CONSUMER SWITCHING

Challenges and opportunities for current account switching from the Competition and Markets Authority retail banking reform

Current Account Switch Service Discussion Paper - September 2018

CURRENT ACCOUNT SWITCH GUARANTEE

bacs

CONTENTS

IN THIS DIGITAL AGE, WE EXPECT CONVENIENT AND CONSUMER-FOCUSED EXPERIENCES WHICH HELP US TO ACCESS AND CHOOSE A RANGE OF ONLINE SERVICES WITH ONE OR TWO CLICKS OF A MOUSE.

1 FOREWORD BY JO KENRICK, CHAIR OF THE CURRENT ACCOUNT SWITCH SERVICE

We celebrate CASS's fifth anniversary this year and although I have only been involved for the last two years I am proud of the work that CASS has done in helping over five million people and small businesses switch their current accounts. This has all been done safely in a way that fosters competition between current account providers and also maximises access to financial services for all.

In this digital age, we expect convenient and consumer-focused experiences which help us to access and choose a range of online services with one or two clicks of a mouse: be it shopping, travel or eating out. The Competition and Market Authority's (CMA) package of reforms, including open banking initiatives, could help to generate similar seamless experiences in financial services, so providing opportunities for consumers to make more of their money.

Delivering the technology of the CMA's package of reforms is a significant task in itself. However, getting consumers to engage with and use the new financial products and services that the technology enables will be just as challenging. And if consumers engage with the new offerings this could also change their needs and expectations in terms of switching.

We have taken this opportunity to identify the challenges for current account switching that the market needs to consider collectively which arise from the CMA package of reforms. This paper presents CASS's initial thoughts on possible options to address them through innovative thinking and coordinated action across the switching ecosystem.

We look forward to engaging with stakeholders on the options presented in this thoughtpiece, and we welcome your comments and feedback.

Jo Kenrick
Independent non-executive Chair,
Current Account Switch Service

CASS HAS BUILT UP AN IMPORTANT KNOWLEDGE BASE, USING RESEARCH FROM SEVERAL PARTNERS, ON HOW CONSUMERS MAKE DECISIONS.

2 INTRODUCTION BY PAUL HORLOCK, CEO OF THE NEW PAYMENT SYSTEM OPERATOR (NPSO)

I welcome CASS's engagement with the market on this important issue. Switching enables people to get the best from their financial services and CASS has built up an important knowledge base, using research from several partners on how consumers make decisions.

As a ring-fenced entity within NPSO, CASS can comment on how to ensure that consumers can switch to the products they want to use in a future where people's financial lives will become ever more sophisticated.

We are all using more and more data, either consciously or unconsciously, to make our financial decisions and the CMA package of measures will accelerate this. This paper is designed to develop the conversation across the switching ecosystem and stimulate the discussion on how the CMA package may lead to change in consumer behavior and consequently their approach to switching financial products. We would like to hear views from in particular financial services, trade bodies, regulators, government and consumer bodies.

An effective dialogue across the ecosystem is important if we are to ensure that the right market solutions are available for consumers to use in the future. I encourage you to read this paper and engage with the NPSO CASS team so we create important and insightful debate together.

Paul Horlock
CEO,
New Payment System Operator

3 EXECUTIVE SUMMARY

In its first five years of operation CASS has succeeded in delivering a simple and stress-free way for consumers, small businesses and charities to get the best from their finances by helping them to fully switch their current account in seven days. Since inception, over five million current and small business customers have successfully switched their current account with customer satisfaction at over 95 percent. In this process, we have learned much about switching behaviour and the factors contributing to decisions to switch (or not to switch).

The purpose of this paper is to explore the switching ecosytem's challenges and opportunities to current account switching arising from the CMA package of reforms. In doing so, this paper also considers the impact the different market players have in delivering value and effectiveness for banks, third party providers (TPPs) and end consumers.

> *"The Competition and Market Authority's (CMA) package of reforms is focused on securing better consumer outcomes in retail banking and has three key areas of focus.*
>
> *Firstly, to help consumers to get better deals from their existing providers - for example through overdraft alerts.*
>
> *Secondly, to promote and facilitate current account switching in the traditional sense where CASS is successfully delivering several aspects of the CMA reform package.*
>
> *Thirdly, to encourage change and innovation in how people engage with their banks through the open banking initiative and beyond.*
>
> *It is both timely and welcome that CASS is opening a dialogue on how best to support switching and competition in both a traditional sense and in preparation for a changed market place."*
>
> **Adam Land**
> Senior Director,
> Competition and Markets Authority

CASS already works with several research partners[1] to consider how it can continue to deliver successful switching to consumers.[2] For example, our 2016-17 research created a model to demonstrate how consumers make decisions on whether to switch from one financial service to another. This model used the concept of a 'Trust Loop' and an 'Inertia Loop' to show how specific factors can create barriers to switching, even when the consumer recognises a switch is in their best interests.

Similarly, our unique Market Dynamics Model suggests that the main driver to switching is innovation and promotion of new products by providers in the current account market. In the absence of these, our model suggests that switching levels would fall considerably from the annual rates that are achieved today. Our research with the Social Market Foundation (SMF) showed how far financial markets have changed – including significant innovation in the personal current account market and the decline of 'Free If In Credit' accounts – and how this could impact the requirements from a switch service.[3]

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1 Partners include: Manifesto Growth Architects, SFE Consulting and the University of Bristol.

2 Research published at https://www.bacs.co.uk/Resources/FactsAndFigures/Pages/ConsumerEngagementInTheCurrentAccountMarket.aspx.

3 *A Switch in Time – The evolution of Britain's personal current account market*, Social Market Foundation, September 2016.

THIS PAPER OUTLINES SOME OF THESE IMMEDIATE OPPORTUNITIES FROM MARKET DEVELOPMENTS AND THE CMA PACKAGE OF REFORMS.

Our research and evidence helped frame the eventual undertakings that CASS accepted as part of the CMA package of reforms, including continuing to promote financial inclusion by targeting CASS promotional activity at customer groups that could benefit most from switching current account providers, including overdraft users, the young (18 - 24 year olds) and the financially disadvantaged or vulnerable.[4] It has also strengthened our understanding of how to work with the market to foster a competitive landscape, alongside the introduction of open banking measures and the EU's Second Payment Service Directive (PSD2).

The outcomes triggered by the CMA, in particular the delivery of new financial products derived from open banking, will contribute to a future in which consumers have more meaningful choices between financial products. These changes also create new opportunities for CASS and the market to explore. As part of the NPSO[5], CASS will continue to work with others in the switching ecosystem to ensure a robust switching service exists that helps to tackle the outcomes triggered by the CMA.

This paper outlines some of these immediate opportunities from market developments and the CMA package of reforms and articulates:

- how CASS can **work with the switching ecosystem** (regulators, government, banks, TPPs and end consumers) to shape requirements and ensure CASS fosters competition in the market;
- where CASS could work with others, in particular government and regulators, to **help inform and influence policy** and to develop effective regulations to meet consumer demands in the future competitive market; and
- **options for the switching ecosystem to consider where switching services could be developed**, to deliver more effectively now and in the future.

[4] *Notice of acceptance of Final Undertakings given by Bacs*, Competition and Markets Authority, 17 January 2017.

[5] CASS is run by Bacs, the not-for-profit organisation behind Direct Debit in the UK. Both are now owned and operated by the NPSO, the new home for UK retail payments.

THE INDUSTRY IS COMMITTED TO ENSURING THAT SWITCHING SERVICES MUST BE SAFE AND SECURE, OFFER CONVENIENCE TO CONSUMERS AND STAKEHOLDERS, AND PROMOTE THE BENEFITS OF SWITCHING TO AS BROAD AN AUDIENCE AS POSSIBLE.

KEY USE CASES

Our analysis focuses on 'the art of the possible' in terms of enhancing the opportunity to consider and switch between financial products. This paper also aims to address the potential risk that new financial products and services create unintended challenges that deter consumers from switching - thereby preventing consumers from engaging with the most suitable financial services.

We have identified four consumer-focused use cases:

Switching in an open banking context: open banking functionality allows consumers to make new relationships with TPPs. In doing so, they often give consents to those TPPs to access their current account transaction data. Currently TPPs are not included in the current account switch process, but in the future when consumers switch, they may expect their TPPs to have similar access to their new account. The challenge is how to enable new explicit consents in a simple and stress free switching process[6]. The CMA package of reforms also highlights the value to a consumer of their own transaction data, so they may want to transfer their transaction history when they switch.

Personalised product comparison and switching: consumers are increasingly using price comparison websites (PCWs) to find good deals across a range of sectors, including utilities and financial services. PCWs can ask consumers consent to access their banking data which will help create more personalised comparisons to identify the best financial products. Therefore, it could make sense to allow consumers to start the switch process from PCWs (or other TPPs – for example a personal financial management platform), rather than having to start the switching service from their new banking provider.

Multi-banking: increasing numbers of consumers choose to use more than one bank account – they 'multi-bank'. One attraction of this approach is to 'try before you buy' – to try out a new bank before doing a full switch, or simply to move selected payments to other account providers. As multi-banking becomes more widespread, we anticipate consumers wanting to switch some of their financial service activities between their chosen basket of providers, rather than switching everything from one provider to another – to take advantage of a rewards package, for instance. Such partial switching by consumers could still provide competitive pressure to firms but would not be captured by the current switching statistics. So it may raise the need for more sophistication within the switching ecosystem to measure and understand consumer behaviours.

Personal financial management: as consumers get more choice in banking, payments, pensions and savings, they may find it harder to keep track of finances overall. Having a single platform through which to manage all financial products is likely to become increasingly valuable to consumers. As the market for personal financial management grows, it is likely to lead to a new market which would itself benefit from switching services, enabling consumers to move between platforms easily.

These use cases and their components are examples of how the package of reforms that the CMA outlined in their retail banking report[7] will begin to change the market for consumer financial services. They therefore represent industry aspirations and, as such, have different levels of complexity and timescales to delivery. However, they are all grounded in the industry commitment that switching services must be safe and secure, offer convenience to consumers and stakeholders, and promote the benefits of switching to as broad an audience as possible.

[6] The requirements for explicit consent are discussed in the FCA discussion paper: *Payment Services and Electronic Money - Our Approach*, July 2018: https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf

[7] *Retail banking market investigation – Final Report*, Competition and Markets Authority, 9 August 2016.

KEY CHALLENGES TO DELIVERING BROADER CONSUMER BENEFITS

In addition, there are several broader issues that challenge the effectiveness of the CMA reform package to deliver meaningful consumer benefits:

Financial inclusion and vulnerability: there is a risk that the gap between the digitally and financially included consumers and small and medium-sized enterprises (SMEs), and those who are not will continue to widen with the implementation of the CMA's package of reforms. People on the margins of the new financial services being offered digitally might also perceive a barrier that would reduce the likelihood of them benefiting from the new Open Banking Implementation Entity (OBIE)-derived services and switching. Regarding financial vulnerability, the increased collaboration between financial services technologists and consumer specialists has shown that designing products that meet the needs of the financially vulnerable can result in products that could be marketed profitably to a wider consumer group.

Informed consent: The services and products created by the OBIE rely on consumers giving third parties access to their personal financial data. Informed consent requires consumers to understand and judge the value of their data, how it will be used to provide the service, who else might have access to it and whether it will be passed on. This additional layer of complexity could lead consumers to disengage – which may prevent them from enjoying the intended benefits of the CMA's package of reforms.

Data quality and standards: personalised search services offer real benefits to all consumers, regardless of whether they are tech savvy or financially marginalised. But such services depend on both accurate data from consumers and accurate and comprehensive data about products. The CMA recommendations for open data only reach to current and business accounts. Making product reference data available for a wider set of accounts and products may enable better search services. Additionally, open data that is made available must be of a high quality so that comparisons across products can be made by providers with confidence and accuracy and the risk of mis-selling is minimised effectively.

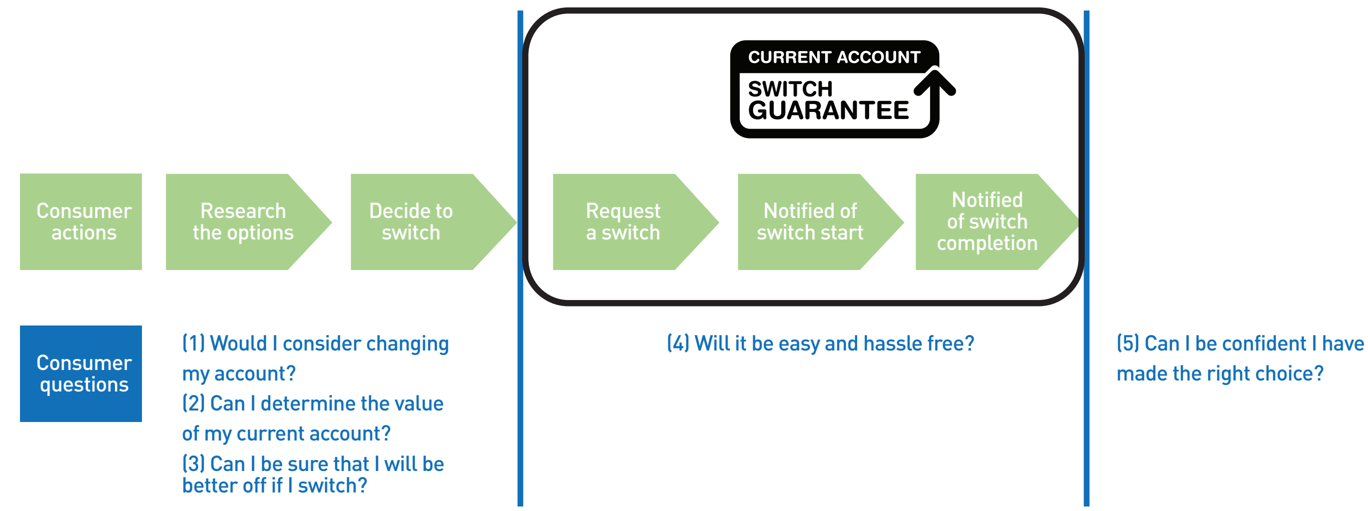
Digital identity: accessing new financial services, including through switching, requires identity verification which can be a complex process for consumers and firms. Enabling a portable digital ID could considerably help in this process.

These four challenges are interconnected. While they are not the focus of this paper, achieving the full benefits of the CMA retail banking reforms requires a response from the whole switching ecosystem. The NPSO and CASS would welcome being part of such a cross-policy purposed approach.

4. BACKGROUND

Currently, changing a current account involves two separate processes: search and switch. In response to a life event or other prompt[8], consumers search for information on alternative providers of current accounts. If a consumer decides to switch current accounts, they can request a switch from their new account provider. As the diagram below shows, it is at this point that CASS becomes involved to deliver the switch and to make it easy and stress-free.

Figure 1: The current search and switch process[9]



CASS is the single designated switch service for UK payment accounts.[10] It manages the process to securely transfer the consumer's account and all the related payment instructions (Direct Debits, bill payments and standing orders) to the new current account provider within seven working days. Any payments inadvertently routed to the old account will be redirected to the new account for at least 36 months from the switch date. Since its launch in September 2013, CASS has helped five million UK consumers (including SMEs) safely switch their current account provider.[11]

How does open banking relate to the switching process?

The market in which CASS operates is changing. The CMA package of reforms, including open banking measures, will encourage and enable new entrants into financial services and these new services may potentially change the needs of a switching service.

The CMA's open banking mandate requires the UK's nine largest banks (the 'CMA9') to make it possible for people to share their financial transactional data with TPP online. TPPs include:

- PCWs and digital comparison tools;
- Account Information Service Providers (AISPs) or personal finance management (PFM) platforms that aggregate your finances in one place so that you can better understand your spending patterns and overall financial situation; and
- Payment Initiation Services (PIS) that can give you new ways to pay for goods and services.

[8] *Consumer Engagement in the Current Account Market - Why people don't switch current accounts*, A Bacs research paper, March 2016 for a summary of switching prompts in current accounts and other sectors.

[9] *Current Account Switching – The Consumer Reality*, TNS and Tesco, 5 August 2015; CASS and Manifesto Growth Architects market analysis.

[10] As designated annually by the Payment Systems Regulator in September 2016 under the Payment Accounts Regulations 2015.

[11] Source: CASS.

The secure data sharing enabled by open banking technology is enabled by Application Programming Interfaces (APIs). The overall aim of the CMA package of reforms is to increase competition in the market, drive innovation in the quality and type of products delivered by existing and new players, so improve value for consumers and their access to relevant financial services products. It is the opening-up of banking data, subject to consumer consent, that will drive new business models, disrupt the status quo and facilitate better consumer outcomes by increasing competition in the market.

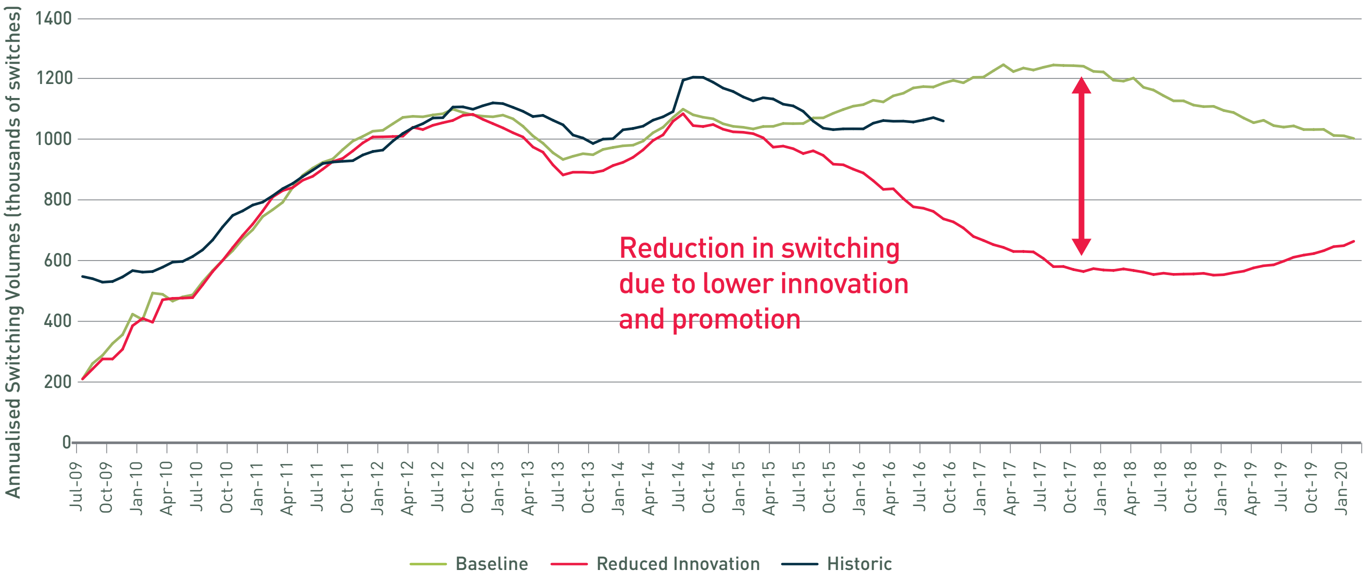
New TPPs will bring more choice to the market: more personalised search services, new payment types and altogether new ways to manage cashflow. These new offerings may bring additional complexity and more friction in the switching journey. Similarly, if more choice in the market widens consumers' expectations and choice, the switching ecosystem, including the TPPs, may need to consider how to continue to deliver relevance to consumers, maximising the benefits offered by the CMA package of reforms.[12]

Why better consumer outcomes may not mean more switching

Traditionally, participants have focused on switching rates to assess the degree of competition (and hence the potential for beneficial consumer outcomes) in the market.

CASS research shows that switching does not happen in a vacuum - innovation and promotion is needed. Output from the CASS Market Dynamics Model (summarised in the figure below) suggests that in the absence of product innovation and promotion from the current account market, switching levels would fall to fewer than 600,000 annually, a level not seen since before market changes were introduced in 2008.[13]

Figure 2: The impact of reduced innovation on switching volumes[14]



[12] Originally, open banking services only covered personal and small business current accounts. In November 2017, the OBIE announced a broadening of the mandate to create open banking standards for all payment account types covered by the European Union's second Payments Services Directive (PSD2). Additional products covered include: credit cards, e-wallets and prepaid cards. This means TPPs could use standard APIs to access the majority of transaction data without resorting to sharing credentials/ screen scraping. *UK's Open Banking Project Expanded*, Open Banking Implementation Entity, 22 November 2017.

[13] And below the annual switching rates of approximately 1 million since CASS was established.

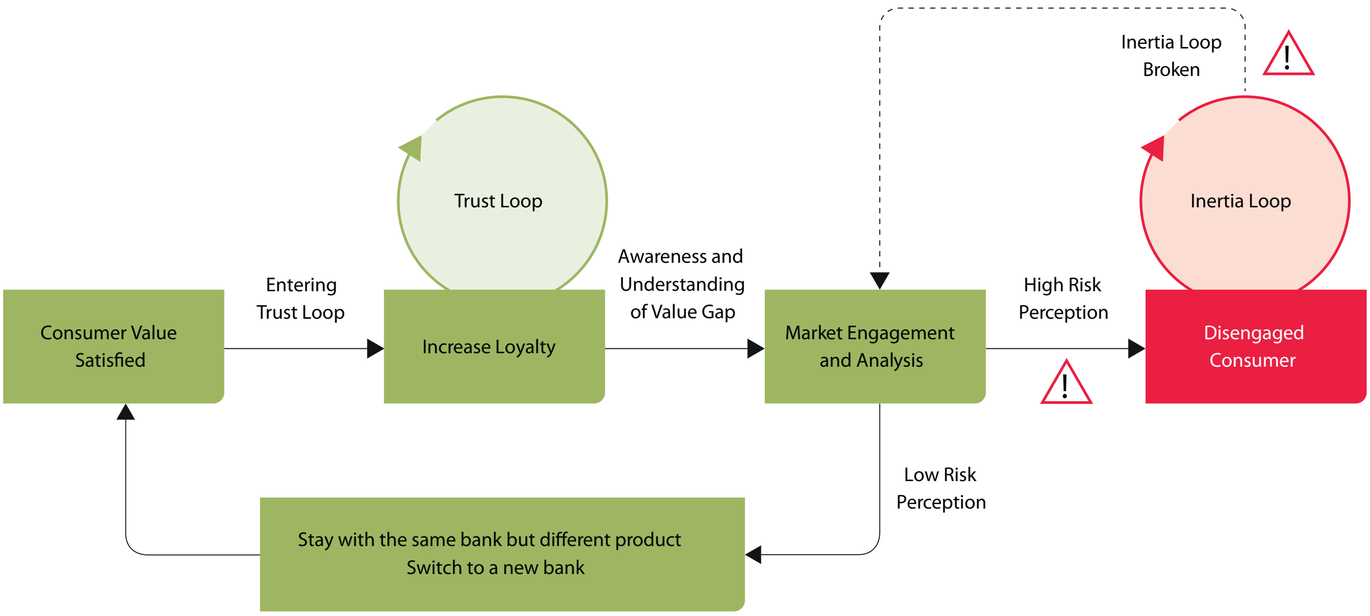
[14] *Consumer Engagement in the Current Account Market - A better functioning market*, a Bacs research paper with the University of Bristol, November 2016.

However even with successful innovations developed from open banking technology and their active promotion, current account switching rates may not increase because:

- consumers may decide to use open banking derived products to layer additional innovative products over their current account to achieve their desired outcomes, rather than switch their current account (this is discussed further in the multi-banking use case in Chapter 5); or
- it may be a rational choice by consumers not to shop or switch based on how they wish to spend their time[15]; or
- the consumer's decision to switch can depend on the source of the information.[16]

Therefore, CASS has conducted research to explore what additional measures could be used to evidence the state of competitive pressures to deliver better outcomes for consumers.

Figure 3: The Consumer journey through the Trust and Inertia Loops[17]



[15] *Consumers and competition: Delivering more effective consumer power in retail financial markets*, Jonquil Lowe on behalf of the Financial Services Consumer Panel, 6 March 2017.

[16] Recent Ofgem research shows that the source of the consumer information is important; energy supplier switching rates were higher if the targeted information was provided in a letter from the supplier rather than from the regulator (Ofgem). This is possibly due to higher brand recognition of the supplier. Ofgem noted that the letters encouraged both internal switching (to a different tariff with their current supplier) and external switching (to another supplier).

[17] *Consumer engagement in the current account market – Trust Loop*, A Bacs Research Paper with the University of Bristol, May 2016.

Our research has shown that consumers can enter two 'loops' when thinking about switching from their current accounts:

- **A Trust Loop:** after researching other options in the market, the consumer is still satisfied with the existing service and so does not switch; or
- **An Inertia Loop:** the consumer is dissatisfied with the service but either finds it too hard or too confusing to identify a better account or perceives the risk of switching accounts to be too high.

After searching the market, consumers in the Trust Loop may decide to:

- stay with the same bank for their current account (with or without different products);
- open an account with a new bank and keep their existing one; or
- open an account with a new bank and close their old account (i.e. switch their accounts).

Only the last option would be measured as a 'switch'. But all three activities show consumer engagement and a *willingness* to switch which are desirable consumer outcomes, as the CMA has noted:

"The behaviour of customers can play a central role in providing competitive constraints on providers. This happens if customers are engaged and willing to search for and implicitly threaten to switch to another provider, which offers them a better deal. Conversely, a lack of customer engagement in the market reduces banks' incentives to compete."[18]

Therefore, in addition to publishing headline switching rates, CASS will review and publish other data (such as consumer awareness) to understand the potential for consumer engagement in switching. CASS will continue to supplement these broad market-wide measures by conducting targeted analysis to understand whether specific consumer groups are taking advantage of these innovations, including the financially vulnerable and high overdraft users.[19]

The potential opportunities CASS has identified

CASS is undertaking a strategic review on how best to respond to opportunities and challenges arising from the introduction of new participants, products and services in to the market as a result of the CMA package of reforms and PSD2. In this paper CASS explores options on:

- how we can **work with the switching ecosystem** to shape requirements to ensure CASS fosters competition in the market;
- where CASS should work with others, in particular government and regulators, to help **inform and influence policy** and to develop effective regulations to meet consumer demands in the future competitive market;
- **options for the switching ecosystem to consider where switching services could be developed**, to deliver more effectively now and in the future.

To help show the consumer impact of the innovative options that CASS has explored, in the next chapter we discuss them under four consumer-focused use cases.

[18] Paragraph 74, *Retail banking market investigation final report*, Competition and Markets Authority, 9 August 2016.

[19] These groups align with the *Final Undertakings* given by Bacs Payment Schemes Limited to the Competition and Markets Authority, dated 17 January 2017.

5. DELIVERING THE BENEFITS OF SWITCHING UNDER OPEN BANKING: FOUR USE CASES

To inform the switching ecosystem's thinking on the evolution of switching, we have researched what technology-based innovations could foster practical consumer-centric improvements. We present these results below in four use cases to illustrate the innovations in the context of meaningful consumer-focused stories.

The components of these possible use cases each have different levels of complexity and, if taken on by the market, potential timescales to fulfilment. Addressing the consumer need described in these use cases would require a mix of stakeholders, across the switching ecosystem in keeping with the CMA's vision of a package of measures working together.

Introducing Dennis and Maya: two consumers

To help understand the personal implications of the technology-based innovations in each use case, we present the challenges faced by two consumers, Dennis and Maya. Their stories are updated after each use case.

Dennis uses overdrafts a lot – mainly unplanned. "It's hard to get my bills and everything to balance at the right time, so I end up paying a lot of overdraft fees. Which then makes it even harder!", he says.

Dennis was surprised to hear that he can already switch current accounts, even though he has an overdraft. He's seen that some current accounts come with a standard overdraft limit offered to every customer that is accepted, but he needs more than that limit. After some research, Dennis found some accounts that appeared to be better value than his current one – but he wasn't sure how to check his eligibility.

When Dennis called the providers for details, he found that most banks would decide on his overdraft limit after he had applied and they had checked his income and credit record. Dennis felt this would mean filling in a lot of forms and having to speak with bank representatives. He was frustrated with the time that would take and nervous about what would happen if he opened a new account only to find out that his new bank would not give him the overdraft he needed.

"Do I lose my overdraft with my current bank once I open my new account? Is that the same as switching? It's very confusing."

Reluctantly, he decided to stick with his present bank. "I just can't take the risk of not having an overdraft facility that covers my needs – I've got bills to pay. I'll have to stay put."

Maya owns a small business. She has heard that useful services could link to the business current account: "I've heard about an accounting package that could lift transactions straight off the bank account. I would love that as it would free up some time for me to focus on business development. Currently, I'm the one who has to log the banking data into the company accounts every few days."

To fund her desired business expansion, Maya wanted to see what business loans she could apply for – with her current bank and new providers, but it was not straight forward.

"It's not easy to find all the information you need to compare the current account and loan packages, is it? Also, I need to get on top of my cash flow right now – so I have to install the accounting package straight away. But if we switch the business current account, I'll have to go back and set up the consents and connections again. I'm not sure how time consuming will that be."

"Also, we've been with this bank for over eight years - what will happen to our old transaction history when we move? I know some is printed, we've already downloaded some into Excel files and some is in our accounting package. Will it be lost or is there some way I bring it with me to the new bank to help with our credit rating when we apply for a business expansion loan?"

"It all feels like too big a hurdle to change the business bank account. But now I feel like we are missing out on a lower cost loan that could help to grow the business."

Use Case 1: Switching in an open banking context

OBIE has supported the competitive landscape for new entrants (TPPs). However, TPPs are not included in the current account switch process.

"With open banking, consumers can share their current account data with several third parties. Third parties, and potentially the consents consumers have set up will need to be included in the switch process to keep it seamless. Those banks that are prepared to use open banking data to underwrite an overdraft during an online journey could gain an advantage in the battle of the switchers."

Rob Haslingden,
Head of Propositions, Experian

CASS is working with TPPs and other stakeholders in the ecosystem to investigate how best to involve TPPs. Options could include:

- helping a consumer to establish specific data access or payment consents that a consumer has with a TPP with their new account provider as part of the current account switch process; or
- market-provided solution to establish all of a consumer's existing TPPs (and all of these payments and consents) with their new account provider when the consumer switches their current account.

Automated TPP consent transfer

Currently, establishing consents with a new account provider must be done manually by the consumer. Such a process would lie outside the Current Account Switch Guarantee to refund consumers for any missed payments or fees incurred due to a mistake encountered as part of a switch. Research has shown that such a refund guarantee has been important in tackling concerns about incurring charges during the switching process.[20]

Excluding TPPs and and not providing an effective way for consents to be established with the new account provider as part of the account switch could depress consumer activity if consumers decided that switching was becoming too much hassle. This is one of the barriers that CASS was designed to overcome. The switching ecosystem needs to consider whether the right option is to consider TPPs and their consents during switching and if this approach would help to remove this perceived barrier.

Under the CMA's order, consumers can get five years worth of payment transaction history on their current account for free – via paper or in an electronic form including an API.[21] But when a consumer switches their current account their historic transaction data does not automatically switch with them. Increasingly, in an open banking context, this data could be of value to the consumer and the firms he/she wishes to engage with. One option would be for the switching ecosystem to consider if a tool that enables consumers to capture their historic transaction data would further remove barriers to switching. If this was viewed as a positive approach a further discussion on where this data could be securely lodged, for example, with the new current account provider, or perhaps a TPP.

Maya's switching experience for her business could be easier if she were able to move the relevant TPP consents using a simple automated process. This would reduce the barrier of having to do it manually. It would also be reassuring for her to have all the elements of the switch covered by the same refund guarantee and to know all her providers would be paid on time.

Maya would also value being able to port her business' full transaction history in one go as part of the switch process as it would provide further detail in support of the loan application on the financial risk of her business.

Use Case 2: Personalised product comparison and switching

In the switching journey of the future, a PCW could offer consumers personalised comparisons of financial products for which they are eligible and that meet their requirements (including details of service and price). To reduce any friction between the 'search' and the 'switch' activities, switching could be initiated seamlessly from their chosen platform.

Delivering such a personalised service would require:

- provision of accurate and comprehensive product data;
- informed consumer consent to share their transaction data;
- an effective way for consumers to be authenticated by the chosen provider irrespective of which platform the switch journey is initiated from, through a digital ID for instance[22], and
- an embedded switch service for TPPs and PCWs.

The first three points are pervasive challenges for the financial services market that go beyond the switching process and so are discussed in Chapter 6. So, for this use case, we focus on how to include TPPs and PCWs in a personalised comparison and switch process.

[20] Figure 5.2 of *Making current account switching easier*, Financial Conduct Authority, March 2015.

[21] See Part 5, s20 of *The Retail Banking Market Investigation Order 2017*, the Competition and Markets Authority.

[22] Such a digital ID could also help meet firms' KYC and AML requirements.

"Of greatest concern for consumers' confidence is that the three most difficult things to compare – customer service, overdraft fees/charges and credit interest are among the most important in determining whether they will be better off."

Consumer Engagement in the Current Account Market - A better functioning market, Bacs Research paper with the University of Bristol, November 2016

TPP switch initiation

An embedded switch service could **allow customers to initiate a switch seamlessly from their preferred starting point** – be it the new bank, the customer's existing TPP or a PCW.

To encourage switching from these platforms, it would be helpful for providers to clarify whether the product eligibility review performed is 'hard' (leaving a mark on the consumer's credit file that can be seen by other lenders) or 'soft' (that other lenders cannot use). Recent research indicates that providing a 'soft' eligibility search facility is valued by consumers as they *"wanted to make sure they weren't negatively impacting their credit rating by applying for cards and loans they had no chance of being accepted for"*.[23]

"Timely proposal with more and more consumers likely to be using price comparison websites under open banking. One or two clicks to initiate and perform a switch is a very appealing prospect."

Industry Expert,
CASS and Manifesto Growth Architects stakeholder interviews

Switch tracker

The current switch process is completed in seven working days. Consumers receive a start and end notification of the switch process. All existing payments are taken from the old current account until the switch date, when all payments move seamlessly to the new account along with the consumers' funds. Regardless of whether the switch is full or only of selected payments (see the multi-banked section overleaf), one option for enhancing the process could be a switch tracker.

Stakeholders have commented that being able to provide consumers with a method allowing them to **track their switching progress** can be seen as giving the consumer a greater feeling of control – which they may value. Although it may not be a direct influencer in increasing competition or reducing the switch period, there may be value in developing industry guidelines to encourage better use of communications prior to and during the switch process.

[23] Source: Experian, August 2018.

API data transfer

Although CASS switching is completed within seven working days, the time it takes to initiate a switch varies from bank to bank, depending on the bank's internal processes for verifying. CASS stakeholders have commented that being able to utilise an API transfer of consumer data could reduce the number of forms completed by consumers and the time for verification of consumer data.

Having quicker and simpler processes for the consumer to follow before their switch is initiated may encourage more consumers to switch their current accounts as the perceived hassle has reduced. An **API data transfer** process also has the potential to give consumers a clearer understanding of the timeline between account opening, requesting a switch, and the switch starting, which currently can cause confusion for some customers.

Dennis and Maya could give consent to a platform to use a range of their personal financial data, including their full transaction histories, to offer more personalised product options.

Both may value having more detail on where they are in the seven-day switching process which could help alleviate any anxiety they feel.

Using API-driven data transfer, digital ID and access to personal data, the application process could be nearly instantaneous. Both Maya and Dennis could select their new account and initiate the switch from the comparison platform in a seamless digital process.

Payments switch

Use Case 3: Multi-banking

Our financial lives are becoming more complex as the number and type of financial products we can use expands. For example, people can use different financial products to help them: split one-off restaurant bills; jointly pay utility bills in a flat share; or access better rates when sending money abroad.

In keeping with this complexity, some consumers do not bank with just one firm – they multibank. Going forward, consumers may not always want to do full switches of their current accounts, but instead want to **move selected payments** to new providers. Moving selected payments could enable people to get the best rewards package, make international payments more cheaply or simply allow them to pay bills from different accounts at different times of the year.

For switching to maintain relevance in an open banking environment, it could be important for the switching ecosystem to consider how best to develop a multi-banking switch option that allows consumers to switch some, but not all, payments to a new provider, potentially under the safety of a switch guarantee.

Such partial switching by consumers could still provide competitive pressure to the market but would not be captured by the current switching statistics. So it may raise the need for more sophisticated measurement approaches to reflect consumer behaviours.

"As a customer why would I need to close my old account under open banking?"

Gavin Littlejohn,
Fintech Industry stakeholder

Maya and Dennis could decide whether to do a full current account switch or whether to move selected payments only – so taking advantage of a rewards package, for instance.

Use Case 4: Personal financial management

Many people continue to struggle to understand financial services products - only 16% of UK adults rate themselves as highly knowledgeable about financial matters.[24] Many people also struggle to manage their money:

- only 37% of UK adults (and 21% of 18-24 year olds) are highly confident about managing their money;
- 12.9 million adults (25% of all UK adults) have been overdrawn in the last 12 months; and
- informal or non-regulated loan use in the last 12 months includes 3.6 million UK adults borrowing from friends and family.[25]

Consumers now have more choices in how they access and transact in financial services. For example, consumers can bank in person, online or by mobile app; payments can be made by cash, cheque, credit card, contactless and mobile wallets.

More choice can mean more complexity and consumers can find it hard to navigate their options, keep track of their decisions and keep an overview of their finances, especially as their own lives grow more complex.[26]

Additional products

To help with their personal financial management, consumers may want to use a single platform from which to view and manage the **additional financial services products across their whole financial life**. Such a platform could build on the services already provided by some firms that allow consumers to view their finances across a range of current account, savings, mortgages and loans.

Ideally, consumers would also be able to initiate switches across all the products shown on such a platform, not just current accounts. To support better consumer choice in such a scenario, CASS would be delighted to share its switching expertise with the switching ecosystem to help the development of such personal financial management platforms.

[24] *The financial lives of consumers across the UK*, Financial Conduct Authority, 20 June 2018.

[25] *Understanding the financial lives of UK adults*, Financial Conduct Authority, October 2017.

[26] Society is seeing more cohabitation, divorce, children going to university, higher consumer debt and an increase in parents supporting children as adults to get on housing ladder. All these things make people's lives complicated. So financial services and people's lives have become more complex.

"Pensions, loans, mortgages – these kinds of products have much bigger differentiation."
"Adding new products is way bigger value using existing technology."

Industry Expert,
CASS and Manifesto Growth Architect stakeholder interviews

Consent management

A personal financial management platform could also allow consumers to **review, grant, revoke and establish similar consents with their new provider** across all these financial products and services – either by linking in with existing consent management offerings or by creating an additional option.

Until such a comprehensive consent management platform is built or existing consent management offerings gain more traction in the ecosystem, TPPs must infer from their own data when a consumer has made a switch to a different current account provider.

Switch notification for TPPs

Therefore, an **automated switch notification for TPPs** would allow them to proactively contact that customer and help them to establish the appropriate consents to the new bank account.

TPP switching

The personal financial management platform could also allow consumers to **switch TPPs** – carrying over data and creating new consents from one TPP to another without the current account being affected. Such a feature may not yet be a priority until open banking develops further but switching TPPs could be an invaluable step to support the growing role of TPPs as intermediaries.

6. ADDRESSING THE WIDER INDUSTRY CHALLENGES

The financial services market is complex. Making it simple and accessible for consumers is an ongoing effort due to wider intractable challenges relating to:

- Financial inclusion and vulnerability
- Informed consent
- Data quality and access
- Digital identity

Here, we discuss how these challenges may apply to the switching journey.

Financial inclusion and vulnerability

The technology-based proposals outlined in the previous chapter could help consumers exercise choice and break the undesirable Inertia Loop - for those who are digitally enabled. But there is a risk that the gap between the digitally excluded and the rest will continue to widen with the proliferation of open banking derived services.[27] Widening the digital gap would worsen, not improve, financial inclusion – for both individuals and SMEs.[28]

"In a sense, it is part of a wider problem of exclusion, but financial exclusion can affect everybody at different stages of their lives. For instance, people entering the country for the first time, even if they are quite professionally qualified, may find it difficult to get a bank account. As Lord Shinkwin will know from his work at Macmillan, people who have suffered serious illness, even though they no longer do so, will find it very difficult to get insurance of various forms. Older people who may be relatively comfortable in terms of income may nevertheless be digitally excluded from access to financial services."

Chris Pond,

Oral evidence to the House of Lords Select Committee on Financial Exclusion, 13 September 2016

Firms can help address the challenge of financial inclusion by promoting access to products developed from open banking technology across all channels, not just digital: e.g. by working with advice agencies who support people in debt to help them switch away from an expensive debt-laden account to a basic bank account with no debt facility; or by considering older users when branding new and innovative products.[29]

[27] The risk of digital exclusion in financial services in general is discussed in for example: *The way we pay: Payment systems and financial inclusion*, Age UK, 2011;
and *Access to Financial Services in the UK – Occasional Paper 17*, Financial Conduct Authority, May 2016.
Specific inclusions considerations relating to open banking are discussed in: *Open Banking - A Consumer Perspective*, Faith Reynolds, January 2017.

[28] Vulnerability can also apply to SMEs, see *Supporting Business Customers in Vulnerable Circumstances,* Lending Standards Board and Money Advice Trust, July 2018.

[29] Designing solutions for an ageing society, International Longevity Centre, 14 July 2015 states that: "Moreover a lot of the branding surrounding new and innovative products aims to attract younger consumers, alienating potential older users." Design considerations may be particularly important as FCA research shows a preference to stick with a known brand increases with age (Financial Lives Survey 2017, Financial Conduct Authority, October 2017 states that 82% of those 75 and over prefer to stay with a known brand, compared with a UK average of 62%).

CASS is already promoting switching across a range of both traditional and digital channels. It is also targeting its switching awareness messaging to help people who are typically harder to reach when discussing financial services, such as: the young (18-24 year olds), overdraft users and the financially disadvantaged.[30]

A related issue is the view that it is not worth developing services for some types of customers as they may offer little chance of long term profitability. Of course, as the FCA states: *"Firms are not obliged to serve every customer. They decide who to serve based on factors such as legislation and regulation, their business model and strategy and their competitors' activities."*[31]

However, excluding vulnerable consumers from a firm's product matrix may not make commercial sense either, as it could leave firms with an (unprofitably) small client base. This is because vulnerability can vary considerably over time as it can relate to where people are in their life (leaving school, starting a family, approaching retirement). Vulnerability can also change without notice - facing redundancy or mental illness; for example, each year one in four adults experience at least one mental health problem[32] and 92% of people with mental health problems found making financial decisions harder.[33]

Many people *without* mental health problems also find making financial decisions very hard. Perhaps unsurprisingly, the increased collaboration between financial services technologists and consumer specialists has shown that designing digital solutions for the financially vulnerable can result in products that many consumers find relevant and that firms can market profitably.[34]

> *"But it is not just people with mental health problems who would benefit, these solutions could help us all boost our financial wellbeing and would create a personalised financial services industry that better serves all consumers."*

Informed consent

Services like personal financial management platforms and personalised price comparison quotes rely on consumers giving third parties access to their personal financial data. Informed consent requires consumers to understand and judge the value of their data, how it will be used to provide the service, who else might have access to it, and whether it will be passed on. This adds an additional layer of complexity to the consumer's decision-making process when choosing to use open-banking driven services.

[30] These groups were also specifically referenced for CASS to target in section 5.3 of the *Undertakings agreed with the CMA on 17 January 2017*.

[31] *Access to Financial Services in the UK, Occasional Paper 17*, Financial Conduct Authority, May 2016.[32]

[32] British Psychiatric Morbidity Survey 2007.

[33] *Money on your Mind*, The Money and Mental Health Policy Institute, June 2016

[34] See for example the FCA TechSprint videos for: Access to financial services (Event 1); and Financial services and mental health (Event 3). www.fca.org.uk/firms/regtech/techsprints.

Research has shown that consumers do not understand the value of their data and rarely read product terms and conditions: *'Consent cannot be regarded as 'informed' when it is based on long and complex contractual terms and conditions and privacy notices that are frequently not read, and, when they are read, not understood.'*[35] People want meaningful control of their data but feel unable to engage with the organisations that collect it to shape how they use it. So consumers disengage, as the costs of trying to engage are greater than the perceived benefits of doing so.[36]

This additional complexity of data sharing and the subsequent consumer disengagement is counter to the intended benefits of the CMA's package of reforms.

Why data standards matter for consumers

Emojis can communicate whole states of mind in a pictograph – they are data.

But for our pithy, emoji-based communications to be effective, we need to be confident that an emoji sent from one device (say smart phone, above) still looks similar when read on another device (a tablet, for instance), or another application (email or browsers).

Initially, none of the different emoji sets worked perfectly with each other. This resulted in some confusing messages for consumers. To ensure emoji continuity and seamless communication, a set of standards were developed by the nonprofit Unicode organisation: (http://unicode.org/emoji/). The Unicode Emoji Subcommittee updates and revises various features of emoji characters, reviews requests for new emojis and creates proposals regarding new emoji-related mechanisms.

So data standards matter – to consumers as well as firms - particularly when 'porting' data across devices, firms or networks.

Data quality and standards

Data quality and standards are complex topics and vital to the delivery of effective innovation and meaningful consumer choice, including in the switch process where data is ported across firms and networks. Consumers want to be able to compare the full set of relevant financial products when researching their options and prior to making any switches. To facilitate this comparison, firms need comprehensive and accurate data in an agreed format/standard for all the products that are relevant to that consumer.

What constitutes appropriate data quality and standards in financial services is part of the ongoing regulatory consultation process and wider industry discussion.[37] Stakeholders (including government, regulators and industry bodies) continue to drive for the sharing of whole and accurate data across a wide range of financial products in their data standards considerations. This activity also helps to future proof consumers' search and switch processes and avoid consumers being offered only a narrow subset of the full suite of innovative products available – so the switching ecosystem needs to be part of these data quality and standards discussions.

[35] *Consenting adults? – consumers sharing their financial data*, Financial Services Consumer Panel, 19 April 2018.

[36] *"Control, Alt or Delete? Consumer research on attitudes to data collection and use"*, Which? and Britainthinks, June 2018.

[37] As evidenced by the range and scale of the responses to the HM Treasury consultation on the Implementation of the revised EU Payment Services Directive. For example, some participants have asked for permissioned access to contextual 'unredacted data' be made available across all formats.

Digital identity

Accessing new financial services requires robust identity verification so firms can meet their know your customer (KYC) and anti-money laundering (AML) obligations. This can be a complex process for both consumers and firms to manage.

For consumers to take full advantage of open banking services, a secure and portable form of digital identity (ID) is required as research by market participants indicates that 61% of consumers would be more likely to complete a new bank application if the entire process was online.[38]

Public and private sector organisations are developing various ways of making secure digital IDs to help make online authentication easy in the UK. For example:

- the Government Digital Service is promoting the Gov.uk Verify form of online authentication, several government services (including HMRC) are using Government Gateway and the NHS is reported to be creating its own identity platform (Citizen Identity);[39] and
- some firms use a combination of biometrics (including static and moving 'selfies') and photos of key identification documents (generally passports or driving licenses) to authenticate a person's identity.

"Getting a high-quality system for digital identity is incredibly important. This matters both inside government for people to access government services effectively, and in the wider economy."

The Rt Hon Matt Hancock MP,
Secretary of State at the Department for Digital, Culture, Media and Sport, June 2018, cited in Computer Weekly

But there are problems:

- not every firm offers a robust online digital ID process in which case consumers must verify themselves in person;
- some people have problems meeting the standard identity requirements, as they lack the key identification documents often relied upon: Nine-and-a-half-million consumers in the UK do not have a passport and 1 in 4 UK residents do not have a driving licence[40]; and
- digital ID processes are not very portable, meaning consumers often cannot use the digital ID created with one firm to access the services of another firm.

[38] *The Battle to On-board II: The European Perspective on Digital On-boarding for Retail Banks*, Signicat, 2018.

[39] Source: Gateway.gov.uk and NHS Digital.

[40] Source: Financial Conduct Authority.

"As a bank we are very flexible about integrating these areas [of digital IDs] if it's good for the customer and more efficient but having a standard is important."

Industry Expert,

CASS and Manifesto Growth Architects stakeholder interviews

Digital IDs can be provided by a single hub[41] or using a distributed model based on an agreed set of standards and usage protocols.[42] Consumers could have a single digital ID or an 'ID profile' comprising several individual authenticated digital IDs that could be used interchangeably within the open banking product ecosystem and beyond.

A single digital identity would make the authentication process consumers are required to complete to share their data for digital financial services much simpler. Rather than having to remember multiple passwords for multiple accounts, consumers could rely on one single digital identity. It may also promote product innovation, slicker authentication journeys and thus promote switching as hassle-free. CASS looks forward to working with providers of agreed digital IDs in the UK to enhance consumer switch journey.

[41] For example, the Unique Identification Authority of India (UIDAI), which runs the Indian Aadhaar database of biometrically verifiable identification numbers.

[42] See for example the work by the British Standards Institution with MIDAS (Mobile Identity Authentication Standard) Alliance on BSI PAS 499 for a digital identification and authentication code of practice.

7. CONCLUSIONS

This paper contributes to the discussion on the future of switching by presenting potential options on the practical application of some innovative, consumer-centric technology that could enhance a consumer's switching journey.

These options are not intended to dictate what consumers may need or pre-empt what the market may develop, but rather to facilitate a debate on the 'art of the possible'.

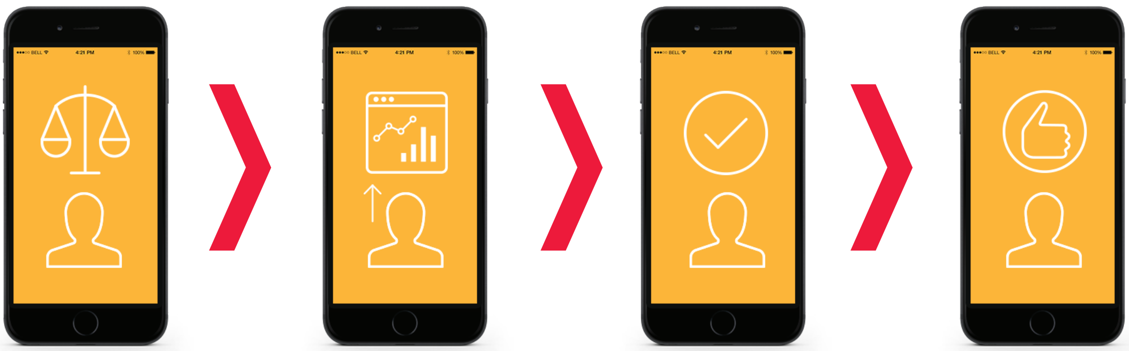
The switching solution that emerges will be dependent on many factors, including government policies on financial inclusion and standards for digital identity. These are all difficult, long term issues for which there could be a range of possible solutions. So, although CASS is not prescribing a solution for switching (or its related touch points), perhaps the best way to spark a constructive discussion on a consumer-facing switch service is to present a single picture of what it could look like – a form of 'moonshot' for the wider ecosystem.

Moonshot: what switching in the future could look like

In the future, consumers could have a seamless process from the initial search to the completed switch, performed quickly across all the financial services products they use, not simply just current accounts.

The available products shown to consumers would be tailored to their specific needs and would only be ones that they qualify for.

Figure 4: How consumers could switch in the future[43]



Customer prompted by their app that a better financial services product is available to them: current account, ISA, savings, pension

Customer directed to a price comparison website where they can see the available options, tailored to their needs

Customer seamlessly authenticates themselves to all parties

Customer confirms the full (or partial) switch to the new financial product

[43] Source: CASS, Manifesto Growth Architects and SFE Consulting market analysis.

Such a search and switching approach looks deceptively simple. The switching ecosystem needs to be certain consumers would want an enabled approach and to discuss how it might be delivered, considering the changes that would be required from many of the market participants. However, delivering such a process could give consumers like Maya and Dennis[44] the confidence that they can access relevant financial services more easily and effectively. Personalised search services which reduce the costs associated with informed decision-making, prompts to switch that are easy to act on and hassle-free, and instantaneous results – all of these work with the grain of known consumer behaviours and could make switching much more of a market norm.

Given how the financial services market is evolving, there might now be an opportunity to explore how to address the switching-related challenges through a coordinated approach, working with our community to shape requirements. By enhancing "switching and the threat of switching"[45] such a process could increase competitive pressures and so help to realise the full benefits of the CMA's package of Retail Banking Reforms.

CASS would welcome the opportunity to contribute to the policy debate required to discuss the contents of this paper and to understand how the switching ecosystem could realise fully the benefits of a more robust and effective marketplace.

We welcome any comments or feedback.

Please contact us at: public.affairs@bacs.co.uk

[44] The 'personas' are fictional stories based on CASS research and key findings from the Retail banking market investigation final report, Competition and Markets Authority, 9 August 2016.

[45] Paragraph 6.147, *Retail banking market investigation final report*, Competition and Markets Authority, 9 August 2016.

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9. GLOSSARY

AISP (Account Information Service Provider): provides consolidated information to a consumer about their various payment accounts.

API (Application Programming Interface): programmes and tools that enable computer programmes and software to directly communicate with each other.

ASPSP (Account Servicing Payment Service Provider): provide and maintain a payment account for a consumer – a bank.

Bacs Payment Schemes Limited: has responsibility for the schemes behind the clearing and settlement of UK automated payment methods (Direct Debit and Bacs Direct Credit) as well as the provision of managed services for third parties (such as the Cash ISA Transfer Service) and the development, management and subsequent ownership of CASS. On 1 May 2018, these payment schemes were transferred to the New Payment System Operator (NPSO).

CASS (Current Account Switch Service): the organisation that makes the current account switches happen in the UK. It is operated by Bacs as part of the NPSO.

CMA (Competition and Markets Authority): is the UK regulator responsible for strengthening business competition and preventing and reducing anti-competitive activities.

Direct Debit: this is an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account, normally for regular payments for everything from household bills to charitable donations. More than 4.2 billion Direct Debits were processed in 2017.

New Payment System Operator (NPSO): was formed in July 2017 and consolidates the operators of three payment systems: Bacs, Cheque and Credit Clearing Company and the Faster Payments Scheme Ltd, along with UK Payments Administration Ltd (UKPA). These payment systems support people and businesses in the UK moving money between bank accounts.

Open banking: is a a technology based on developing APIs to allow consumers to securely share their banking data with third parties, should they choose to do so. The sharing of this data enables new innovative services to be built that could benefit consumers.

OBIE (Open Banking Implementation Entity): set up by the CMA on behalf of the UK Government to bring more competition and innovation to financial services. OBIE is working with the nine largest banks and building societies that were the subject of the CMA review, and other stakeholders, to define and develop the required APIs, security and messaging standards that underpin open banking.

Payment Initiation Service Provider (PISP): firms who have the customer's permission to initiate a payment transaction on behalf of that customer. The PISP connects to the customer's bank account and withdraws the money directly from that account.

SME (small and medium-sized enterprises): a business that has annual sales revenues (exclusive of VAT and other turnover-related taxes) not exceeding £25 million.

TPPs (Third Party Provider): are organisations that use APIs developed to access customer's accounts, in order to provide account information services and/or to initiate payments. TPPs are either Payment Initiation Service Providers (PISPs) and/or Account Information Service Providers (AISPs).

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