concerns about both the account opening and account switching processes than those who have not switched.

Reactions to CASS

5.29 Among all audiences there was a sense that CASS addresses many perceived and actual barriers to switching. While among considerers there was a sense that the existence of CASS may change their decision about switching, for non-considerers the switching process is a secondary concern, with the principle one being inertia. Any improvements to the process are therefore less likely to lead to a change in behaviour.

5.30 A summary of consumers' perceptions of which barriers the different elements of CASS address and where concerns remain is set out in Figure 5.2.

Figure 5.2: Factors which affect the ability and/or willingness of customers to switch current accounts and the extent to which these are addressed by CASS

	Transfer of payments	Incoming payment redirection	Guarantee	Choose switch date/7 day switch	Same process across all participants	Old account closes
Having to change direct debits/ standing orders	✓✓					
Concerned about incoming payments going missing		✓✓		✓	✓	
Concerned about outgoing payments going missing		✓		✓	✓	
Having to inform people/ organisations about changing details	✓	✓				
Length of time the process takes				✓		
Concerns about incurring charges			✓✓✓			

✓✓✓ = **completely** tackles barrier ✓✓ = **largely** tackles barrier ✓ = **partly** tackles barrier

What it does do

- Eliminates the hassle of manual transfer of payments Reduces the risk associated with payments going missing
- Reassures that the bank will resolve any problems and compensate for any charges of losses
- Offers the account holder more control over the timing of the switch
- Overall, creates greater trust in the process

What it doesn't do

- Fully overcome all of the concerns associated with changing account details
- Fully reassure about the length of time the switching process takes (although can't tackle the time taken to open an account)
- Provide complete clarity – a lot of the features are not self explanatory, and so their role and benefits are not always clear at a glance

Source: Optimisa Research

5.31 This shows that while there is broad agreement that CASS tackles important switching barriers, some concerns remain. Consumers' views on each of the different features of CASS can be summarised as follows:

- The transfer of payments reduces hassle and risk, but is not perceived to be completely risk free, and the need to check that no errors have been made remains.
- Redirection of payments provides a safety net, but is perceived to be a reactive solution rather than a preventative measure.
- The guarantee creates a greater sense of reassurance in the process, but most are unsure about how the guarantee works and this leads to some concerns about potential hassle.
- The ability to choose a switch date creates a sense of empowerment and control which consumers appreciate, but it does not resolve the most pressing concerns about switching.
- The standardised process enhances the credibility of CASS and provides a degree of reassurance.
- Old account closure is not seen as a customer-facing benefit and many do not fully understand this feature; while it offers convenience there are consumers who want to keep the old account open which, despite being a feature of CASS, is not possible with all providers.

5.32 It is important to note however that these are perceptions voiced by consumers, and that there are additional issues regarding redirection, as discussed in the previous chapter.

Switching data

5.33 If CASS was being effective in delivering the broader policy objectives that it was designed to support, namely more active and engaged consumers shopping around, then we might expect it to increase the numbers of customers switching (given the relatively low switching rates for both personal and business current accounts).

5.34 Analysis of switching volumes in general in retail banking is complicated by a number of factors, in particular:

- the increase in consumers holding more than one current account (multi-banking). This means switching volumes may underestimate activity in a market as consumers 'add' rather than 'switch between' accounts[51], and
- a number of consumers switching 'manually' – essentially opening a new account and then gradually over time or at a future point switching over some or all incoming and outgoing payments.

5.35 Consequently, there are a number of ways in which current account switching volumes can be measured. These include measuring switches through CASS alone, measuring 'manual switches' and measuring the volume of accounts opened (which is argued by some providers to

51 See CMA, PCA market study update, July 2014, p86. Available at: https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf

be a better measure of customer activity[52]). All these measures are clearly relevant in assessing the impact of switching on the market and its influence on the degree of competition.

5.36 Our review, however, is focused on the effectiveness of CASS, and so we have focused largely on measuring the volume of customers that switched through CASS and through the previous switching process known as ToDDaSO (see next paragraph) rather than estimating switching volumes using these alternative measures.[53]

5.37 The predecessor to CASS was Transfer of Direct Debits and Standing Orders (ToDDaSO), which was an electronic payments service (effectively a back-office process) used by providers to transfer payment instructions (i.e. direct debits and standing orders) for retail consumers between two different current accounts. It had been in operation in the UK since 2001 and accounted for a gradually increasing proportion of current account switches until the launch of CASS. It continued to run until the end of 2014.

5.38 The Payments Council reports switching volumes through CASS on a monthly basis. In October 2014, the Payments Council announced that there had been around a 22% increase in annual switching volumes in the first year of CASS[54] – this was in comparison to switches under the ToDDaSO process in the 12 months prior to CASS launch.

5.39 Since the end of the first 12 months of CASS's operation, the volume of switching through the service has begun to fall such that in January 2015 the increase in switching since the launch of CASS was around 16%. More notably, prior to the introduction of CASS, there was a fall in switching volumes via the ToDDaSO service from a peak in November 2012. Anecdotal evidence provided by banks and Bacs suggests that this was because a proportion of customers waited for CASS to launch. In January 2015, annual switching volumes through CASS and ToDDaSO were around 2% above the November 2012 peak in ToDDaSO switching volumes.[55]

5.40 Figure 5.3 shows the total annual switching volumes, originally through ToDDaSO and then from September 2013 to December 2014 through both mechanisms. It shows the patterns in switching volumes described above.[56]

5.41 Switching volumes were initially boosted following the divestment of TSB from Lloyds Banking Group. The CMA identified, in its PCA Market Study Update in July 2014, that at the time, the increase in switching volumes since the launch of CASS was comparable to the number of customers switching between Lloyds and TSB following the divestment of the latter. The impact of the TSB divestment was particularly significant in the final quarter of 2013, but diminished over the course of 2014.[57]

52 In particular BCA providers also highlight how the customer base declines at a rate (currently) of 10% pa, as smaller firms go out of business, meaning that banks have to focus efforts on winning new business as a priority.

53 We sought data from current account providers for all switching (i.e. including manual switches'). However, most banks were unable to provide this with any great degree of accuracy – for example, some firms were unable to exclude switches that were the result of product migrations (i.e. where a product is discontinued and customers are moved to a new or other exiting product). Therefore analysis of wider switching was not possible.

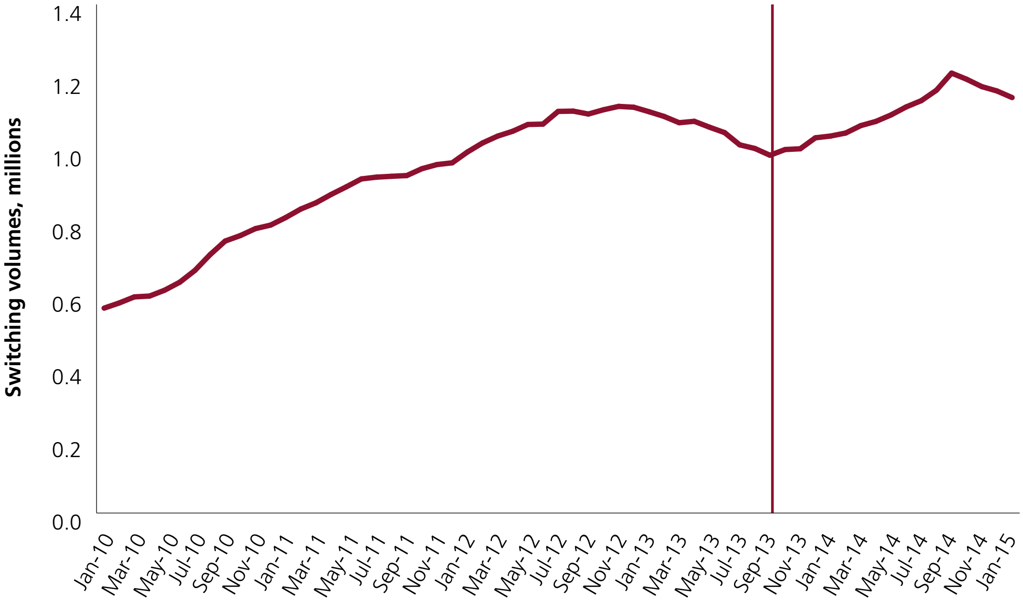
54 The Payments Council, *First full year results published for Current Account Switch Service,* October 2014. Available at: http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/3139/

55 Switching data is available from The Payments Council website http://www.paymentscouncil.org.uk/switch_service/resources/current_account_switch_service_switching_data/

56 The increase in switching volumes up until November 2012 does not necessarily represent an increase in customers switching, but rather an increase in the number of customers whose payment mandates were switched via the ToDDaSO system rather than manually.

57 CMA, *PCA market study update*, July 2014, p15. Available at: https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf

Figure 5.3: CASS and ToDDaSO switch volumes (rolling annual totals) since 2010



Source: Bacs

5.42 The CASS and ToDDaSO switching data shows switching volumes have increased but continue to remain low. It was put to us by a number of banks that these figures understate the real level of switching because they take no account of consumers switching their main bank account manually without using CASS, or switching but keeping their old account open.[58] We have analysed these factors and while they make a difference to the precise volume of switching in the market overall, their effect does not change our conclusions on the impact of CASS.

58 A number of banks suggested around a half of switches take place outside of CASS. However responses to our consumer survey pointed to this figure being between 16 and 31% for retail consumers. In addition, responses to our consumer survey pointed to around 33% of retail consumer respondents and 26% of SME respondents holding more than one current account.

6. Supplier behaviour

There has been far more product development in relation to PCAs than BCAs in recent years. In relation to PCAs there has been a noticeable increase in the use of cash incentives to attract new retail customers, though general product features do not show as clear an overall trend – for example, credit interest is relatively stable, while the cost of unarranged borrowing appears to be falling.

Advertising expenditure did increase around the time of the launch of CASS, but has since declined.

Overall, current account profitability is expected to rise between 2014 and 2016, largely driven by factors such as expected increases in the Bank of England base rate rather than any expected changes in the volume of customers switching.

Taken together, the evidence suggests CASS has only had a limited impact on supplier behaviour to date. This is true among the majority of firms, regardless of whether they have won or lost customers switching via CASS.

6.1 This section presents our findings on the extent to which we have seen any changes in provider behaviour in recent times.

6.2 It is important to note that product development cycles are relatively long, and vary between providers, meaning it is difficult to determine which changes were initiated after the decision to implement CASS was made or after CASS was implemented and were, therefore, at least in part a response to CASS.

6.3 The analysis set out in this chapter covers PCAs and BCAs and in both cases, we comment on notable developments in account features over time, with a particular emphasis on recent changes.

Product changes in personal current accounts

Recent material changes in the PCA market

6.4 In this section we set out some of the developments to the products available in the PCA market since 2010. This is based on data provided by Defaqto, an independent researcher of financial products, showing the products available in the market each year[59] and their features.[60] For the purposes of understanding the headline changes in the market, we have focused on some key product features and how they have evolved. We acknowledge that a number of other factors will have driven changes to product features during this period and that it is therefore difficult

59 The data only covers on-sale products.

60 It is important to note that these findings are based on annual data snapshots, and therefore there may be changes within the period which are not observed.

to attribute any changes directly to CASS. Nonetheless, considering trends in the changes of product features is a useful indicator of activity in the market.

Number of products in the market, and monthly fees

6.5 The total number of current accounts available in the market has stayed roughly constant between 2010 and 2013 at around 131 to 134, after which there is a drop to 122, which coincides with a drop from 44 to 29 in available added-value accounts.[61]

6.6 This is consistent with the fact that the proportion of all accounts with a monthly fee (i.e. excluding free-if-in-credit accounts) first increased from 44% in 2010 to 54% in 2012 before dropping back to 45% in 2014. The average monthly fee on these accounts followed a similar pattern and rose from £12.95 to £14.25 before falling to £10. The highest monthly fee stayed almost unchanged in this period at around £40.

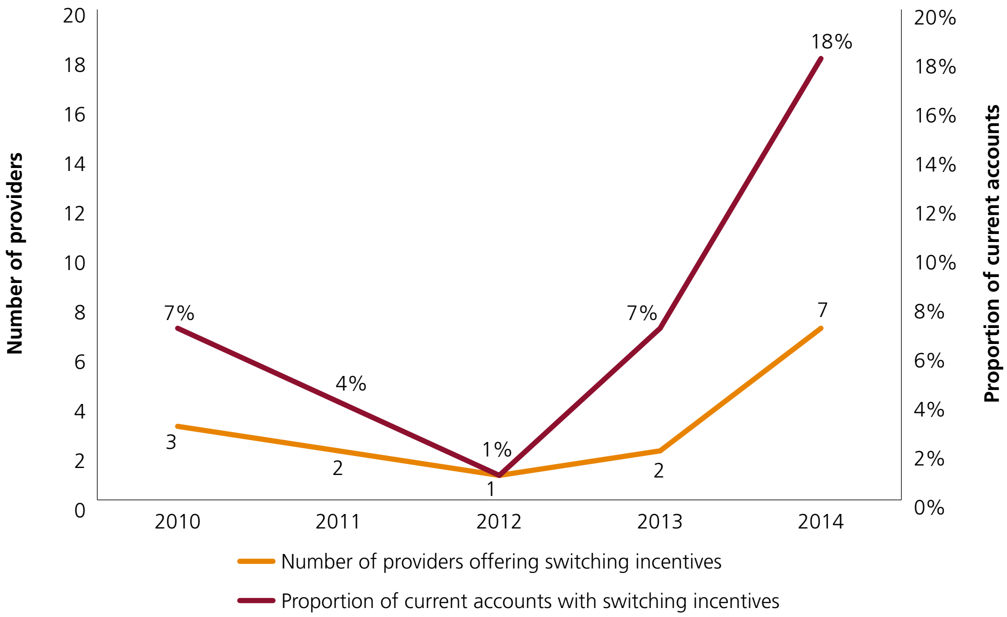
Cash incentives

6.7 Cash incentives are highly visible and easy to compare, and are used by firms to attract potential switchers. As mentioned in Chapter 3, the GfK FRS survey shows that 14% of switchers state incentives including vouchers and cash as the reason for switching to their current provider.[62]

6.8 There appears to be a clear increase in providers using cash incentives to acquire customers. As shown in Figure 6.1, there was a gradual downward trend in the proportion of accounts offering cash incentives from 2010 to 2012, followed by a significant increase from 2012 to 2014, when 18% of current accounts offered a cash incentive.

6.9 The size of the incentives available has also increased. In 2010 the range of incentives available was £50 to £100 whereas in 2014 this range had increased to £100 to £150.

Figure 6.1: Proportion of current accounts and number of providers offering switching incentives



Source: Defaqto

61 "Added value" – in this dataset is defined as providing a range or selection of non-banking benefits (e.g. travel insurance, phone insurance, breakdown cover, home emergency etc.) as part of a package with a sizeable (£8-£20+) monthly fee. They are sometimes referred to as packaged bank accounts

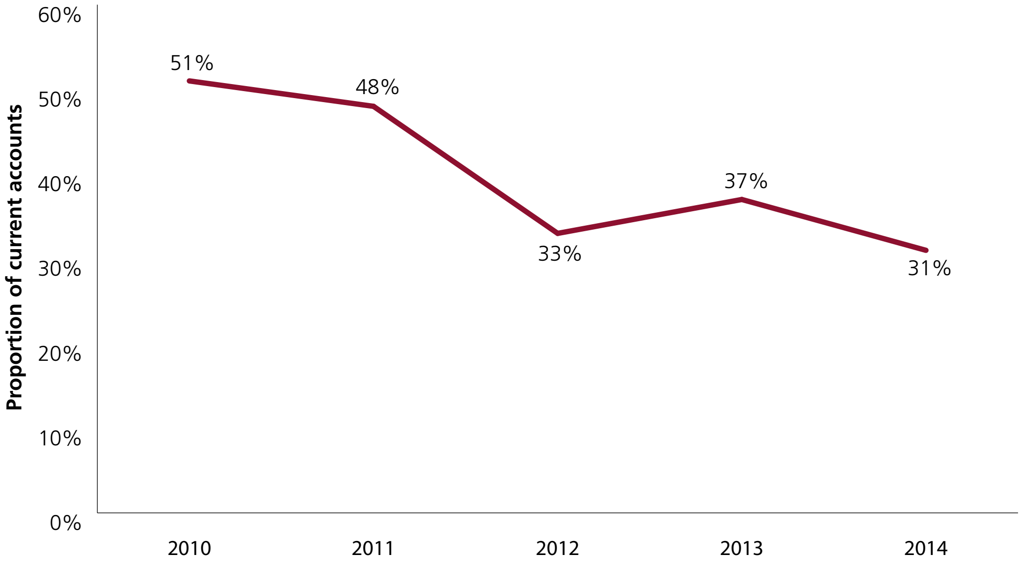
62 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA)

Credit interest

6.10 Credit interest is a similarly attractive product feature for switchers, with 16% saying it was their reason for switching to their current provider.[63] In addition, and in contrast to cash incentives, credit interest may also help to retain customers.

6.11 As shown in Figure 6.2, the proportion of accounts offering credit interest has been decreasing, from 51% in 2010 to 31% in 2014.

Figure 6.2: Proportion of current accounts with credit interest



Source: Defaqto

6.12 While the proportion of accounts offering credit interest is on a downward trend, there are still a sizeable number of interest-bearing current accounts in the market.

6.13 Comparison between accounts is complicated by the fact that, on many current accounts, the applicable interest rate varies according to the size of the deposits held in the account. The data provided by Defaqto shows the highest available interest rate (the annual equivalent rate (AER)) available for different example balances.[64] Some of these example balances are shown in Figure 6.3.

63 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA)

64 The data shows the AER available for the example balance. Different AERs may apply to lower amounts.

Figure 6.3: Highest available credit interest rate, by year and example balance.[65]

Year	Highest AER	how many products at max AER	how many providers at mas AER	GROSS AER £1000	GROSS AER £2500	GROSS AER £5000	GROSS AER £10000
2010	5%	6	1	5%	5%	4%	1.7%
2011	5%	5	1	5%	5%	3%	1.7%
2012	4%	1	1	4%	4%	3%	3.0%
2013	5%	1	1	5%	5%	3%	3.0%
2014	5%	3	2	5%	5%	4%	3.0%

Source: Defaqto

6.14 Apart from a dip in 2012, the highest available AER in the market has stayed at 5% throughout the period (available on deposits up to £2,500). In 2010, six accounts from one provider offered this rate. This dropped to one account in 2012 and then increased again to three accounts from 2013 to 2014, when a second provider started to offer the 5% rate, also on up to £2,500.

6.15 Another notable change in 2014 was an increase in the highest available rate for deposits up to £5,000, from 3% to 4% – a rate last available in 2010.

6.16 Although introduced 18 months before CASS, one other notable development is the increase of the maximum AER on £10,000 to 3% in 2012.

Cost of borrowing

6.17 Overdraft charges are one of the key sources of current account revenue. Previous analysis has shown that consumers find the charges difficult to understand and compare.[66]

6.18 The total cost of borrowing will be a combination of paid and unpaid item fees, (arranged or unarranged) overdraft charges, and overdraft interest or daily fees. Some or all of these may apply to any given account, and can be presented as per-day or as percentage charges.

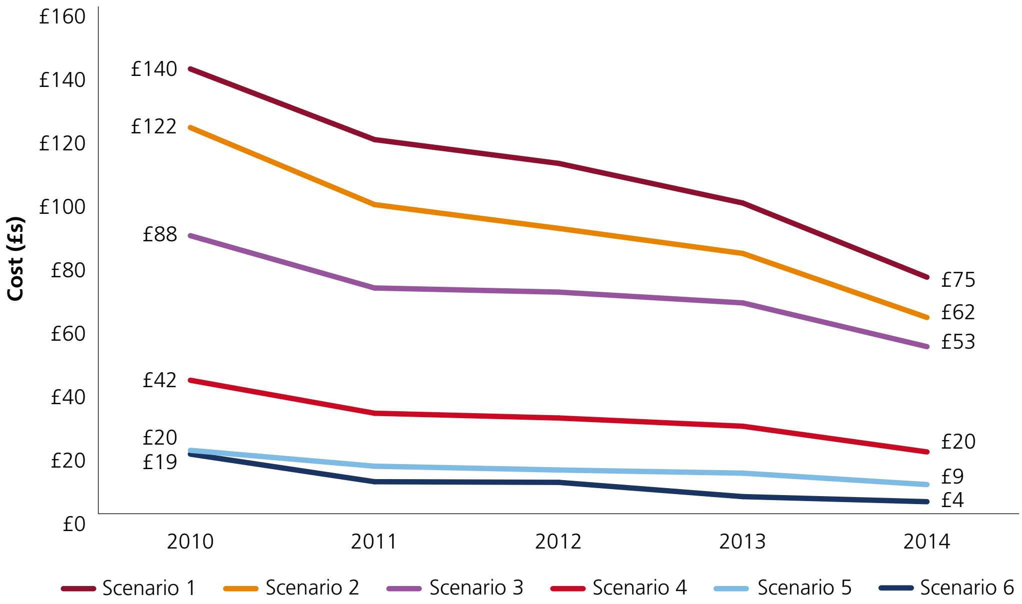
6.19 Given the complexity of charges, we use scenarios to establish trends in overdraft charges over time. For unarranged overdrafts we use the scenarios that were agreed with the industry to improve consumers' ability to understand how different kinds of costs and charges may be applied.[67] Figure 6.4 shows a recent drop in unarranged overdraft charges for all scenarios, part of a clear downward trend for the whole period.

65 The accounts offering 4% in 2012 and 1.7% in 2010 and 2011 were not mass-market accounts. The highest AER available on mass-market products was 2% and 1.1% respectively.

66 OFT, *Personal current accounts in the UK*, July 2008. Available at: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005.pdf

67 The scenarios are described in more detail in OFT, *Personal current accounts in the UK*, March 2011. Available at: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/financial_products/PCA_update_March_2011.pdf

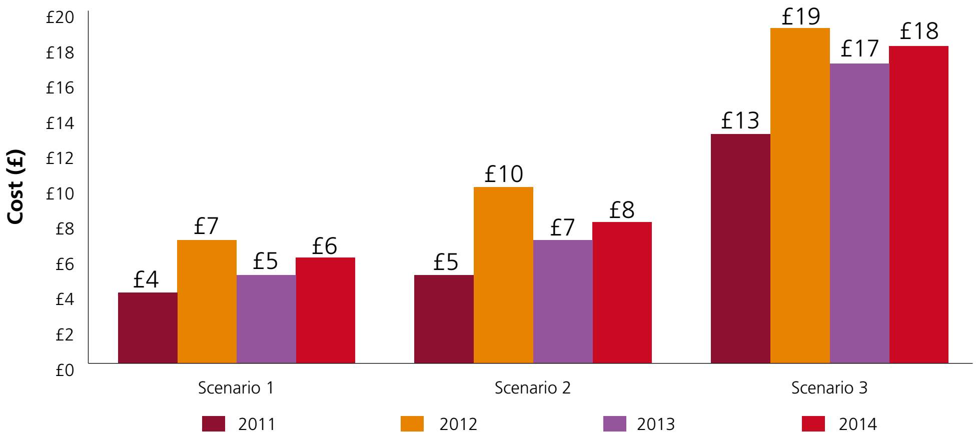
Figure 6.4: Scenario analysis of the cost of unarranged overdrafts, 2010-14



Source: Defaqto

6.20 For the costs of arranged overdrafts no industry-standard scenarios exist, so we use Defaqto's borrowing scenarios instead.[68] As Figure 6.5 below shows, arranged overdraft charges were higher in 2014 than in 2011 in all scenarios, although they were lower than a spike in 2012.

Figure 6.5: Scenario analysis of the cost of arranged overdrafts, 2011-14



Source: Defaqto

6.21 We note that the evidence on borrowing costs suggests that since 2010, products have been improving for those who use unarranged borrowing facilities, but deteriorating for users of arranged overdrafts.

68 These are (1) the total cost of an authorised overdraft of £250 for 5 days, (2) the total cost of an authorised overdraft of £500 for 10 days, (3) the total cost of an authorised overdraft of £1,000 for 30 days

Planned changes to PCAs

6.22 From the information we received from providers, the planned product changes include both the launching of new products and changes being made to existing PCAs, and are spread relatively evenly between the larger and the smaller providers. While product development is at various stages, the changes will fall mainly within the categories of:

- simplification of the product range and increased clarity of pricing
- planned reductions in overdraft charges, or caps to the monthly costs incurred through overdraft charges
- new reward propositions (at least some of these fee-based), including third party partnerships
- technological developments, such as improved budgeting tools
- enhanced customer service, and
- improvements to the account opening process (mentioned by one large and one small firm)

6.23 Some of the information we received suggests that providers are considering product development within their PCA range because of an increased risk of losing customers. One stated that its planned product changes are a consequence of CASS's impact on the market, another that 'market-leading switching offers are critical to customer acquisition, particularly because they ensure prominent positions are obtained on current account best buy tables'.

Product changes in business current accounts

Overview: BCAs as a product

6.24 BCAs are payment accounts that are used by small and medium-sized enterprises (defined by the EU as having a turnover of up to £25m[69]). However banks may choose to offer BCAs to much smaller businesses, categorising larger SMEs as 'commercial' or 'corporate' rather than business clients. The thresholds vary by firm; we have seen examples of BCAs being offered to businesses with annual turnovers from up to £250,000 to up to £5m.

Benefits and pricing structure of BCAs

6.25 Although BCAs are similar to PCAs in that they are used to make and receive payments, there is no free-if-in-credit model in business banking; customers generally pay for an account and for each transaction.

6.26 The product offering in the BCA market is therefore complex: accounts differ from each other with respect to the charges levied on different transactions as well as the level of any monthly standing charge[70] the level of credit interest on balances and the extent of services such as relationship management. In addition, our qualitative research shows that businesses particularly value the relationship management they receive from their bank. This makes finding information about new providers and comparing them more difficult since it is difficult to judge the relationship element offered by other providers.

69 CASS currently covers only microbusiness with a turnover of up to €2m (or sterling equivalent of £1.6m), although this is to be extended to £6.5m by the end of March 2015.

70 Some accounts offer a certain number of transactions for one monthly fee

Recent material changes in the BCA market

6.27 In our information request we asked firms to set out any material changes that have been made to their product range since 2012. While the general response was that there have been no material changes:

- one bank launched a new BCA in October 2013
- several banks simplified their pricing structures; this simplification was accompanied in some cases by increases in monthly fees or charges, and
- improvements in servicing such as online and mobile banking, or launching of cost calculators, were mentioned by several banks

6.28 Given the limited extent of these changes, we conclude there has been little material innovation in the BCA market in the last two years.

Planned changes to the BCA product range

6.29 We also asked firms about any plans they have for changing their product offering in the future. Their responses include:

- developing products more tailored to particular customer segments
- simplification of the product range and pricing structure
- improving online functionality
- exploring third-party partnerships.

6.30 Thus the responses to the information request suggest that attention may well turn to improving the BCA range in the future, but we have no concrete evidence of major changes in the pipeline.

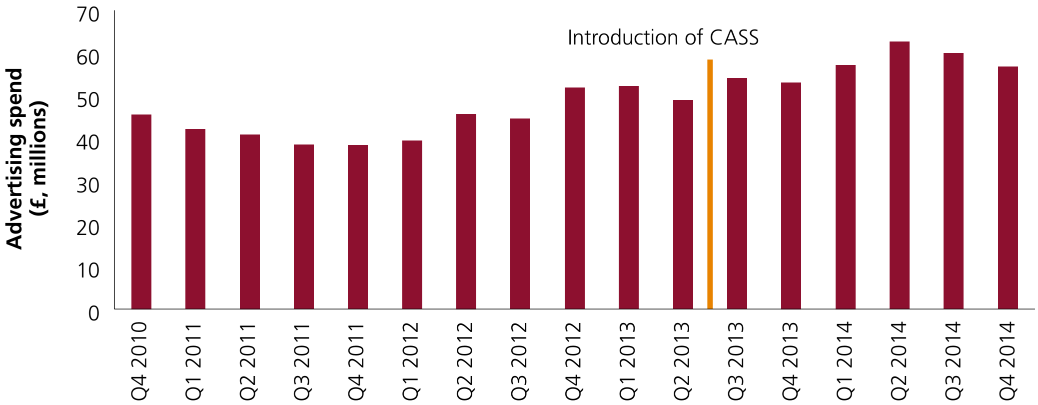
6.31 We conclude that while at least some firms are showing signs of responding to increasing switching volumes and their competitors' offerings, this is happening slowly and less than in the PCA market.

Advertising spend and other marketing activity

6.32 Advertising expenditure can be an indicator of firms' desire to attract and/or retain new customers. Based on Ebiquity estimates of monthly advertising spend[71], there was a modest increase in the total amount of advertising spend by retail banks in the first few months after the launch of CASS, though this has since fallen back.

71 Ebiquity estimates total advertising spend by estimating the costs of advertising on a specific medium and then identifying the number of advertising slots used by a firm in that medium.

Figure 6.6: Total industry advertising spend on current accounts

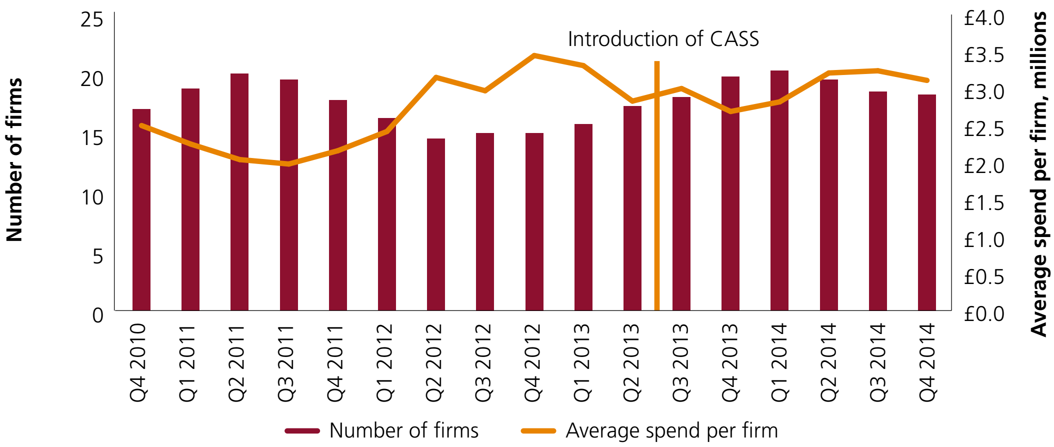


Source: Ebiquity

6.33 Advertising spending across other financial products such as insurance and credit cards has stayed relatively static over the same period while spend on current accounts has increased. Total advertising spend on current accounts has therefore increased as a proportion of total advertising spend in the financial sector as a whole. The majority of spend on current accounts has been on television advertisements, although there was also an increase in press advertising immediately after the launch of CASS.

6.34 Although total spend on current account advertising has increased, the average spend per firm has fallen from a peak in the final quarter of 2012. The increase in total industry spending on current accounts is the result of an increase in the number of firms advertising their current accounts.

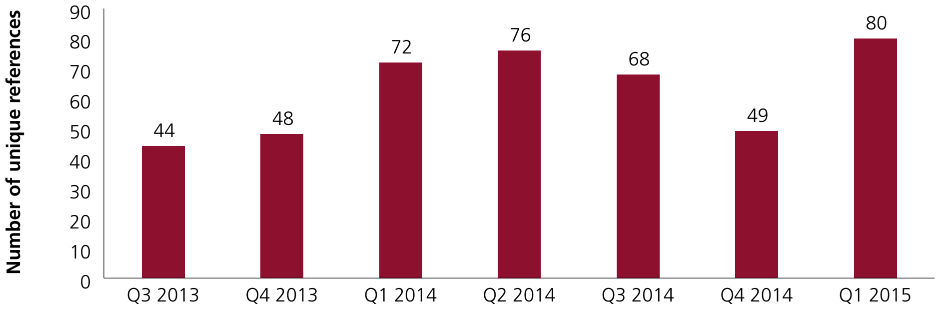
Figure 6.7: Number of firms advertising their current accounts against the average spend per firm on current account advertisements



Source: Ebiquity

6.35 As shown in Figure 6.8, references to CASS in advertising have varied over time since the service was launched. As would be expected, immediately after launch, there was a sharp increase in references to the new service. However this fell during the second half of 2014 before rising to a new high in the first quarter of 2015.

Figure 6.8: Number of unique references in advertisements to 'CASS', 'Current Account Switch Service' and 'switch service'



Source: Ebiquity

Product profitability

6.36 We sought to understand whether any changes in behaviour by consumers or firms were having an effect on the profitability of personal and business current accounts. We asked a sample of the larger banks to provide information, where available, on income, costs and profit covering a six-year period (from 2011 to 2016)[72] as well as some commentary on the assumptions behind the data.

6.37 As the approach taken by firms differs in many areas (such as cost allocation in respect to branch networks), it is not possible to directly compare the profitability of one firm to another. Rather, we have sought to identify trends in the market that give an indication of the firm's broad sensitivity to customers' switching and the cost impact of any recent product development.

6.38 Evidence from firms suggests that income from both personal and business current accounts fell in 2013. However, forecasts to 2016 are broadly optimistic, in particular for BCAs, reflecting firms' expectations of base rate increases. The projected increase in interest income is expected to be offset by a reduction in fees and charges (for example from overdrafts).

6.39 Conversely, costs rose modestly for most firms in 2013, but are projected to fall between 2014 and 2016. Firms told us that they have become more sensitive to the risk of customers' switching in the PCA market post-CASS and are undertaking actions to try and mitigate this risk, for example reviewing product offerings, analysing the profile of switchers and what drives them to switch, and monitoring the actions of their competitors. The increased spending on marketing and incentives post-CASS, however, does not appear to form a significant proportion of overall costs. Firms continue to focus on cost reduction for the future, as part of wider corporate cost-cutting initiatives though they have reported increased budgets for product development and marketing to attract new clients and for improving ongoing services to retain existing clients.

6.40 Overall, profitability fell for some firms in 2013, but was expected to increase beyond that. Firms' financial projections for the years ahead show that they do not expect switching volumes to rise substantially and that given this, other factors such as changes in the Bank of England base rate are likely to have a more significant effect.

72 Not all banks estimate profitability at a product level but, even in such cases, we are able to look at many of the income and cost components.

6.41 The evidence suggests that the pattern is similar in relation to BCAs, but that there has not been the same increase in costs associated with the introduction of CASS. In general, for those firms that offer them, BCAs are a smaller part of the current account offering.

7. Consumer outcomes

The proportion of consumers who describe themselves as satisfied with their current account is generally high and has not changed greatly over time. Our consumer research indicates that customer satisfaction is a key driver of the inertia barrier to switching and that consumers who describe themselves as 'satisfied' are better described as being 'not unhappy'.

7.1 This chapter sets out evidence on changes in customers' satisfaction with their current account. It includes findings from consumer research as well as analysis of complaints data.

Satisfaction with current accounts

7.2 A change to consumers' satisfaction with their current account is one indicator of improved customer outcomes. If consumers consider themselves more satisfied with their current account now relative to how they felt in the past, this suggests positive changes in consumer and supplier behaviour may have led to better outcomes in the market.

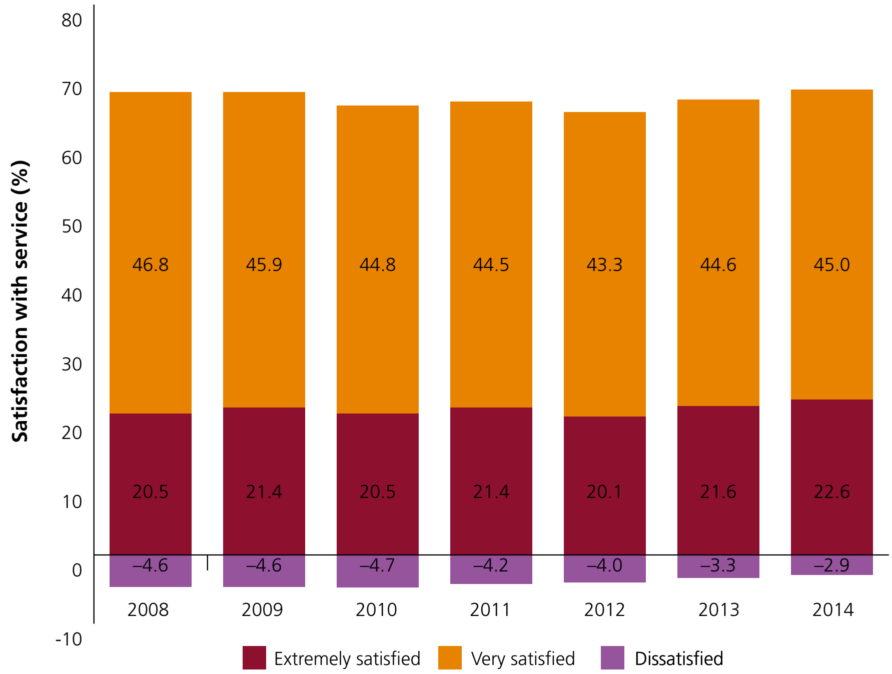
7.3 However there is some evidence that the relationship between competition and consumer satisfaction is more complicated, with engaged consumers in some cases being less satisfied than unengaged consumers. As set out in the consumer research, this is likely to be because unengaged consumers who describe themselves as 'happy' are in some cases better described as 'not unhappy', and their expression of satisfaction is an aspect of their inertia.

7.4 It is also important to recognise that any changes in consumer or provider behaviour are likely to take time to flow through into better outcomes for consumers. Hence, given that CASS has only been in place for a year, it may be too early to observe any material changes to customer satisfaction, as reflected in measures such as complaints data. However this analysis is still useful in considering current trends and establishing a baseline for any future analysis.

Changes in satisfaction over time

7.5 Figure 7.1 shows the proportion of individual consumers who have described themselves in GfK's annual FRS surveys since 2008 as dissatisfied, very satisfied or extremely satisfied with their current account. There has been a steady decline in the proportion of dissatisfied customers since 2010, with no notable increase in the rate of this decline since the introduction of CASS. The total proportion of those who rated themselves very or extremely satisfied is the same now as in 2008, although the proportion of those who say they are extremely satisfied has increased marginally, from 20.5% to 22.6%.

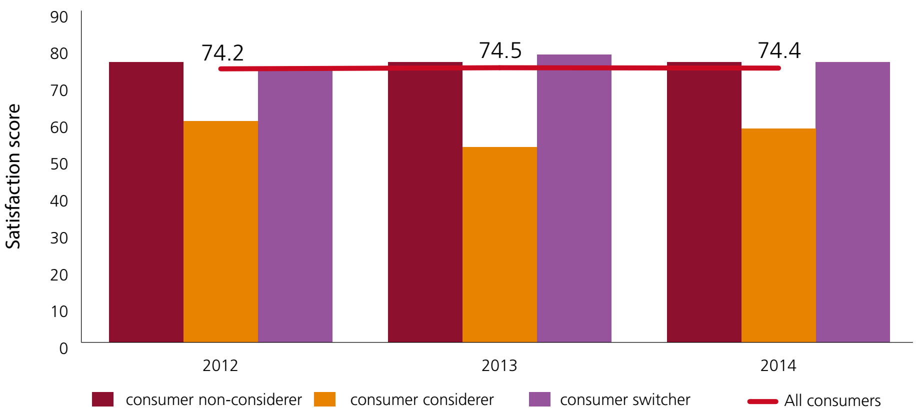
Figure 7.1: Levels of customer satisfaction with PCAs since 2008



Source: GfK FRS survey[73]

7.6 Similarly, data from the Payments Council does not show any significant changes in satisfaction over the last three years. However, as shown in Figure 7.2, switchers and non-considerers are consistently more satisfied with their current account than non-considerers. This suggests that as respondents move from considering to switching accounts, their satisfaction increases.

Figure 7.2: Levels of satisfaction with current accounts, 2012-14,



Source: The Payments Council[74]

73 GfK FRS Current Account Market Report – Sep 2014 (Prepared for FCA) + also the equivalent reports for 2008 – 2013. The question asked 'In the last three months, taking everything into account, how satisfied have you been with your main current account provider's current account service?' Answer options were 'Extremely satisfied', 'Very satisfied', 'Fairly satisfied', 'Neither satisfied not dissatisfied', 'Fairly dissatisfied'. 'Very dissatisfied', 'Extremely dissatisfied', 'Not applicable/no experience' or 'Don't know'.

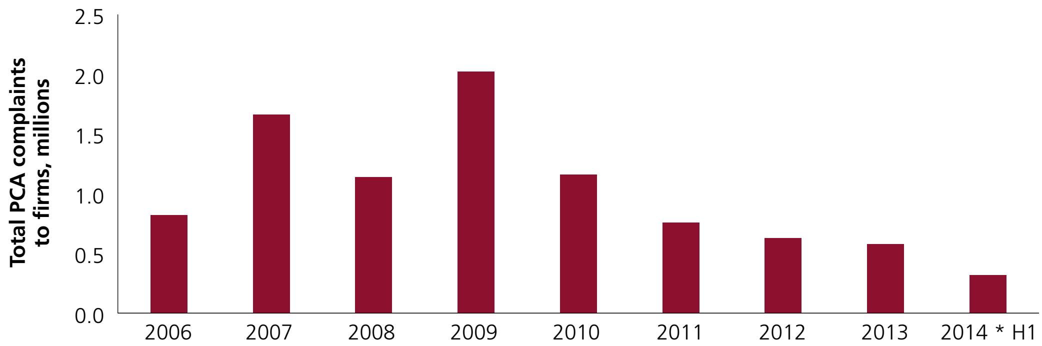
74 The Payments Council, Account switching: Quantitative market research results, July 2014. Available at: http://www.paymentscouncil.org.uk/files/payments_council/accountswitching/market_resesarch/cass_quantitative_market_research_2014.pdf

Complaints

7.7 The FCA requires firms to record and report data on complaints they receive, including how each complaint is resolved. A number of factors are likely to have had an effect on firms' complaints performance over this period and it is difficult to pinpoint a causal relationship between these figures and the impact of CASS. However, they are useful to consider alongside other indicators of satisfaction.

7.8 Complaints to firms about PCAs have generally fallen since 2009, with almost every firm reporting a fall in complaints over that period.

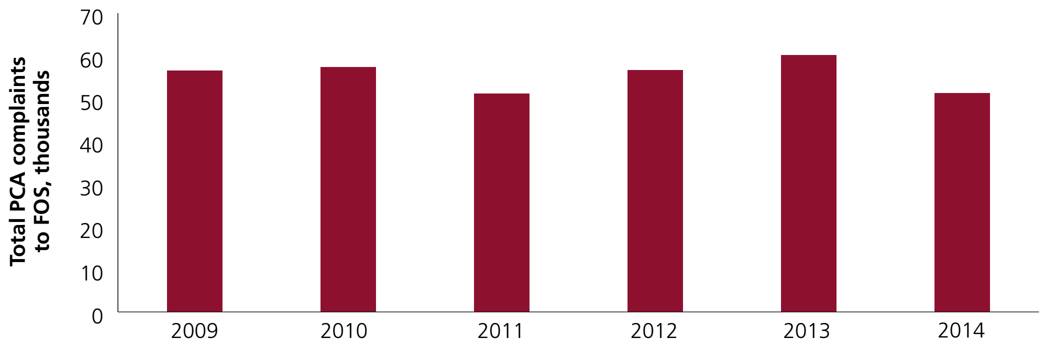
Figure 7.3: Total PCA complaints to providers



Source: Data provided to the FCA by firms as part of regular six-monthly reporting, 2006 to the first half of 2014

7.9 Complaints to the ombudsman service have been relatively unchanged in recent years. Almost half of all ombudsman service complaints are upheld in favour of the consumer, dropping to a third for larger banks.

Figure 7.4: Total PCA complaints referred to the ombudsman service



Source: the ombudsman service

7.10 The ombudsman service received 249 complaints about account switching in 2014, although switches giving rise to complaints remain an extremely small proportion of the total number of switches that take place, there were 1.2m full and partial switches through CASS in the same period.

8. Account number portability and other measures to reduce switching barriers

ANP could potentially make switching simpler and easier by allowing customers to change current account providers without changing their bank details.

Our qualitative consumer research indicated that ANP is generally seen by customers to have less risk associated with it than CASS and to be more seamless as a process. ANP was seen to be convenient for SMEs and charities especially, as it would avoid the need to notify customers of new account details.

There are several potential ways to deliver ANP. They vary in terms of their benefits, as well as according to cost, complexity and incentives for innovation.

The evidence we have gathered indicates that further work to quantify the potential benefits and costs of these options would be appropriate. However, it is important to recognise that ANP can only help reduce those barriers to switching that relate to the switching process. Without other measures to encourage customers to act, the impact of ANP alone may be limited.

We have also considered potential enhancements to the CASS process including an unlimited redirection service and shorter switching process. Our findings are that unlimited redirection would be beneficial to consumers, while reducing the switching time from seven to five days would not deliver significant benefits to consumers.

8.1 This chapter sets out the evidence we gathered on ANP and other measures that may help make switching simpler and easier for customers. Our findings on the benefits of these measures are based on (i) a combination of qualitative and quantitative consumer research, and (ii) technical advice on potential options for delivering some of the specific measures.

Account Number Portability

8.2 ANP generally refers to the ability of a customer to move to another provider while retaining the same account details.

8.3 A current account is typically identified via a 6-digit sort code and an 8-digit account number. Together these details enable an account to be identified and located, for example for incoming payments to be routed to an account, or for outgoing payment requests such as direct debits.

8.4 Currently, a switch entails a change of account details, which is a source of perceived or actual problems for some consumers. This can be because, for example, of the hassle involved in informing others of this change, or because of a fear that incoming payments may go missing.

If the account details can be retained by the customer when switching to a new bank or building society, then those details no longer need to be updated following a switch, reducing the actual and perceived hassle or risk of errors occurring.

8.5 We gathered evidence on (i) some of the potential benefits of ANP, and (ii) a high-level assessment of the potential technical solutions for delivering ANP, and of their associated complexities.

Potential benefits to consumers

8.6 As part of our qualitative consumer research, we explored the potential benefits to both retail consumers and SMEs of being able to retain their account details. This research indicated that ANP is generally seen to be more seamless and less risky than CASS, but that it appeals to consumers and businesses for different reasons.

8.7 Retail consumers did not show much emotional attachment to their account number and thought ANP would make switching less hassle, as there would be no need to change anything or inform anyone of their changing details. It is also perceived to reduce the risks involved in switching as if there is no change in account details there is less of a chance of anything going wrong. However ANP also raised questions among consumers as to how it would work in practice, given that sort codes are perceived to be unique to providers and tied to a physical branch location. It also leads to some concerns about security, specifically a greater perceived danger of account fraud.

8.8 The results from the quantitative consumer research indicates that retention of account details is important to some consumers, with 35% of them saying they would be much more likely or more likely to switch if they had portable account details.

8.9 For SMEs and charities, ANP is seen to be very convenient, as they would not have to notify customers of changing details, worry about transferring certain payments, make changes to stationery, or be concerned about what the change in account details may signal to their customers (there was some concern that this would be a signal that the business is in difficulty).

8.10 In line with these findings, the quantitative research found there are slightly bigger perceived benefits to businesses, 40% of which said they would be more likely or much more likely to switch if they had portable account details.

8.11 The findings from the qualitative research also indicated that those SMEs receiving a high proportion of their income online, direct to their bank account, rate the benefits of ANP more highly. However this was not reflected in the results from the quantitative research which showed no large differences depending on the predominant form of payment mainly received.[75]

Potential technical solutions

8.12 Any solution delivering ANP is likely to require:

- routing of incoming payments from an old account to the new one (recognising that a customer may switch multiple times)

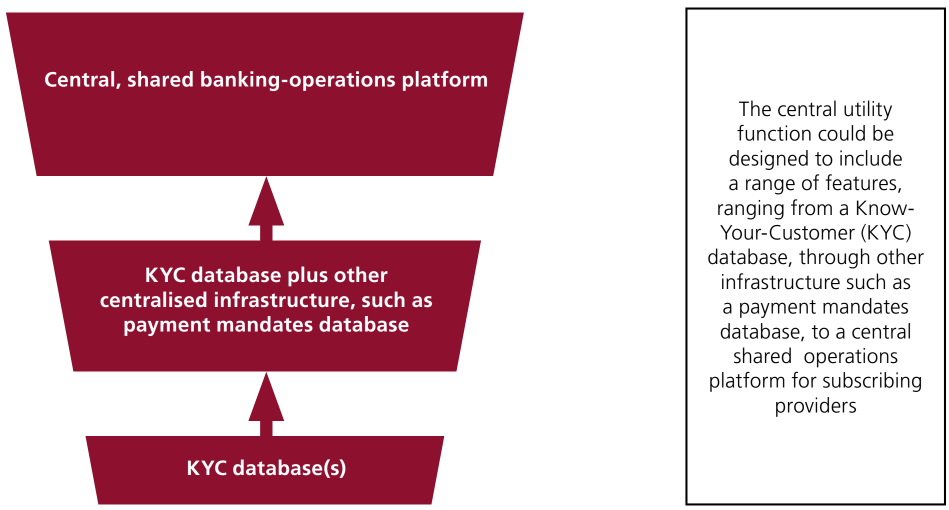
75 This is likely because the quantitative research considered the benefits of ANP to those SMEs whose main source of income is online payments direct to their bank account compared to the benefits of ANP to SMEs who have other main sources of income. However there may be some SMEs for whom online payments direct to their bank is not their main source of income but is still a substantial one. These SMEs may rate the benefits of ANP equally highly as those SMEs for whom online payments direct to their bank account is their main source of income, explaining, at least in part, why we observed no large differences in responses between these groups.

- a record of all current and previously issued account numbers, to prevent providers reallocating any numbers until such time that an account is closed (when, after an agreed period, a number may be re-used)
- a record of the payment mandates to be transferred from old to new provider, and
- the capability to switch any existing balance from the old to the new provider

8.13 These requirements could broadly be delivered in two ways. Both achieve the benefits of 'portability' described above but involve varying degrees of complexity and cost:

- Building and managing the above functions within the existing market structure. Under this model, the additional infrastructure (i.e. the databases used to route payments, transfer balances and retain information on payment mandates and account details) would be built and run centrally as is currently the case with CASS. All providers would also retain their own existing systems.
- A 'central utility model' which could be based on a central, shared banking platform providing back-office functions to the subscribing providers (including all the functions listed above). Providers would be able to offer customers differentiated products and services, different charging structures and interest rates, internet banking sites, or mobile banking applications, all using a common payment infrastructure. A variety of features could be developed depending on the ambition of this 'utility' model, as presented in Figure 8.1 below.

Figure 8.1: Potential features that could be included in the 'central utility' model



8.14 A solution delivering ANP would be able to deal with incoming payments, directing them to the customer's new current account and avoiding the need for third parties to update their details (which would not change). Retaining existing account details would also mean that payments pulled by a third party (e.g. direct debits) would automatically be taken from a customer's new account.

8.15 Notably, even enabling customers to keep their account details would not necessarily remove the need for them to change some payment details. For example, international inward payments refer to the IBAN, which is a separate identifier not automatically linked to the customer's account details. As with CASS, the above solutions may not address CPAs (i.e. recurring debit card payments). When a customer switches provider they get a new card, so payments associated with the customer's old card would need to be updated with their new card number. In addition standing order instructions would need to be moved to the new provider.

8.16 These two options would be likely to involve very different costs and complexities, as well as different risks. They also provide different incentives for ongoing investment and innovation in payment systems. The central utility model may provide an opportunity for investment in a new operating system, but it is not clear what incentives a single utility (effectively in a monopoly position) would have to either keep pressure on costs or innovate in the longer-term. This model might also make it more difficult or slower for innovation to occur at the individual bank level (e.g. if there was inflexibility in the central solution or providers had to queue up for development slots). A number of theoretically-feasible, stylised options within these two approaches are set out in a report by Moorhouse Consulting published alongside this report.

8.17 Finally, it is important to recognise that ANP can only help reduce barriers to switching that relate to the switching process. Any eventual impact on shopping around and switching would also depend on measures taken to address other barriers such as consumer inertia. Without other measures to encourage consumers to act, the impact of ANP may be limited.

Unlimited redirection of payments

8.18 In addition to potential solutions for delivering ANP, we also considered whether there were other options that could deliver some of the benefits of ANP albeit without full portability of account details. One of these was an unlimited extension to the CASS redirection service.

Potential benefits to consumers

8.19 Around 8% of switched accounts still have at least one redirected payment after 12 months, after which the proportion of accounts with such payments falls further but much more slowly. If this is not addressed, there is a risk that when the redirection period ends, the number of payments that fail to be redirected will cause detriment to those directly affected customers and could also be sufficient to undermine confidence in the service. This risk will be mitigated temporarily by the planned extension to the redirection period to 36 months by the end of March 2015, but the issue still remains.

8.20 Our qualitative consumer research shows that extending the redirection service for an unlimited time period would provide far greater assurance to consumers about incoming payments after switching and would be a significant improvement on the original 13 month period. The word 'unlimited' alone was felt to suggest much greater certainty, instilling more confidence in the process, and suggesting a significantly greater benefit than simply increasing the redirection period.

8.21 Unlimited redirection appeals to all consumer groups, but it is of particular interest to businesses who receive the majority of payments electronically or through Bacs, rather than those who receive mostly cash or debit card payments.

8.22 It was not perceived to address the need to inform payers of changing account details, which businesses and charities felt was necessary out of courtesy. There was also some concern among consumers that it could lead to some 'messiness' if multiple redirections are taking place, for instance if a customer has switched multiple times.

8.23 The results from the quantitative consumer research are less strongly positive about the benefits of unlimited redirection than those of the qualitative research. They indicate that extending the redirection period indefinitely would lead to 4% more retail customers being more likely or much more likely to switch than they would if redirection stayed at the currently planned 36 months.[76]

Potential technical solution

8.24 This solution would involve a continuation of the current redirection service with rerouting of payments for an indefinite period.

8.25 While this option could technically provide portability of account details (i.e. where a customer kept switching but continued to use the original account details) its purpose would be to provide additional assurance to that already offered by CASS. It is assumed that customers would begin to use their new account details and that measures aimed at encouraging third parties to update account details (e.g. those currently undertaken by Bacs) would continue.

8.26 Where a customer moves bank multiple times before, for example, all payment originators had updated their records of that customer's account details, a solution would need to be found to avoid multiple layers of redirection and ensure that any costs of this do not land disproportionately on the new provider. The tracking and allocation of numbers would have additional complexities because previously used account details could not be reissued after a customer had switched away until there were no longer any redirections on the account. However, consideration would have to be given to the potentially weaker incentives it would have on service users to update account details and how the service might be affected by bank failure. Bacs already works to manage down the number of redirections and it may be a better use of resources for industry to work with Bacs to improve this administrative solution.

Reduction from seven to five-day switching

8.27 As announced in the Autumn Statement, we have considered whether a reduction in the number of days it takes to switch to five days (from the current seven days) would lead to significant consumer benefits. We were not asked about and did not consider the costs of such a measure.

8.28 The time it takes to switch was not one of the factors consumers spontaneously cited as holding them back from switching, nor was it one of the solutions consumers put forward for making them more likely to switch.

8.29 When consumers were prompted to give their views on a reduction in the switching time, they told us that a quicker process was perceived to offer some advantages, including fewer disruptions to account activity and an indication of a streamlined, efficient process that leaves less time to worry about things going wrong. However, the overall impact of speeding up the process to five days appeared to deliver only small benefits.

76 The same was true for businesses, though the findings were not statistically significant.

8.30 There are a number of reasons why the benefit is perceived to be low. These reasons differed somewhat between audiences:

- Generally, the speed of the switch was found to be less important than the process being smooth and error-free.
- Decreasing the switch time was therefore not a priority for consumers. The seven-day aspect of CASS received positive feedback as it provides clarity on how long the process takes, and seven days was considered a reasonable amount of time for the switch to take.
- Respondents often placed greater value on the ability to choose a particular switch date that on the speed of the switch, as it gave them a sense of control over the process and meant they could choose the most convenient date for them.
- A more instantaneous switch was attractive to some consumers, however, consumers also indicated that reducing the switch time actually raised concerns about accuracy, as time pressure might increase the likelihood of errors being made.
- In addition, decreasing the switching time would not have an impact on the time it takes to open an account. For small businesses and charities in particular, concerns about speed tend to be more focused on account opening, but all groups of consumers also mention practical issues with a much faster switch, such as the need to have received new debit and/or credit cards and PIN codes by the time the old account is closed.

8.31 While the conclusion that the benefit to consumers of reducing the switching time to five days is likely to be low presented itself consistently, there were nonetheless some differences in attitudes between retail consumers and businesses. Retail consumers were slightly more receptive to the idea since they had a greater belief that it was realistic to carry out the switch in five days, compared to businesses who perceived their banking activity to be more complex. Five-day switching was also more attractive to some of those who had progressed further along the consumer journey; this is to be expected given that they had already overcome other barriers and therefore the impact of changes in the switching process was likely to be greater.

8.32 The results of the quantitative research are in line with the findings from the qualitative research. Three different parts of the sample were asked to consider their increased likelihood of switching in the next 12 months under the two different switch-time scenarios. The research found that the proportion of retail consumers who describe themselves as more or much more likely to switch in the next 12 months with a seven-day switch service is approximately the same as with a five-day switch service (19% compared to 20%). Among small businesses, this proportion is 17% and 18%. Neither of these increases are statistically significant, so we cannot conclude that they indicate a material benefit to consumers. Only a reduction in switching time to one day was found to increase consumers' likelihood to switch.

8.33 As indicated by the qualitative research, underlying these figures there is some variation between different groups. For instance, the highest positive difference is among retail consumers who describe themselves as likely or very likely to switch in the next 12 months (8% more respondents are more likely to switch under five days than seven), but again this difference is not statistically significant.

8.34 Overall, our research does not show that reducing the switching time from seven to five days would significantly reduce the barriers to switching.

9. Conclusions, recommendations and next steps

CASS has made the switching process simpler and easier for consumers, though a small number of operational issues appear to remain. Although it has not yet led to a material, sustained increase in switching, this needs to be seen in context.

Within this context there are signs that ANP could offer benefits beyond CASS and so is worthy of further consideration.

9.1 This chapter sets out:

- our conclusions on the effectiveness of CASS, and
- our recommendations in relation to CASS and proposed next steps on ANP

Conclusions

9.2 For consumers to see CASS as effective, we would expect it to run smoothly as a minimum. This would include the speed of switching as well as consumer awareness of and confidence in the service.

9.3 We found that CASS has made the switching process simpler and easier for consumers, though a small number of operational issues appear to remain. It addresses the main practical barriers to switching, such as dealing with incoming and outgoing payments and providing a guarantee in case something goes wrong. This came through clearly in our consumer research.

9.4 While CASS appears to meet the needs of consumers, awareness of and confidence in CASS is below the Treasury's target. There is also a risk that when the redirection period ends, the number of payments that fail to be redirected could be sufficient to undermine confidence in the service.

9.5 If effective in delivering the broader policy objectives that the creation of CASS was designed to support, namely more active and engaged consumers shopping around, then we might expect it to increase the numbers of customers switching (given the relatively low switching rates for both personal and business current accounts). Even in the absence of switching, the simple threat of increased switching may drive providers to improve the products and services they offer to consumers.

9.6 For the majority of consumers who have not switched, the two main barriers to switching are (i) inertia, and (ii) the account opening and switching processes. This does not diminish the importance of establishing a simple switching process as an important element of a well-functioning market. But it does mean that simplifying and speeding up switching in isolation is likely to have limited impact on switching volumes.

9.7 CASS has led to a small increase in switching. While switching volumes grew in the first 12 months of CASS by around 22%, they have begun to fall back and by January 2015 were 16% above the level at the launch of CASS and only slightly higher than those recorded in November 2012 (around a year before the launch of CASS).

9.8 On the supply side, there is some limited evidence of changes in providers' behaviour to try and overcome the barrier of inertia for retail consumers. There appears to have been increased activity in the PCA market coinciding with the introduction of CASS – for example, there has been a material increase in cash incentives to switch. For small business customers, there has been little product development, though we understand a number of banks have plans to review product ranges this year.

9.9 Finally, the proportion of consumers who describe themselves as satisfied with their current account has not changed greatly over time, and has not noticeably increased since the introduction of CASS.

9.10 While we acknowledge that improving CASS would only have a relatively limited impact on the market until broader issues affecting engagement are addressed, there are a number of improvements that our review has highlighted as important.

Recommendations on CASS

9.11 We have developed a small number of recommended areas for further enhancements to CASS. These include:

- measures to raise awareness of and confidence in the service, and
- working with Bacs to investigate and identify a technical solution to the problems that may occur if/when the redirection service comes to an end.

Awareness and confidence

9.12 Given the relatively low levels of awareness of and confidence in CASS, we recommend that Bacs develops proposals to:

- raise awareness of the service, such as a targeted marketing campaign or greater prominence of the service in branches
- identifying ways to raise confidence levels in the service via the marketing campaign (for example by publicising customers' positive experiences), and
- refining the targets around consumer confidence to better reflect customers' concerns (such as an error-free switch).

Redirection service

9.13 We recommend that Bacs develop a proposal to mitigate the risk of the end of the redirection service undermining confidence in CASS. Notwithstanding Bacs' ongoing efforts to manage down the number of outstanding redirections and the planned extension of the redirection service to 36 months, a solution needs to be found.

9.14 We recommend that Bacs consider the technical feasibility of an unlimited extension to the redirection service, including assessment of any potential negative impact it may have on service users incentives to update details (because levels of updating may fall given the greater reassurance). The report we commissioned on ANP indicates at a high level that this is possible but a more detailed review would be necessary. Other potential solutions may also be identified and considered in comparison, including an improved administrative solution to manage down the number of redirections.

Other operational issues

9.15 We have found evidence of a problem experienced by some consumers requesting an overdraft on a new current account to which they plan to switch. CASS is designed so that a switch starts once the account opening process is complete, hence once the consumer has been informed whether their application for an overdraft on the new account has been successful. However, we understand that at some banks this does not happen and a switch can be initiated before a decision on an overdraft is made. We are aware that this does not apply to all current account providers because some banks and building societies have already addressed the issue. However, the FCA has contacted relevant current account providers to:

- understand exactly which providers are affected, and
- begin developing a solution with those banks and building societies that have not already addressed these issues.

Next steps on ANP

9.16 While recognising some of the potential limitations and the likely cost implications, the evidence we have gathered on ANP indicates that further work to quantify the potential benefits and costs of these options would be appropriate. We have provided the evidence we have gathered in relation to ANP to the PSR, the newly-created regulator of the payments industry.

9.17 The PSR has proposed to establish a Payments Strategy Forum (PSF). The proposed Forum will be led by an independent chair, with members from a broad range of service users and industry participants.

9.18 We expect that our findings, alongside those of the CMA market investigation in relation to customer mobility, will inform the PSF's discussions as it develops and agrees its strategic priorities.

Annex 1
Stakeholder views

1.1 We sent an information request to a sample of firms participating in CASS. We have also spoken to other organisations, including consumer organisations, financial technology firms and trade bodies.

1.2 There was a wide range of views across the different stakeholders, and within the different stakeholder groups there were also slightly divergent views and insights. We have grouped the responses and feedback under four broad headings:

- current account switching
- the impact of CASS
- enhancements to CASS and
- insights and views on ANP

Current account switching

1.3 In considering the difficulties with estimating switching volumes, a number of large firms emphasised the large volumes of switching outside of CASS needed to be taken into account. Firms highlighted this to be especially significant in the BCA market, although it was also specifically cited as an important factor in PCA switching as well. Large firms specifically mentioned the common nature of "stealth-switching" in the BCA market where businesses move small parts of their activities at different times.

1.4 Large firms in particular also mentioned the growth of multi-banking where consumers may be 'adding' a current account rather than 'switching' between accounts.

The impact of CASS

1.5 Most stakeholders viewed CASS positively in terms of its benefits (guarantee, speed, etc.) when compared to previous methods of switching such as ToDDaSO and manual switching.

1.6 All but one firm, mentioned that CASS has the potential to increase switching within the current account market. However a number of the challenger banks were disappointed at its slow initial uptake by consumers. This disappointment was echoed by consumer organisations, who stated that although CASS was a welcome step in the right direction, it did not address some of the core issues within the market. Most stakeholders also mentioned the need to adequately address the lack of awareness of CASS.

1.7 A number of large banks mentioned that in considering switches through CASS, overall they have generally lost more customers than they have gained, whilst the larger challenger banks have been the largest net gainers of switchers through CASS.

Barriers to switching

1.8 A number of firms and almost all other stakeholders mentioned that it remains difficult to compare different current accounts and that this remains a large inhibitor of switching.

1.9 Consumer organisations felt that a lack of real differentiation in the current account market was a significant barrier to switching. A challenger firm also mentioned that CASS does not address the lack of choice faced by consumers when searching for competitive current accounts.

Operational views of CASS

1.10 The majority of stakeholders felt that operationally CASS has been a success, with any teething issues or infrastructure issues ironed out very quickly.

1.11 A number of banks and building societies mentioned that most of the issues around switching taking longer than the seven-day target were caused by outdated customer information.

Enhancements to CASS

1.12 Most stakeholders believed that enhancements to CASS would not bring significant consumer benefit. The decrease in switching time from seven to five days was almost unanimously seen as unlikely to deliver significant benefit:

- A number of consumer organisations supported a reduction in the time it takes to switch, but acknowledged that a small reduction would not bring significant consumer benefit.
- A small number of stakeholders (including consumer organisations and banks) stated that consumers were more focused on the quality of the switch itself (i.e. more worried about errors) than its speed.
- Other stakeholders felt that unless switching became instantaneous, incremental decreases in speed would not bring significant consumer benefit, or would not make CASS a more attractive proposition.

1.13 Extending the redirection service was seen as only a short-term fix to the deeper issue of new account details not being updated:

- Most consumer organisations felt that the extended redirection of payments increased consumer confidence in CASS. A trade association also felt that permanent redirection was a feasible solution that could increase consumer confidence.
- Most firms stated that the extended redirection of payments would increase consumer confidence in CASS, although a small number of challenger firms highlighted the extension as covering up an existing issue as opposed to resolving it. They added that should the redirection service be suddenly stopped, the issues around correct payment details could lead to a big drop in consumer confidence.

Account number portability

1.14 The majority of firms that shared their views with us on ANP viewed the concept as expensive, with the associated benefits significantly outweighed by the costs. This view was also supported by a trade association that argued that further developments should be made to CASS. Key points raised by a range of firms in relation to ANP include:

- the significant cost
- the use of resources that could otherwise be spent on other more beneficial innovation and
- firms wanting a stable environment in which they could compete.

1.15 There was, however, a challenger firm that was open to further analysis of ANP to determine whether it could lead to significant consumer benefit. There was also a challenger bank that mentioned their support for ANP, arguing that it would deliver benefits over and above CASS.

1.16 Consumer organisations, while appreciating the benefits that such a system would give consumers, were also cautious about ANP, arguing that the real barriers to switching do not lie in the infrastructure but in the choice and differentiation of the current accounts available.

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