Eight million switches: making changing bank accounts simple and stress-free

A summary of collected research and analysis showing how the market for switching current accounts has changed.

October 2022

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Introduction

The Current Account Switch Service was launched in 2013 as part of a package of interventions to address “long-standing problems”[1] of competition and choice in retail and business banking.

Now, the Current Account Switch Service is a well-established and mature service that has supported over eight million switches and redirected over 106.9 million payments since launch. It delivers an excellent service which is demonstrated by high operational performance.

Last year, 92% of people using the Service to switch current accounts were ‘very’ or ‘quite satisfied’ with the switch service and 99.8% of account switches were completed within seven working days.

This research is designed to look at the changes that have happened since 2013 so that we can define the current state of the current account market, while examining changing consumer behaviour, market dynamics and stakeholder sentiment.

As well as consolidating historical research reports to demonstrate the changes in the market and the impact of the Current Account Switch Service, we also use our own collected data sets to analyse changes in switching against a range of external influences.

This approach has allowed us to learn how much bank policies, and their changing approach to communications, have impacted upon the awareness of the Service. It has also allowed us to develop a greater understanding of how the use of digital banking over physical bank branches has impacted on consumer behaviour and awareness.

Since the Service launched in 2013 much has changed. Customers’ expectations of their current account have evolved and we have seen significant shifts in customer behaviour.

The rapid evolution of payment technology, and the growth of app-based payment systems and savings tools have also changed the expectations people have on their personal bank account. From being the main tool for moving money, for some people it is beginning to evolve into the hub that provides funds to payment ‘spokes’.

Regulatory interventions, including facilitating new challengers to enter the market and changes to overdraft charges designed to support and protect customers, have also impacted on market competition.

The Covid pandemic accelerated profound changes to consumer behaviour and the personal current account market, with a widening divide between larger traditional banks – which in the main prioritise retaining existing customers – and newer ‘digital-first’ banks that are challenging the way current accounts have traditionally operated and are now seeking to grow their customer base rapidly. This leads to contrasting marketing strategies.

Regulators still see the existence of an effective switching service as a cornerstone of enabling competition. It continues to provide consumer protection, in the current account market, despite the fall in volumes caused by the extraordinary conditions in 2020 and 2021.

From its inception, by making it simple, secure and stress-free for customers to switch banks, the Current Account Switch Service removed barriers in the switching process and reduced the perceived complexity of switching.

Almost a decade on from the launch of the Service, it is an appropriate time to take stock and establish how consumer behaviour, banking services and regulation have changed.

This research reveals the extensive changes that have taken place in consumer behaviour and bank policies since 2013. It reveals new priorities and is a timely analysis on switching behaviours.

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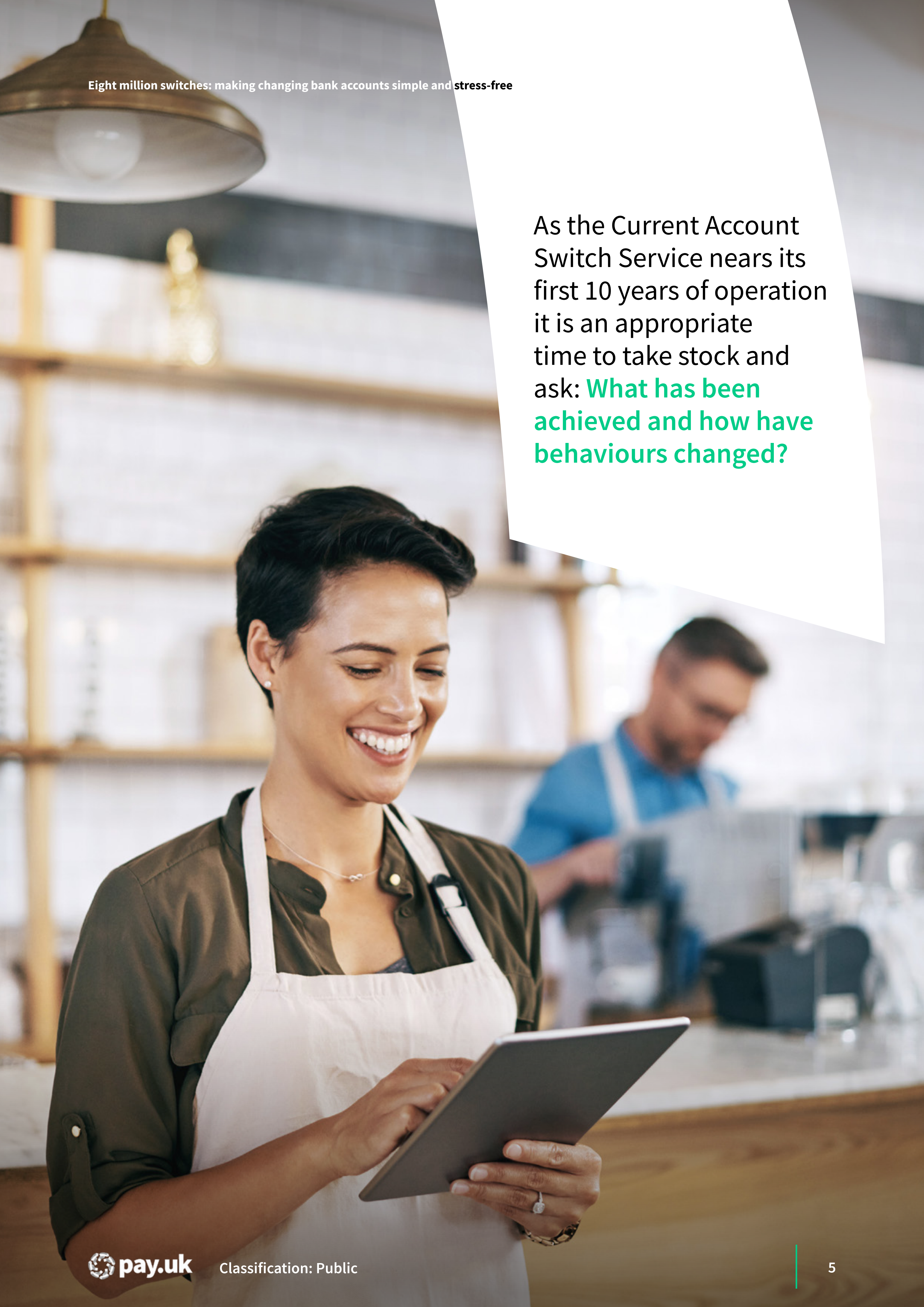

As the Current Account Switch Service nears its first 10 years of operation it is an appropriate time to take stock and ask: **What has been achieved and how have behaviours changed?**

Methodology

This report draws on insight from a range of sources to define how current account switching has evolved since the launch of the Current Account Switch Service. We look at impacts at a market level and on specific groups, drawing on a comprehensive range of sources:

- Policy reviews and market investigations
- Public data from related industries such as the energy market
- First party data and research from Pay.UK and the Current Account Switch Service on switching volumes and perceptions
- Views and expertise from the financial and policy worlds, including UK banks and building societies, Pay.UK and consumer champions.

This mixed methodology approach aims to present a holistic view that is led by data and informed by experts.

The analysis used in this research was produced between March and September 2021. However, there have been no changes to the trends identified in this paper since that data was obtained.

After September 2021, as Britain moved towards recovery following the pandemic, the Service exceeded its overall 75% awareness target for 2021, maintaining a positive engagement rate, with 79% of consumers saying they are aware of the Service. The total number of current accounts switched through the Service in 2021 was 782,223 and since launch over eight million switches have taken place.

Key findings

Regulation and competition theory has evolved since the Service launched in 2013. **Today's policymakers agree that there are some limits to the role of competition**. Their focus is on customer outcomes and harm reduction, more so than simply creating the conditions for competition within the market. Regulators' more recent interventions in overdrafts have focused on harm reduction where market dynamics have failed to benefit bank customers.

The Personal Current Account (PCA) market in 2021 is 21% less concentrated than in 2010 and has benefited from product innovation and improvements in value for money for consumers. This is especially true of digital banking access and money management, as well as regulatory interventions to reduce overdraft costs in 2020.

Customer inertia has decreased but still remains high – 80% of people have not changed the way they view their bank or started using other providers as a result of the pandemic. Consideration of switching remained static and largely consisted of a passive openness to the concept of switching if an opportunity for a benefit is seen, rather than active searching for a new provider. Research completed during the pandemic revealed the likelihood of switching remained unchanged for 72% of consumers and 17% were less likely to switch than before Covid.

Longer term competition strategy is also evolving to focus on brand promotion over product promotion. Switching volume data analysis shows that competition over headline deals has cooled for PCA providers over the last five years, with a switch to brand and digital service promotion. These trends were emerging before the pandemic began in 2020.

- An effective current account market is one that regulators still define as offering: **"good products and services at fair prices, supported by high standards of customer service and clear communications"**.[2]
- **The largest banks still operate at a significant incumbent advantage** and the current account market remains moderately concentrated. Digital bank brands continue to grow, however traditional high-street mid-sized challengers are no longer acquiring customers at the same rate as five years ago. 2020 also saw increased trust among customers in their main bank, which is likely to increase incumbency effects.
- **Switching dropped rapidly (30%) during the pandemic as the availability of supply-side factors such as rewards and the incentives offered to new customers were withdrawn from the market.** Many people also chose to keep their existing banking arrangements and therefore delayed or decided not to switch.
- **The Current Account Switch Service continues to work well for switchers, with high awareness (76% Q1 2021) and satisfaction (93% Q1 2021)**. Consumer attitudes towards current account switching and the Service remain positive and unchanged by the pandemic.
- New data analysis from 2021 shows that **a positive experience of switching directly contributes to actual switching volumes through word-of-mouth recommendation**. Hassle-free, secure and guaranteed switching remains vital for the Service.

Other findings

Harms are felt most by those who are least engaged in the market.

Around 10% of customers are responsible for 60% of the value that banks derive from PCAs.[3] This subset of consumers mostly either hold high balances in their current accounts or are heavy overdraft users and are more likely to be longer-term customers. As a result, there continues to be a split in outcomes for groups with different engagement levels:

- **Lower income customers and those with lower levels of education are less likely to consider switching and tend to remain with their current account provider for longer than other groups**. They have low awareness of the Current Account Switch Service, low awareness of product offers and are less motivated by cash rewards and have higher behavioural barriers. Customers with high overdrafts are also less likely to seek a new account to switch to. They are more likely to say they find banking with their existing provider to be easy.
- **Higher education and income groups are** both **more likely to be switchers** and say they have **changed the way they view their bank** and choose a provider as a result of the pandemic.
- **The perception of switching is worse among non-switchers.**
- **Multi-banking is a small but active subset of the market**. While multi-banking numbers cannot be accurately ascertained, it is more dominant among highly digitally-engaged audiences. 33% of customers multi-bank, with 9% having three or more accounts.
- **Covid accelerated a digital channel shift for customers**. 24% of consumers reduced their use of branches and 32% of consumers increased their use of mobile banking.
- **The SME switching incentive scheme in 2019 achieved a significant increase in switching rates, despite product complexity and higher risk aversion** among this audience. To date, 10% of eligible customers have switched when approached. This is five times higher than normal SME switching levels (2%).

Stakeholder perceptions of the market, consumers and the Service:

- Overarchingly, **stakeholders felt that the Current Account Switch Service has successfully delivered against the mission and vision** it set out when it was launched in 2013: it has lowered barriers to switching, made the process much easier for participants than a manual switch, enabled a significant number of switches, and enabled industry conversations which wouldn't otherwise have taken place.
- There was **a consensus among those consulted that the Service will continue to be necessary** until the market has a self-generated focus on financially-vulnerable audience groups, which participants felt was unlikely to occur without intervention. Taking a proactive role on its future was raised as a central point.
- **Staying relevant in a changing market** is the main challenge faced by the Service and there was a feeling that it would need to evolve to ensure it is still providing switching services for the products that consumers use most (i.e. partial switching or a payments transfer service). Stakeholders also felt there was scope for new product proposition developments to ensure the Service continues to be relevant in a changing market.
- **The adoption of digital banking services** such as online banking and the use of apps was heralded as **the key development** in the current account market, with interviewees reflecting that this had the biggest impact on product differentiation and customer experience.
- There was a consensus amongst internal and external interviewees that **the 'winners' of the current account market were those who were highly engaged, financially literate and most likely to switch**. For many, that meant that the financially vulnerable and those with low financial literacy were still not benefiting fully from the market.

Chapter 1

Research into the current account market: a summary

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Research review

Since 2000, there has been a steady stream of papers, reports and investigations examining levels of competition in the personal current account (PCA) sector and whether people are getting the best value service. In this research review we bring together major historic reports, publications and research to form a view of:

1.1 What a competitive current account market looks like

1.1.1 The changing role of competition

There are around 70 million personal currents accounts in the UK.[4] The current account is an essential service for both individuals and businesses. Healthy competition in the current account market ensures that the market delivers positive consumer outcomes and puts customers in a position where they can act and make decisions in their interests.

The 2011 report from the Independent Commission on Banking (Vickers Report), outlined that it is "good competition" that is most needed to deliver outcomes that "serve customers well", in contrast to "'bad competition' that exploits customer unawareness and creates a race to the bottom" on standards.[5]

> "In banking markets as elsewhere, what matters is not competition in the abstract but competition to provide what customers want – effective competition. In markets that work well, suppliers compete vigorously with each other, and with the real threat of entry by other firms, to provide a choice of products to well-informed customers. Moreover, this happens without damaging side effects on others. Customers, though individually small, enjoy the power of informed choice."

6.3, Independent Commission on Banking, Final Report Recommendations, September 2011

More recently, regulators now agree that there are some limits to the role competition can play in delivering positive consumer outcomes and that interventions may be needed now more than ever. Attitudes of regulators and politicians are shifting; the policy debate has moved from one focused on encouraging consumer switching and the entry of new "challenger" firms into markets, to one in which there is more scepticism towards market-driven approaches. In the FCA's 2021 consultation on Consumer Duty they say:

> "Due to the way that financial services markets operate, consumers may not always get the products and services that meet their needs or the outcomes they might expect. Consumers' ability to make good decisions can be limited (by) weaker bargaining position, asymmetries of information, lack of understanding or behavioural biases. Firms may not always compete effectively to drive up quality and bring down costs in consumers' favour. (…) And consumers who are in vulnerable circumstances are at greater risk of harm."[6]

Today, as with the recent FCA intervention on overdraft charges, policymakers are increasingly using regulatory intervention to protect consumers, rather than using competition in isolation to improve outcomes.

But, whatever the limits of competition, market investigations from the Cruickshank report in 2000[7] to the FCA's: consultation on consumer duty in 2021[8] have all aimed to drive better outcomes. This means ensuring that the current account market delivers benefits that customers expect and reduces the potential for harm. And, while some reports have stopped short of providing details on the types of outcomes that are desirable, the FCA's recent consultation is clear. They expect providers to offer: "Good products and services at fair prices, supported by high standards of customer service and clear communications".

They continue:

> "In essence, we want to see firms putting themselves in their customers' shoes, asking themselves questions such as 'would I be happy to be treated in the way my firm treats its customers?', or 'would I recommend my firm's products and services to my friends and family?"

1.1.2 Definitions of a competitive current account market

These are outlined in "A Switch in Time", research undertaken by Social Market Foundation (SMF) for Bacs on behalf of the Current Account Switch Service, which identified six key markers of good competition in the current account market.[9]

Figure 01: Signs of stronger competition in the current account market

Product innovation and differentiation	**Better customer service**	**Improved value for money**
More new entrants, and new entrants gaining scale	**Lower market concentration**	**Higher levels of searching and switching**

Source: Social Market Foundation (SMF)

In 2016, the SMF concluded that they saw "clear positive developments" in product innovation, value for money and new entrants gaining scale. They saw mixed progress in customer service, lower market concentration, and searching and switching.

The benefit of this package of six measures is that together they recognise the wide-ranging nature of competition, accounting for providers, product, service, price and customer behaviour.

However, there are also challenges:

- The measures are complicated to identify and track over time.
- They are often evaluated at a mass market level, rather than accounting for the nuances of different customer groups.

As a result of complexity (and sometimes for ease of making an argument), some explorations of competition are more selective with the measures they chose to focus on.

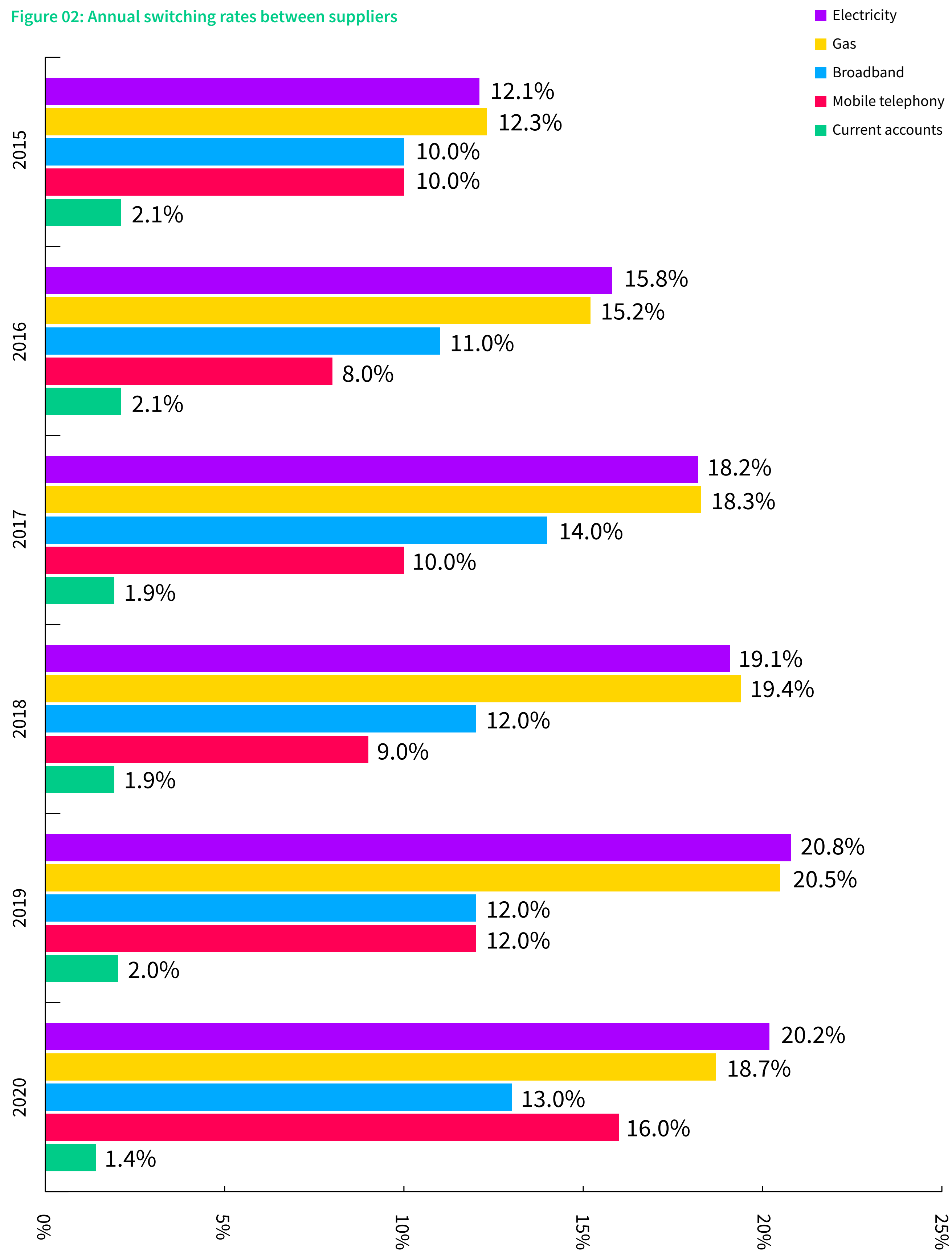
For example, it is often argued that low levels of searching and switching suggest that competition is weak. Switching in the current account market (2-3%) is usually contrasted with energy (20%).

Yet switching volumes alone are not a marker of a market with better outcomes for customers. In fact, higher switching volumes can be a sign of a market that is more costly for loyal customers, such as is the case with fixed energy contracts and insurance.

The substantial differences in switching rates between markets indicate that current accounts operate in fundamentally different ways to other financial products they are often compared with, such as mortgages, energy bills, broadband or mobile phone providers.

This is because the relationship between a customer and a bank is more complicated than with the other services – they may have multiple contracts (loans, overdrafts, credit cards), there is no fixed term contract length and fewer easily identifiable incentives to switch (lower insurance quotes, better broadband coverage etc.).

Figure 02: Annual switching rates between suppliers



Source: SMF analysis. More information on data sources in report appendix.

Another key way that market competition is defined is to use a Herfindahl-Hirschman Index (HHI). **(See Figure 03)** The primary advantage and disadvantage of the HHI stems from the fact that it is a simple calculation that does not account for market complexities.

SMF research for Metro Bank looked at HHIs for gas, groceries, personal current accounts, mobile phones, broadband, electricity, mortgages and cars. Their analysis shows that six of the eight markets listed above are moderately or highly concentrated in the latest available data.

Thus, a small number of firms account for a significant share of the market. However, there have been some encouraging trends over time, particularly in the groceries sector and energy market where new market entrants have reduced the market share of large incumbents since 2010. The HHI for energy has reduced by 53% and the groceries market HHI has reduced by 17%.[10]

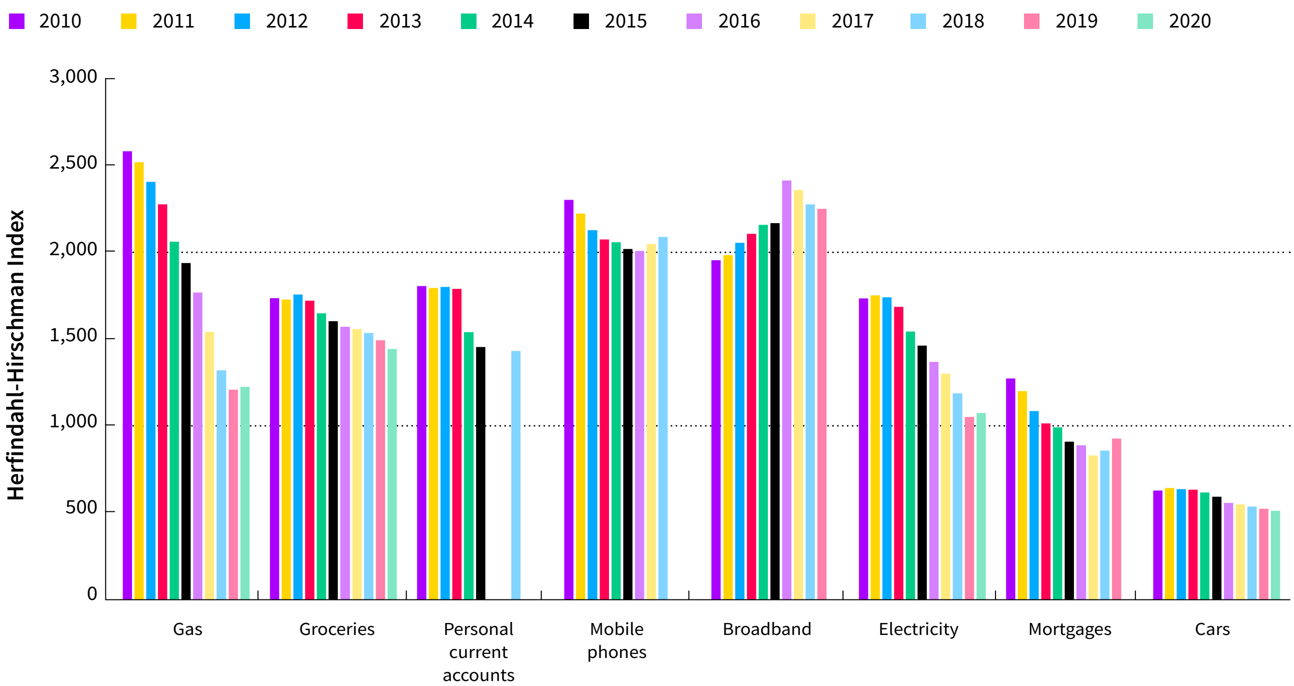
They conclude there is still a way to go in the PCA market because it remains moderately concentrated. However, the concentration level in PCAs has reduced by over a fifth (21% – from 1,817 in 2010, to 1,442 in 2018), which is more than the groceries sector. This is encouraging because although the market share of major retail banks has remained high and stable over a sustained period it also shows that policy interventions to enable new entrants to gain scale are making the market more competitive.

HHI analysis also cannot account for the relative harm of each of these markets. For example, although the mortgage sector is not concentrated, it commands a significant loyalty penalty – “mortgage prisoners” and those that do not switch can incur thousands of pounds in additional costs by remaining on inappropriate or a standard variable rate product. Costs in the current account market are often less tangible but may have, over time, come from unrealised interest or higher fees for overdrafts.

Figure 03: Herfindahl-Hirschman Index ratio over time

The HHI is calculated by squaring the market share of each firm competing in a market and then summing the resulting numbers. An HHI can range from close to zero to 10,000. A market with an HHI of less than 1,500 is a competitive marketplace, an HHI of 1,500 to 2,500 is a moderately concentrated marketplace, and an HHI of 2,500 or greater is a highly concentrated marketplace.

Un-concentrated markets – those with a HHI below 1,000. Moderately concentrated markets – HHI between 1,000 and 2,000. Highly concentrated markets – HHI above 2,000.



Source: SMF Analysis (no Personal current accounts data available for 2016, 2017, 2019 and 2020)

1.1.3 The problem of engagement, and the impact of supply and demand on behaviour

Market reviews have historically seen customer engagement (and the perceived lack of it) with current accounts as crucial to market outcomes. A key driver of competition in the current account market is consumers' ability to choose and switch between current account providers. Higher levels of searching and switching (real or consideration of) can cause additional competition and improve outcomes for customers.

Figure 04: Life cycle of the switcher

In 2015, the Competition and Markets Authority (CMA) identified three key states within the life cycle of a switcher:

Source: Retail banking market investigation final report

Alongside the customer decision-making process, there is consensus about the factors in the current account market that can affect engagement and impact on switching decisions. Broadly speaking, the drivers of switching in the personal current account market are:

- Supply-side factors: this includes the availability and value of switching rewards, and availability of better value products and access choices between branch and online with another provider. This is regarded as essential to enable choice and therefore switching
- Demand-side factors: for example what people want from their current accounts, for example additional services, responsible investing or digital access
- Further demand-side behavioural and attitudinal factors, such as being satisfied with the current bank or the perception that switching is a hassle
- Vulnerability factors relating to personal characteristics that make it more difficult for customers to engage with the market, and which can act as barriers to switching.

Frontier Economics summarised these factors in their 2020 report **"Choosing Current Accounts"** for Pay.UK **(See Figure 05)**.

During the pandemic, the availability of some supply-side factors such as monetary rewards for switching were removed from the market and there was a fall in the difference of incentives and costs between current account offers fell. At the same time, perceptions of consumer vulnerability increased.

Figure 05: Examples of factors influencing switching behaviour

Supply side factors **These factors tend to act as drivers for switching**	• Better interest rates • Lower overdraft charges • Better customer service • Better product deals • Better branch access • Better mobile app • Better website • Ease of switching • Bad experience with my current bank	• Following recent advertising campaign • Switching Rewards • Cashback • Freebies (gift cards, taste cards, cinema tickets etc.) • New services offered e.g. aggregation of different accounts on your app • No difference in accounts
Behavioural/ attitudinal factors **These factors tend to act as barriers to switching**	• Happy with current bank • No reason to change • Too much hassle • Too much risk • Past problems with other banks • Worry I won't get the same overdraft • I don't have time to deal with this right now • Switching process could go wrong	• Might reject me as a customer • It would feel disloyal to my current bank • Stress of switching • Security and fraud protection concerns • Too digital, I prefer the traditional way of banking • Trust in new bank • Recommendation from family or friends
Vulnerability factors **These factors tend to act as barriers to switching**	• Age • Deprivation • Financial vulnerability • Facing life events	• Use of digital channels • Use and understanding of price comparison websites • Low financial savings

Source: Frontier synthesis of Current Account Switch Service, FCA, and CMA research

1.1.4 Reasons for switching and how these have changed

Current account market investigations often focus on the pure financial gain that switchers could stand to make. This is a simple way of making comparisons across the whole UK market. However, the importance of supply, demand and behavioural factors vary by audience. Certain features of product and services will matter more to different customers, from headline deals and cashback to better customer service.

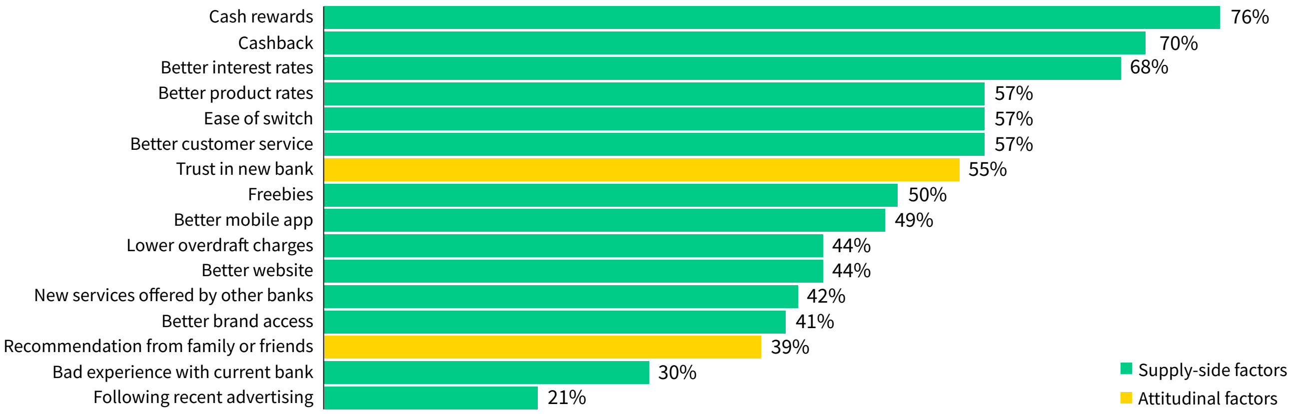
According to analysis for Pay.UK from Frontier Economics: "the strongest driver for switching is the prospect of receiving some type of a switching benefit. 76% of consumers would be motivated to switch for a switching reward, and 70% would be motivated by a cashback offer. Consumers are also motivated by better interest rates (68% of consumers) and by better product deals (57% of consumers). Whilst not as important as the financial incentives, ease of switching and the prospect of better customer service also represent significant drivers for 57% of consumers." **(See Figure 06)**

The results also highlight the importance of supply-side factors relative to attitudinal factors. Trust in the new bank is important to just over half of consumers, while only 39% of consumers consider a recommendation from family or friends to be important.

In the same analysis, Frontier Economics also asked customers how important they find the factors identified by CMA's analysis in 2015. Better interest rates and better products and deals remain the most important factors to switch current accounts. But customer service and branch locations have become less important than they were five years ago, while high fees and curiosity about offers have become more important. **(See Figure 07)**

This research also shows that customers find PCAs and Business Current Accounts (BCAs) difficult to compare. This makes the process of switching from using a PCA for a business to a BCA more complicated.

Figure 06: Proportion of consumers that consider different drivers to be important for switching accounts



Source: Choosing Current Accounts: How the COVID-19 pandemic has affected switching attitudes and behaviours in the UK. A Frontier Economics study prepared for the Current Account Switch Service, part of Pay.UK

Note: Figures demonstrate the relative difference between options, not the absolute importance of factors – respondents were asked to choose between two options

Figure 07: Ranking of the importance of drivers for switching between CMA research in 2015 & 2020 Current Account Switch Service research

	CMA rank	Current Account Switch Service research rank	Difference
Better interest rates elsewhere	1	1	0
Better products/deals/conditions elsewhere	2	2	0
Poor customer service	3	6	-3
Branch was closing/no local branch	4	5	-1
Charges/fees too high	5	3	+2
Just wanted to see what was available	6	4	+2

Source: CMA and Current Account Switch Service research

1.1.5 Barriers to switching and how these have changed

In 2015, the CMA found that 90% of PCA customers with standard and reward accounts could gain financially from switching to a cheaper product and that the average gain from switching was around £92 per year. For customers with packaged accounts, the CMA found that around 50% of customers could gain an average of £170 per year from switching.

The CMA calls these potential gains "substantial". However, that £170 gain may not offset the reasons that lead to an inertia to switch outlined above.

In 2015 and 2016 the average UK household expenditure was £528.90 per week, or £27,465 per year in the UK. The £92 gain for a non-packaged account is similar to weekly spending on food and drink at £61.90 (excludes alcohol), or housing at £79.40 (including utilities, maintenance and rent, but excluding mortgages).[11]

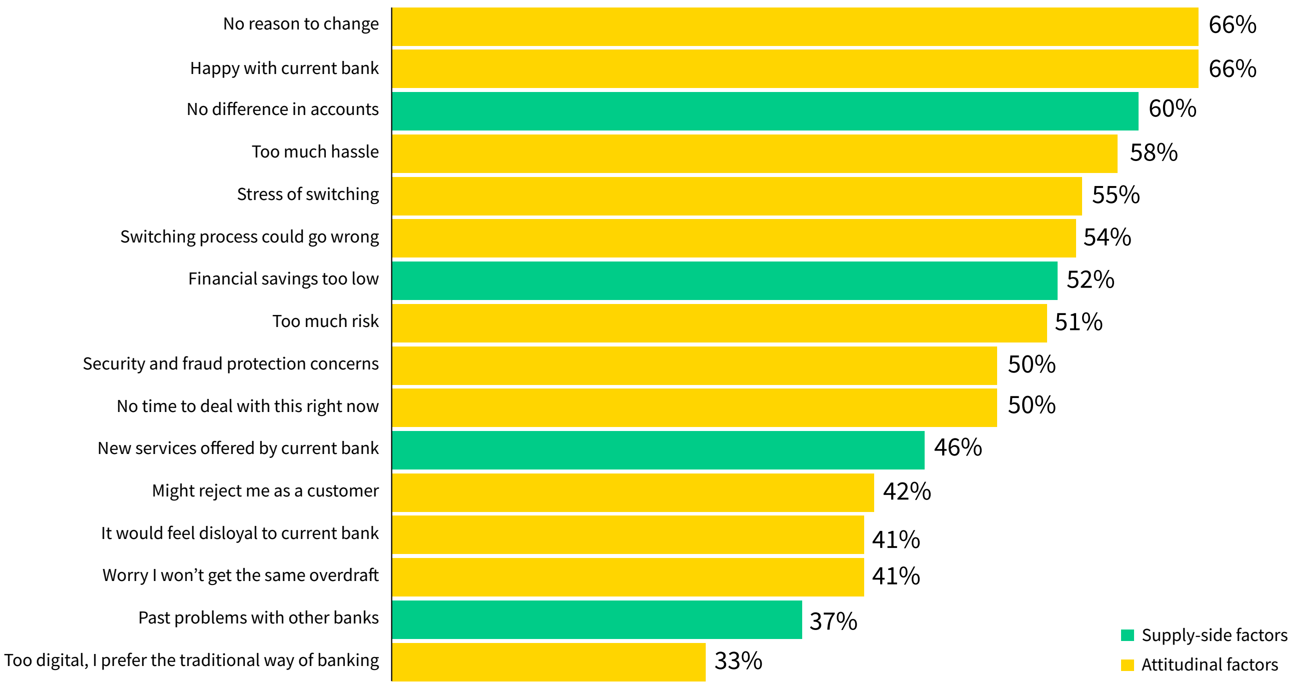
These comparisons may explain why for many people the cash reward gain alone from switching may not be enough to motivate them to switch. The relative size of the switching prize is simply too small to make a difference to most people. Figure 8 from Frontier Economics shows that "No reason to change" the number one reason, cited by 66% of people as the main barrier to switching bank account, while 60% say there is "no difference in accounts". **(See Figure 08)**

Additional analysis from Frontier Economics found that those that have recently switched tend to associate significantly more positive emotions with switching current accounts than those who have not, indicating that barriers related to the Service may be more based in perception than reality.

The main reasons consumers choose to stay with their current provider appear to be attitudinal: being happy with their current provider and not seeing a need to change, consistent with the CMA's findings in 2015. However, the importance of internet banking and website has jumped from being the least important reason to third most important.

Overall, these findings indicate that staying with a provider may be a more positive, engaged choice than previously imagined.

Figure 08: Proportion of consumers that consider different barriers to be important for switching accounts



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Note: Figures demonstrate the relative difference between options, not the absolute importance of factors – respondents were asked to choose between two options

Figure 09: Ranking of the importance of barriers to switching between CMA research in 2015 & 2020 Current Account Switch Service research

	Current Account Switch Service research rank	CMA rank	Difference
Happy with current provider	1	1	0
No need/reason to change	2	2	0
Good internet banking/website	3	12	+9
Been with them a long time	4	9	+5
Convenience of current bank	5	5	0
Too much hassle/can't be bothered	6	3	-3
Good customer service	7	4	-3
Not thought about it	8	10	+2
Bank is easy/simple/transparent	9	11	+2
Convenience of branch location	10	8	-2
Helpful/efficient staff	11	6	-5
Good products/best deals/rates	12	7	-5

Source: CMA's Retail Banking Market Investigation and Current Account Switch Service consumer survey

1.2 Audiences: deep dive

1.2.1 Comparing the characteristics of switchers, stickers, multi-bankers and SMEs

Reports by the CMA, FCA, Social Market Foundation and Frontier Economics provide a clear picture of how switchers differ from non-switchers.

1.2.2 Switchers

Switchers have both the motivation to switch (they want to manage or take control of their money) and capability (they are either financially savvy or have switching experience).

Switchers are very different to non-switchers; they can be financially engaged and digitally savvy but also put that expertise into effect by changing their bank accounts and other services. They make up a small proportion of total current account holders. Since 2015 around 2% of customers switched their current account. This fell to 1.4% in 2020, during the pandemic.

- The FCA[12] found switchers to be slightly younger (with an average age of 43 vs 47 for non-switchers), more digitally active, have lower balances, be lighter overdraft users, and hold fewer credit products with their bank, such as mortgages or loans. **(See Figure 10)**
- Additional analysis by the CMA[13] shows that switchers are also likely to have higher incomes, higher education levels and more likely to multi-bank.
- Frontier Economics[14] found people who have switched recently feel significantly more positive about the process than those who have not switched, but noted that this effect fades over time. Those who switched in the last 12 months gave positive comments 24% more times, versus 17% among people who had switched longer ago – in the past three years.

Figure 10: A comparison of all switching indicators

	Switchers	Multi-bankers	Non-switchers	Long tenure
Age	43	47	47	64
Savings balance	£1,209	£180	£1,662	£6,396
PCA balance	£722	£206	£767	£1,778
Logins (all)	4.2	3.7	2.3	0.1
Arranged overdraft balance	£18	£102	£47	£24
Unarranged overdraft balance	£0.55	£0.74	£0.53	£0.57
Arranged overdraft charges	£0.49	£1.69	£0.77	£0.85
Unarranged overdraft charges	£0.94	£0.88	£0.83	£0.77
Unpaid items fees	£1.67	£1.50	£1.25	£1.00
Deprivation (1 = least deprived)	15.06	18.15	16.45	12.90
Number of credit products held with PCA provider	0.43	0.44	0.51	0.62
Number of credit products held with other providers	1.61	2.12	1.34	1.58
% of customer holding a credit card with their PCA provider	33%	27%	32%	36%
% of customer holding a mortgage with their PCA provider	7%	10%	11%	12%
% of customer holding a personal loan with their PCA provider	6%	8%	9%	11%

Source: FCA Strategic Review of Retail Banking Business Models

1.2.3 Non-switchers

Non-switchers think differently and have different convictions and motivations to those who switch.

They may have taken a deliberate decision not to change accounts. But a significant proportion of non-switchers can also be financially vulnerable, disengaged digitally and have more negative perceptions of switching.

People's "ability to make good decisions can be limited (by) weaker bargaining position, asymmetries of information, lack of understanding or behavioural biases".[15] The research concludes that many non-switchers are:

- Generally older, and are more likely to have lower incomes, lower education levels, and are less aware of both the Current Account Switch Service and current account products in the market (Frontier Economics)[16]
- Overdraft users, who make up a sizeable 45% of all current account holders[17] are concerned about being able to switch. According to the CMA,[18] the heaviest unarranged overdraft users are the least likely to switch. The Frontier Economics report[19] found overdraft users also worry about eligibility (not being able to get the same or better facilities than they currently have) and rejection by the new bank
- They are likely to have less of an interest or lower confidence in managing and taking control of their finances (Bacs).[20]

The CMA's 2016 investigation into the retail banking market found that 55% of unarranged overdraft users underestimated their usage by two or more months and around 50% did not believe that they had gone into an unarranged overdraft. As a result, they may not even think about searching for a product which offers better overdraft charges and terms.

Non-switchers have more negative associations with switching, perceiving the process to be more "confusing", "time consuming", "hard work", and "stressful".

In addition, the Frontier Economics report found that overdraft users worry about eligibility (not being able to get the same or better facilities than they currently have) and rejection by the new bank.

Non-switchers have more negative associations with switching, perceiving the process to be more "confusing", "time consuming", "hard work", and "stressful".

The CMA[22] showed this audience would stand to gain the most from switching but also have the highest barriers to switching.

But they are also less motivated to switch by financial incentives, such as cash rewards or better deals, and are more likely to stay with a bank they've been with for a long time, who makes banking easy and have helpful staff.[21]

1.2.4 Switching characteristics in energy and other sectors

The characteristics of switchers and non-switchers are not unique to the current account market. In 2020, the FCA found consumers with vulnerability characteristics were significantly more likely to have been with the same home insurance, mortgage or cash savings provider for 10 years or more.

The CMA's Energy Market Investigation Report from 2015 also found that those who had not switched energy suppliers in the last three years were more likely to not have switched in other markets compared to those who had switched. **(See Figure 11)** It's not surprising that the profile of non-switchers in the energy market mirror those in the PCA market – they tended to be older, have no qualifications, live in rented accommodation and be less well off financially. **(See Figure 12)**

Figure 11: Switched supplier in different markets in the last three years

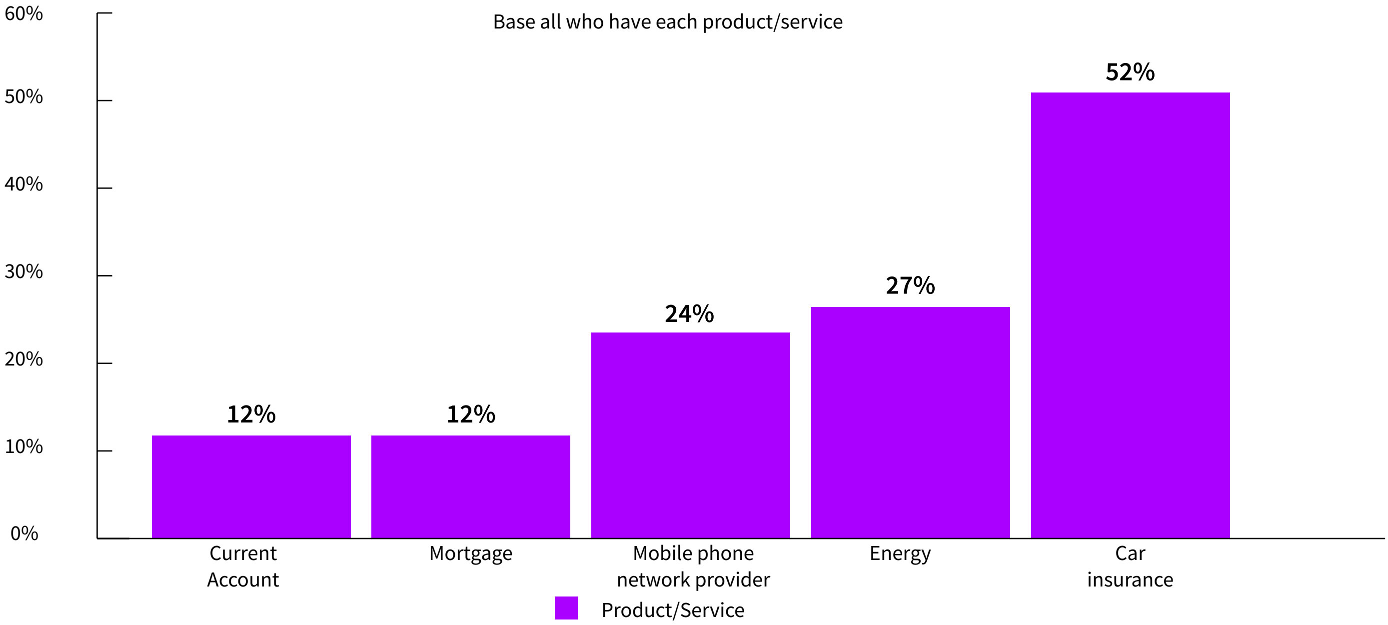
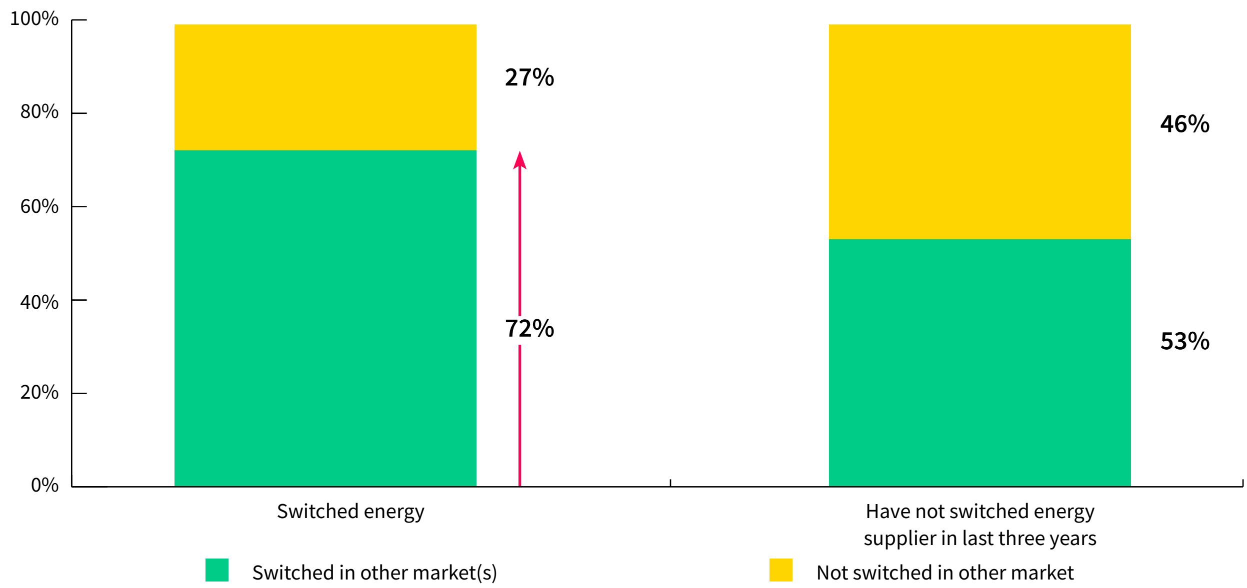


Figure 12: Switched supplier in different markets in the last three years



Base: All who have product/service (Mobile phone = 6,497, Car insurance = 5,600, Current account = 6,456, Mortgage = 3,670, Energy = 6,999, Switched energy (2,338), not switched energy (4,572)
Source: Energy market investigation report for the Competition and Markets Authority by GfK NOP

1.2.5 Multi-banking

While other markets may experience higher rates of shopping around, a behaviour that is unique to personal and business current accounts is "multi-banking".

In 2018, the FCA found that 52% of customers hold current accounts with more than one provider. This figure drops to 15% if only positive balances are counted. The FCA uses the latter in their analysis and call these consumers with positive balances multi-bankers.

FCA analysis looked at a sample of accounts provided by UK banks, exploring their composition and banking behaviours. They found that many multi-bankers:

- Can have significantly lower current and saving account balances than other consumers
- Can have higher overdraft balances, both arranged and unarranged
- Are financially engaged – logging in to online banking nearly as much as switchers, and far more than non-switchers
- Consumers in this category were also found to be poorer than the majority of switchers, non-switchers and long tenure customers.

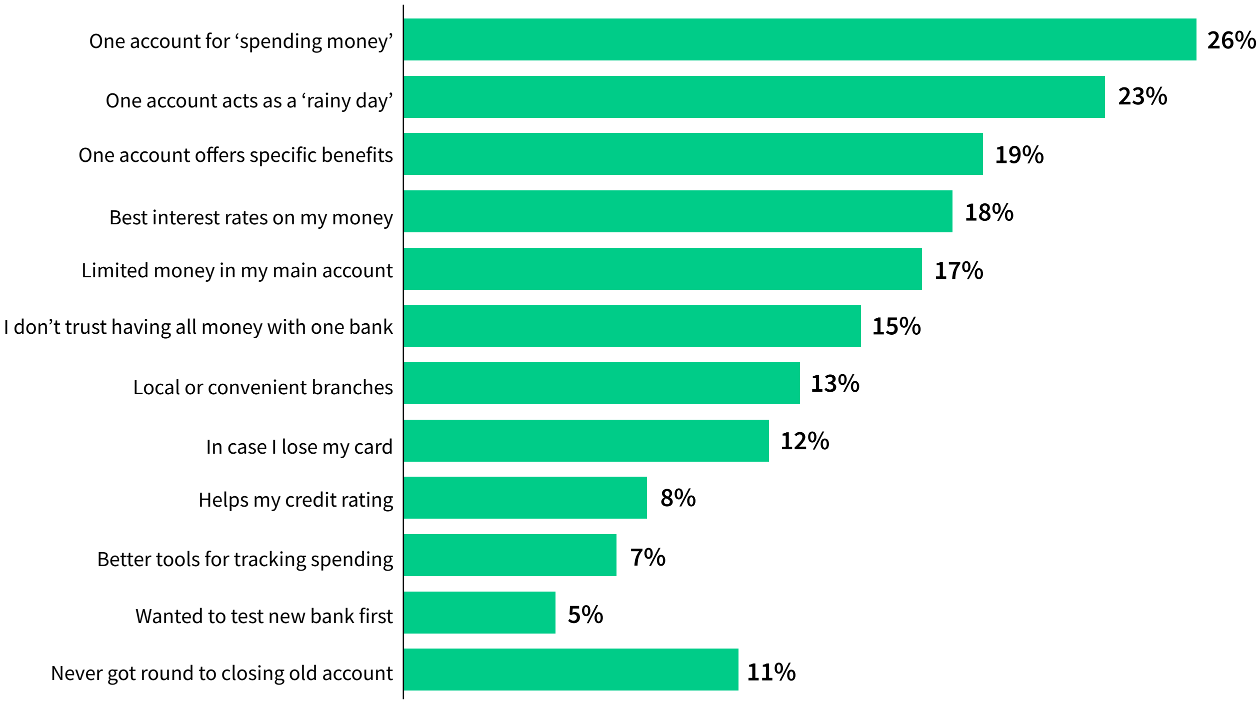
Some customers may be accessing multi-banking to get access to additional credit.[23] This is a significantly different picture to the perception that banks and building societies have of multi-bankers: participants say they typically see them as a savvy audience who are looking to exploit offers and deals.

The Current Account Switch Service conducted research at the start of the pandemic, in March and April 2020. It found that:

- 33% of current account holders have more than one individual current account
- 9% have three or more individual current accounts
- The respondents in this survey revealed that those within the socio-economic group AB are significantly more likely to have multiple current accounts than other social grades as are those with annual household income above £55k. There is additional evidence from the FCA that some multi-bankers have lower balances than normal as they spread credit and savings across accounts.

Digging deeper, the research found that multi-bankers typically have a long-standing current account but they have added to it because the new account brings a significant additional benefit.

Figure 13: Reasons for having multiple current accounts



Source: Personal Current Account Investigation. A report for the Competition and Markets authority by GfK NOP

Only 11% say they have dormant accounts they have simply not got round to closing, although among the other 89% there is a certain amount of justification for simply not closing an old account (it becomes a 'rainy day' account). **(See Figure 13)**

The majority have a clear rationale for each account with the three commonest reasons being:

- Their new PCA adds a key benefit their long-standing existing account lacks, e.g. insurance, packaged accounts, spending tools or a local branch (since their existing bank closed their nearest branch).
- Having multiple accounts helps them manage their money: one current account is the monthly discretionary spending account while the other is the main income/bills account. This approach helps people monitor spending and keep their finances 'tidy'.
- Having multiple accounts offers customers a feeling of security, either by keeping their main funds away from their transactional account (and hackers) or reassuring them that if something happens to one account, the other is still accessible.

The research found that multi-banking brings significant benefits and users do not perceive it having any great cost – no financial cost and no time or hassle cost, since it is easy to manage with banking apps.

In conclusion, multi-banking is seen as all pros and no cons. It is a sizeable minority behaviour (33%), taken to the extreme by a small subset (9%) who hold three or more accounts. To multi-bankers, each additional current account offers a benefit, and they see no real costs to having multiple current accounts. One bank does not "do it all" and while challenger banks are impressing, they still must earn the trust of multi-bankers who typically have a long-standing relationship with one bank and are reluctant to give that up (and the credit history).

The FCA conclusion about access to credit may not be reflected in analysis by the Current Account Switch Service, but the level of digital engagement is. Multi-bankers are active money managers, who are highly engaged in the market.

For most multi-bankers, holding multiple current accounts is a deliberate strategy rather than the product of laziness or inertia; they perceive each additional account to serve a specific purpose, and they could see no need to close accounts as they stop using them.

In contrast, those who switch and close old accounts have no great affinity to their old bank and do not perceive any benefit in having multiple current accounts. But the number of customers with multiple accounts (and digital links between them) is growing steadily.

1.2.6 SMEs

The Social Market Foundation's report on Banking and Competition in the UK Economy[24] showed that disengagement among business customers is as high as it is among PCA customers. Data from the Department for Business, Energy and Industrial Strategy (BEIS) shows the proportion of SMEs across the economy that switch bank account provider in a year tends to be low **(See Figure 14)**. The trend is flat, with little sign of growth between 2016 and 2019.

CMA's 2016 report[25] found that 70% of SMEs in Great Britain that have been in business for over ten years have been with their main bank for at least ten years.

The report found that barriers to switching are higher amongst SMEs for Business Current Accounts (BCA) than personal products, mainly due to the complexity of the product offering and the perceived benefit of loyalty versus the potential gain of switching:

- The complex nature of BCA pricing and tariff structures, plus the lack of effective price comparison tools, makes comparison time-consuming and difficult.
- Perception that the financial gain of switching is not worth it, especially when compared to potential savings they can make elsewhere in the business.
- Low confidence that their finances will be improved by switching.
- Perception that remaining loyal to a bank over a long period of time will be beneficial, particularly in regard to future lending decisions.

Figure 14: BCA Switching, 2016 and 2019

	2016	2019
Employer SME: switched	4%	3%
Employer SME: did not switch	95%	96%
Sole trader: switched	2%	2%
Sole trader: did not switch	97%	96%

Source: BEIS Longitudinal Small Business Survey (2016) and (2019)

- SMEs may not have the time or inclination to research alternative bank accounts themselves, but are more likely to do so when a third party (such as a financial or business adviser) makes a recommendation.

Even when nudged by advice and financially incentivised, it can be difficult to get businesses to switch bank accounts. Royal Bank of Scotland (RBS) was required to introduce the Incentivised Switching Scheme, also known as the "Business Banking Switch", which launched in February 2019.

As 70% of business current accounts are with the four major banks, the scheme was designed to redistribute their market share by offering eligible RBS BCA customers incentives such as cash payments to switch provider. From a pool of 220,000 eligible customers, 23,000 had switched in early 2020. Due to low uptake, the Incentivised Switching Scheme was extended to 30 June 2021.[26]

However, it's worth noting that the SME incentive scheme did achieve an increase in the switching rate, possibly because of those incentives. Ten per cent of eligible business current account customers have switched. This is five times higher than normal switching levels (2%).

The 2019 Frontier Economics report proposed that placing greater emphasis on the factors that are increasingly important to SMEs post-Covid, such as access to relationship managers and good digital features, might increase engagement and promote switching for business current accounts.

1.2.7 Summary: Market engagement is the key differentiator

A significant proportion of switchers and multi-bankers are more financially and digitally engaged, whereas disengaged non-switchers may have little interest and confidence in taking control of their finances and are less likely to use the internet to access banking.

Behavioural theory states that the more you do something, the more you are familiar and confident, and therefore, the more likely you are to do it again. Therefore, once you have switched and been through the process, it lowers perceived barriers and you're more likely to switch again.

On the other hand, disengaged non-switchers are stuck in a cycle of inertia that's difficult to break out of without outside intervention.

To encourage and instigate engagement, a number of interventions to address the different barriers for each audience are detailed below.

Audience segment	Profile	Barriers	Opportunities for supply-side incentives to encourage switching
Switchers	Less loyal, more digitally engaged, fewer products and lower balances	Less differentiation in the market around headline incentives may be decreasing switching behaviours The slight increase in switching failure rates due to incorrect information being provided could negatively impact future switching consideration	• Use Service marketing to stimulate PCA promotion activity • Make it easier to compare non-financial benefits, such as ease of banking, available digital tools, ease of digital experience, overdraft facilities etc. • Work with PCA providers to reduce switching failure rates and resolve issues during the process.
Non-switchers	Less financially engaged and savvy, lower balances, rely on overdrafts, tend to be older and have been with their bank for a long time. Some non-switchers are happy with their provider	A significant proportion lack financial nous and confidence, and therefore cannot easily see the benefit of switching or it being worth the effort	• Create switching prompts through communication to disrupt inert behaviour • Make it easier to compare non-financial benefits • Improve digital engagement.
Multi-bankers	Actively engaged. Use additional accounts for specific benefits or to make separate pots for money management purposes	May be less interested in or wish to consolidate accounts via the Current Account Switch Service or Open Banking. Concerned about fraud and data use	• Monitor size of group over time by adding questions to the Current Account Switch Service tracker.

1.2.8 Mandated audiences and future priorities

The Current Account Switch Service is required to ensure its communications are effective so that 75% of the population are aware of the Service. It must also ensure it reaches four sub-audiences – the financially vulnerable, 18-24s, overdraft users and those with high credit balances.

The characteristics of these groups reveals the following insights and suggested actions:

Audience segment	Engagement level		Confidence		Barrier	Priority	Potential comms priorities
	Financial	Digital	Financial	Digital			
Mass: 75% awareness target	Low to high	Low to high	Low to high	Low to high	66% say there is no reason to change and are happy with their existing bank There's also a perception that there's little difference between PCA offerings, and the switching process is difficult and stressful. (Frontier Economics)	Medium	• Continue to promote the Service to maintain awareness • Work with PCA providers to identify new and better ways to promote the Trustmark throughout the digital consumer journey
Financially vulnerable	Low	Low	Low	Low	Do not easily see the benefit of switching or it being worth the effort. (Frontier Economics) They are also worried about overdraft eligibility (CMA)	High	• Introduce prompts for reconsideration to disrupt inertia • Make it easier to compare PCAs based on what they value: service, ease of use, overdraft eligibility, etc.
18-24s	Low	High	Low	High	Don't see the value of switching to a different PCA More likely to perceive the process to be confusing, hard work and stressful. (Frontier Economics)	High	• Prompt reconsideration by calling out the benefits of switching • Educate them on the role of the Service in the switching process
Overdraft users	Low	Low to medium	Low	Low to medium	Highly reliant on their overdraft and are worried they can't get the same overdraft elsewhere (CMA)	High	Make it easier to compare PCAs based on overdraft facilities and eligibility
High credit balances	High	Medium	High	Medium	Don't see the value of moving their money to another low interest current account. More likely to consider investing their money than switching PCAs	Low	Not applicable – lack of PCA product innovation and low interest rates are outside of the Service's control
SMEs	Medium to High	Medium	Low	Medium	Perception that remaining loyal to a bank will be beneficial, particularly for future lending decisions The complex nature of BCA pricing and tariff structures, plus the lack of effective price comparison tools, makes comparing BCAs time-consuming and difficult for SMEs. (CMA)[27]	Medium	• Make it easier to compare BCAs, including non-financial benefits, such as access to a relationship manager • Opportunity to lessen the incumbent advantage for the big four banks when it comes to lending power

1.3 Other market changes since the Current Account Switch Service was launched

In the 2018 review of retail banking models, the key message the FCA received from stakeholders was "This time it's different". In the FCA's view "regulatory developments, combined with consumer take-up of digital technology, technological developments such as cloud computing, and the amount of investment going into fintech, provide unprecedented possibilities for change". While some change is already happening, much innovation around Open Banking and open finance is at the early stages of implementation.

Several themes are relevant to the Service and it is possible to explore how they relate to current accounts and switching:

- New digital entrants
- Digital and mobile banking
- Branch closures
- Continuous Payment Authorities
- Switching acceptance rates

1.3.1 New digital entrants

Digital banks, like Monzo and Starling, as well as financial service suppliers and e-finance providers like Revolut are a driving force of change in the personal finance market.

In 2020, Starling reached 1.8m accounts and achieved profitability and Monzo grew from 1.6 million to 3.9 million customers.[28] Starling gained more customers than any other UK bank through the Current Account Switch Service. In the second quarter of 2020, it recorded the highest switching gains of any bank in the UK with nearly 12,000 customers switching to Starling on a net basis.

Starling also topped the Which? customer satisfaction table for 2020 with an overall score of 88% and recommended provider status for the second year in a row.[29]

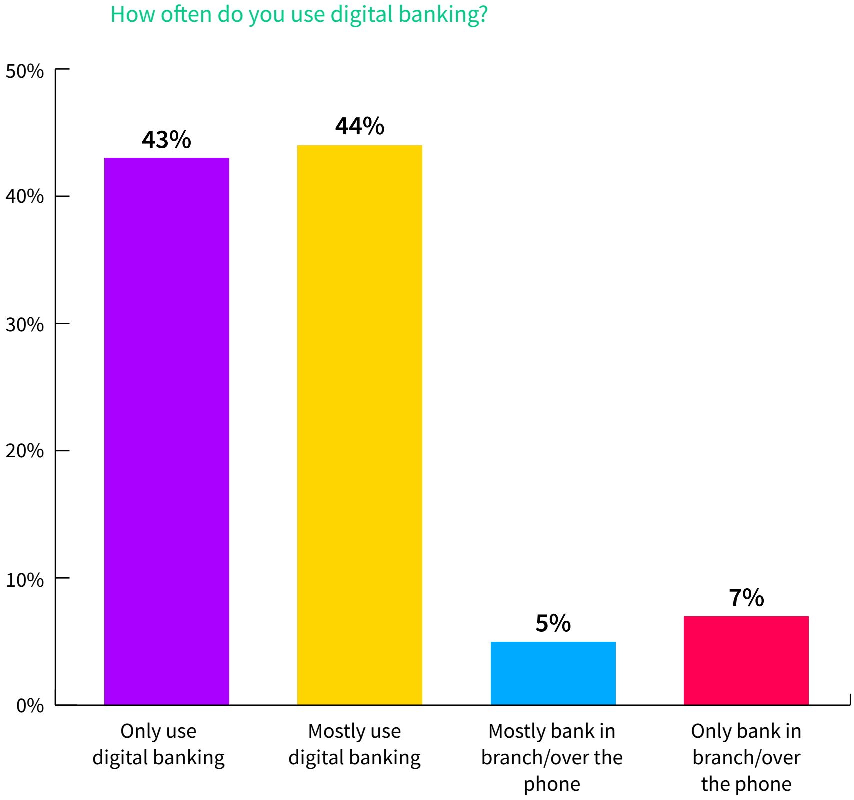
Before this recent growth among new entrants, the FCA's review of Retail Banking business models[30] in 2018 found that most PCA switching had been between major banks rather than to new banks that describe themselves as "challengers". Their analysis indicates that 90% of switching using the Service was between major banks in 2015/16. Analysis of switching volumes now shows that challengers continue to be in net growth, and the volume of switching to challengers is similar to that of switches to major banks.

1.3.2 Digital and mobile banking

From real-time spending notifications to 24/7 in-app support, cheque imaging and easier ways to pay and be paid, there has been significant innovation in digital banking. According to research from MoneySuperMarket in 2018, over half of those surveyed consider digital services to be a major factor when opening an account.[31]
(See Figure 15)

Events of 2020 increased this trend. Frontier Economics research on behalf of the Current Account Switch Service found that 87% of respondents primarily use digital banking, and 43% of those use digital banking exclusively.[32]

Figure 15: Proportion of consumers that use different banking channels



Source: Choosing Current Accounts, Frontier Economics and Pay.UK, 2020

FinTech Magazine and IPSOS Mori report that, in the UK, the number of customers using mobile banking services on a monthly basis rose from 52% to 57% between early 2019 and late 2020.[33]

Analysis from Frontier Economics shows that good digital customer experience has dramatically increased the likelihood of a person staying with their current account provider. **(See Figure 09)**

This is a marked shift in priorities for customers who choose to stay with a current account provider. Device-based interaction is a fertile ground for competition. Customers prefer to choose simple apps and systems that provide the information and services they require.

1.3.3 Branch closures

In the FCA's 2018 Review of Retail Banking Business Models it noted that banks have closed local high street branches across all regions of the UK. According to industry figures published by the House of Commons Library (2018), the total number of bank branches has fallen steadily from over 20,000 branches in the late 1980s to around half that number in recent years. In 2012, UK regions had between 18 and 25 branches per 100k inhabitants. Five years later, this had decreased to between 13 and 18 branches per 100k inhabitants and has subsequently fallen further.

As a result of closures, people are having to travel further to reach branches. Older consumers and those on lower household incomes may be most affected as they tend to use branches more.

Digital banking, banking through the Post Office, and use of ATMs may provide alternative solutions for some customers. However, new technologies may also decrease access for audiences with specific needs.

The challenges of branch closures were compounded by Covid lockdowns. In January 2021, the FCA issued new guidance to support customers with access to banking during the pandemic. They reminded PCA providers that particular consideration should be given to the best way to make sure vulnerable and hard-to-reach customers are aware of the proposals and are able to contact the firm (and access alternatives).[34]

With the closure of many branches and the lockdown effect, it is not surprising that "convenience of branch location" has dropped two places as a barrier to switching in recent Current Account Switch Service research from Frontier Economics.

1.3.4 Continuous Payment Authorities, card usage and regular payment services

In the CMA review in 2015 and in stakeholder interviews as part of this review, there was some concern raised about the rising use of Continuous Payment Authority (CPA) as a potential barrier for switching.

A CPA is a type of recurring payment, like a Direct Debit, where a cardholder gives permission for a company to take money from their account on a regular basis using their payment card details. The key differences between a CPA and a Direct Debit are:

- A CPA gives the company permission to take payments whenever they want, and take payments from your card for different amounts, without consulting you beforehand.
- CPAs have different protections to Direct Debits and different cancellation processes.
- Because CPAs are initiated via a debit or credit card, these are not covered as part of the Current Account Switch Guarantee.
- According to GoCardless, payment failure rates for CPAs vary, but tend to be greater than 5%, due to cancelled and expired cards or customers hitting spending limits. This compares to a failure rate of less than 1% for Direct Debits.[35]

CPAs are used by many businesses, including gyms, internet service providers, subscription television and music services and payday loan providers. There has been a rise in the use of digital subscriptions and mobile payments authorisations such as Apple Pay, Android Pay and Google Pay.

- In August 2019 49% of UK adults held no types of subscription. This decreased by 5% to 44% in August 2020.[36] Figures for no subscriptions are higher among lower social grades (C2DE) at 57% and 50% respectively. This suggests that CPAs may be more in use among more affluent groups (**See Figure 16**)
- 18% of UK adults were registered for mobile payments with the likes of Apple Pay, Google Pay and Samsung Pay in 2019, just under four in five of whom made a payment. 48% of those registered made a payment fortnightly or more frequently.

In 2015 the UK Cards Association highlighted the extreme difficulty in market quantification.

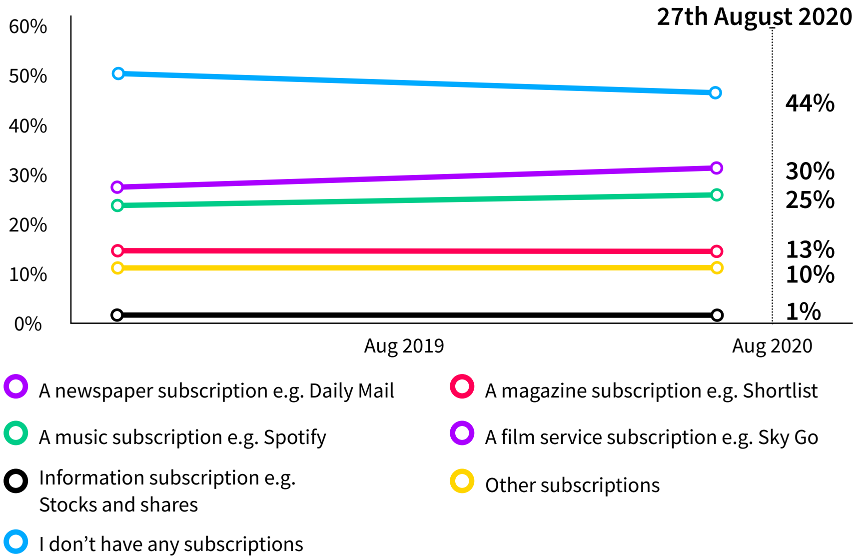
> "The card issuer has no prior knowledge of the CPA or the nature of the arrangement entered into between the cardholder and the retailer makes the task of identifying CPAs difficult. It is impossible for the card issuer to determine if future payments will occur."

Stakeholders raised the concern that a rise in CPAs may contribute to inertia in the current account market because changing card details as part of moving banks would require new CPAs to be created. The belief is that because this is a relatively manual process it may be off-putting to some. The UK Cards Association addressed this with the CMA in 2015:

> "This is not an issue that banks have reported any complaints in relation to, and the FCA review of the Current Account Switch Service concluded "that 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 the Current Account Switch Service.
>
> We do not concur with the FCA's assertion in the Current Account Switch Service review that usage of CPAs will increase considerably as a result of the wider use of e-commerce. While all categories of debit card transactions are projected to grow, e-commerce is predominantly comprised of single purchase transactions. CPAs will continue to be a reasonably niche category of debit card transaction used by sectors where regular payments are a key retailer requirement."[37]

The UK Cards Association expressed their view in 2015. Seven years later more research is required to understand whether this has changed and if their increased use is introducing some friction to the switching process. Some account-based technology providers like ApplePay and Google will update and save new card details as a one-time change. However, we would suggest that updating CPAs is likely to be at least as inconvenient as the need to remember a new pin code, account number and sort code. However, because changes to CPAs happen after a switch, they may not affect the decision to switch.

Figure 16: Subscriptions held in the UK



Source: YouGov: Subscriptions held by Brits

1.4 Conclusion: The role of the Current Account Switch Service

Current accounts are an essential service for all individuals and businesses, and healthy competition in the current account market is critical in ensuring that the market works well for consumers. A key driver of competition in the current account market is consumers' ability to exercise choice and switch between current account providers.

When the Service was launched in September 2013, its role was to stimulate competition in the current account market by making the process of switching providers quick and easy for customers.

The 2015 Kantar TNS report on Current Account Switching concluded that the role the Service plays is towards the end of the consumer switching journey, in reducing the barriers to switching after consideration has occurred. **(See Figure 19)**

Since its inception, the Current Account Switch Service has made great strides in building positive associations for the brand, but for a significant amount of people, the barrier to current account switching remains high.

- The 2020 Frontier Economics report found that more than 80% of respondents associate the Service with "easy", "safe", "free", "helpful", "smooth" and "trustworthy", with a high degree of confidence. **(See Figure 20)**

Figure 19: Five steps to switching

Step 1
Would I consider switching?

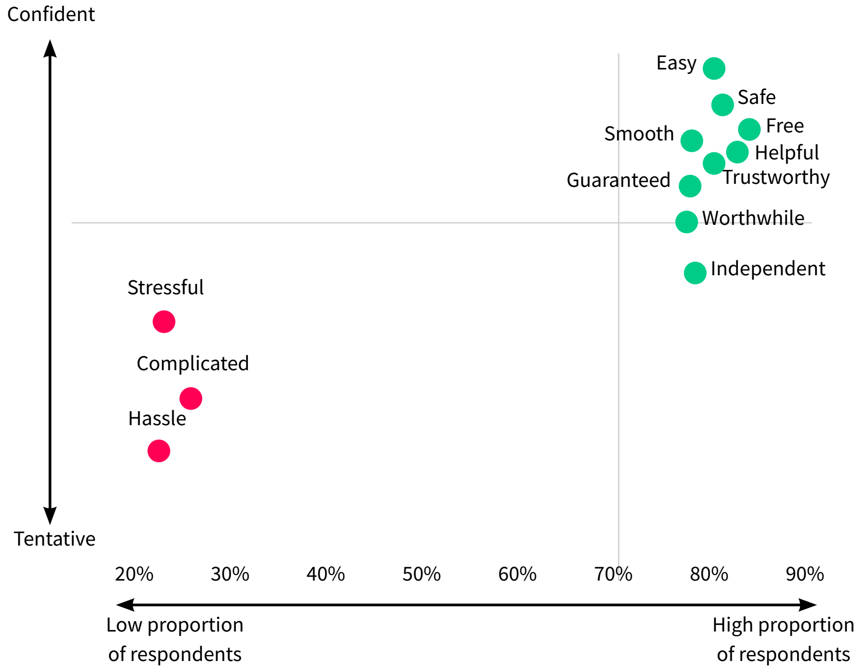
Step 2
What is the value of my existing current account?

Step 3
What are the benefits of switching for me?

Step 4
Will switching be easy and stress-free?

Step 5
Have I made the right choice?

Figure 20: Associate with Current Account Switch Service



Source: Choosing Current Accounts: How the COVID-19 pandemic has affected switching attitudes and behaviours in the UK A Frontier Economics study prepared for the Current Account Switch Service, part of Pay.UK

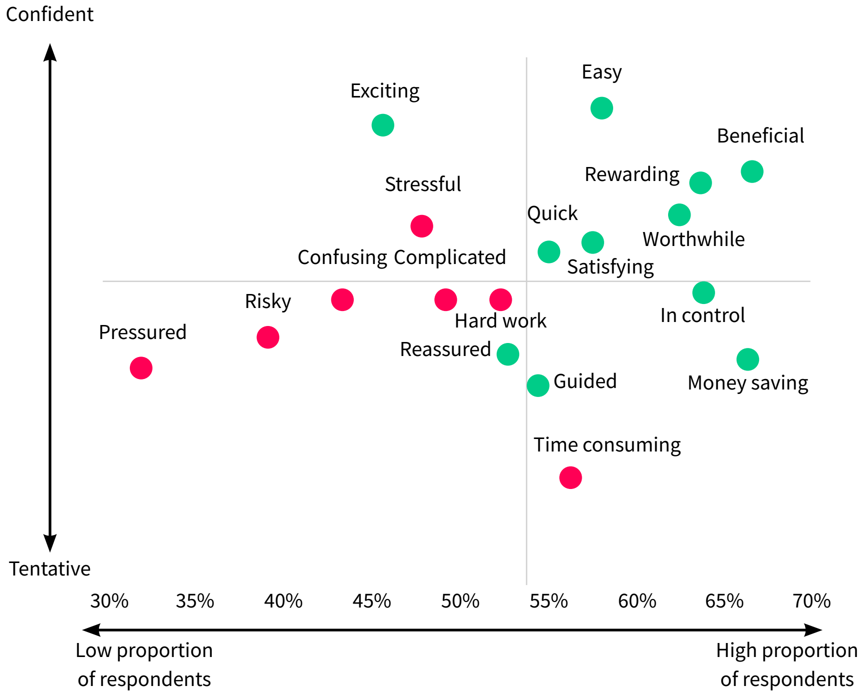
- However, when it comes to people's perception of the current account switching process, there are still significant barriers, in particular for people who are financially vulnerable, overdraft users and younger audiences. Among all groups, a significant proportion still associate the switching process with emotions such as "stressful", "confusing", "complicated" and "hard work". **(See Figure 21)**

This shows there is still a need to reduce the barriers to switching amongst certain audience groups.

In addition, there is an opportunity for the Service to play a role earlier in the consumer journey, a more active role in prompting switching consideration and disrupting inert behaviour.

However, we know from the Frontier Economics[38] research that supply side factors, such as rewards and product offers, play a much more influential role in driving switching consideration than attitudinal and behavioural factors, which act as barriers to switching. Therefore, it would be unrealistic for the Service to bear sole responsibility for stimulating competition in the current account market.

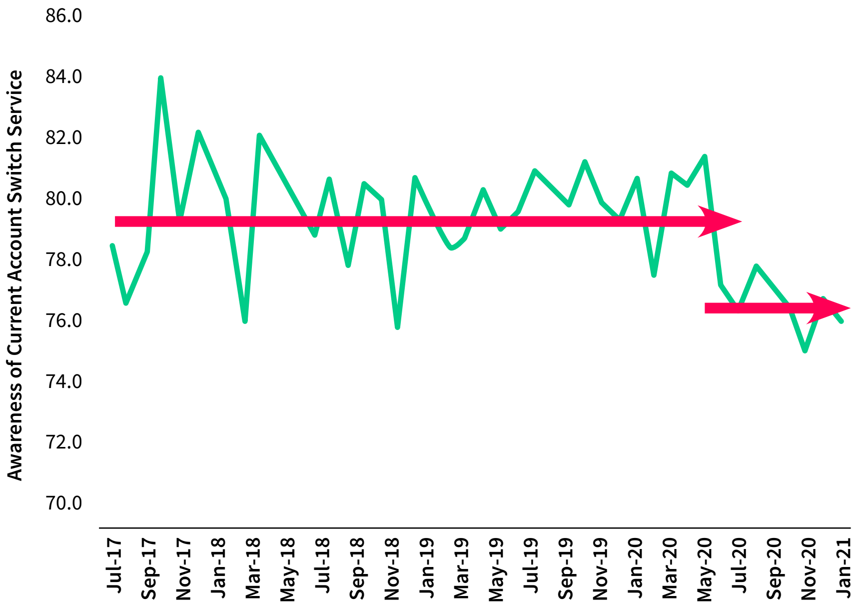
Figure 21: Associate with Current Account Switch Service



Source: Choosing Current Accounts How the COVID-19 pandemic has affected switching attitudes and behaviours in the UK. A Frontier Economics study prepared for the Current Account Switch Service, part of Pay.UK

Note: Figures demonstrate the absolute difference between options. Respondents were asked whether they associate each word with current account switching or not

Figure 22: Awareness of the Current Account Switch Service process has reduced after Mar 2020



Source: FCA: Making current account switching easier

"There is an opportunity for the Service to play a role earlier in the consumer journey, a more active role in prompting switching consideration and disrupting inert behaviour."

Chapter 2

Data analysis: switching data and tracker data

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2.1 Overview

In the first chapter we summarised the research that the Current Account Switch Service and others have done to understand the historical influences in switching behaviour. In this chapter we use our own collected data sets on switching volumes and switching perceptions and combine these with a range of publicly available data to understand more about what influences current account switching behaviour and therefore volumes, awareness of the Service and consumers' consideration to switch their current account.

This shows how switching consideration and volumes have been influenced by a range of factors and which of these are more within the control of the industry. Macro changes in bank interest base rates and overall consumer confidence can influence consumer decisions to switch but are outside direct control of current account providers and the Current Account Switch Service. Micro level changes, for example advertising approaches and the availability of switching incentives, can have a positive impact. These are important differences, and help us to understand how to influence consideration to switch current accounts in the future.

In this chapter we explore two rich datasets:

- **Switching volumes since 2016:** tracking switchers who make a full switch through the Service and which current account providers they move between.
- **CASS monthly perceptions tracker:** our long-running survey that tracks perceptions, awareness and experience of the Service.

By analysing these two sources and augmenting them with additional data, we have developed new insights about the main drivers of switching over time and the role that the Current Account Switch Service plays in this process. Our new analysis supports and builds on previous investigations by Frontier Economics, and work by the University of Bristol into current account market dynamics.

Switching volumes analysis

- Observing overall trends in switching by provider type
- A correlation-based model that looks at relationships between switching volumes and related metrics of interest (consumer confidence, marketing promotion, etc.)
- Unpicks supply and demand side factors that contribute to switching volumes. Predicts future switching volumes.

Structural equation modelling

- Assess the relationship between survey-based metrics above (upstream, midstream and downstream) using structural equation modelling
- Understand the relationship between these metrics (awareness, consideration and post-switching recommendation).

2.2 Methodology

Two different statistical approaches were undertaken for the switching volumes analysis and Current Account Switch Service survey analysis.

Switching volumes analysis

This process analyses daily switching data from 2017 to 2021 and visualises trends and conduct correlation analysis by appending relevant datasets.

Explorations are grouped by provider type to allow analysis that looks beneath headline volumes and explores different provider stories.

- Big 4: Lloyds, RBS, HSBC and Barclays
- Mid-sized challengers: Santander, Halifax, Nationwide, TSB
- Digital first banks: Starling, Monzo.

While this does not cover every switch, it encompasses the vast majority of the market and major trends.

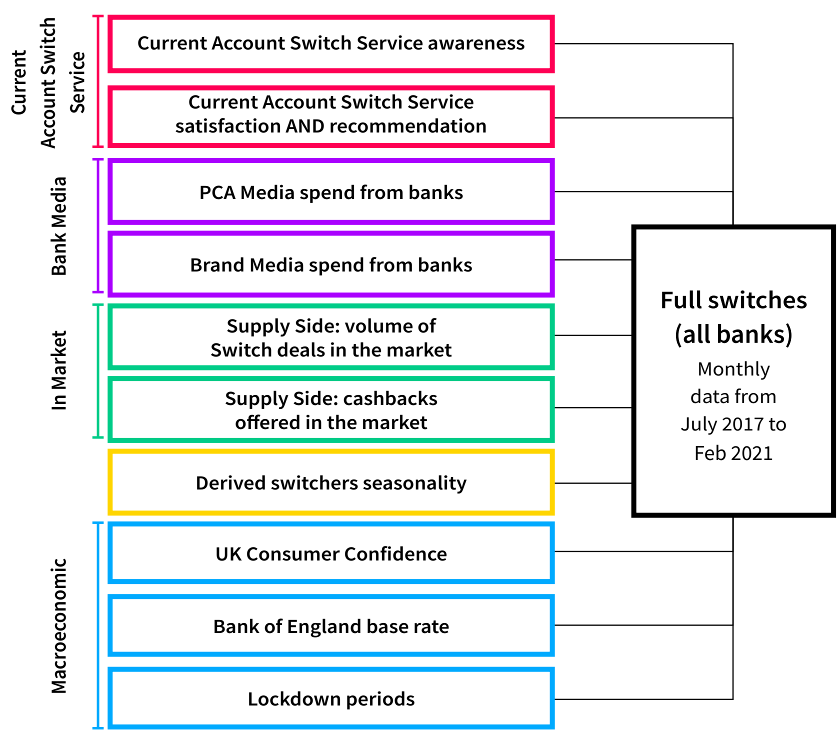
Datasets that have been looked at in correlation with switching volumes are a blend of supply and demand factors. **(See Figure 24)**

These include:

- Current Account Switch Service awareness
- Current Account Switch Service satisfaction and likelihood to recommend switching
- Bank personal current account promotion in advertising
- Bank brand promotion in advertising
- Supply side: volume of switch deals in the market
- Supply side: cashback offered in the market
- UK consumer confidence
- Bank of England interest base rate
- Timings of UK lockdowns.

Figure 24: Modelling of Actual Switching Volume

Modelling downstream volume of current account switching volumes allows us to understand the contribution made by key behavioural, market and macroeconomic drivers.



Key outputs

1. Model Switching volumes, 2. Assess key drivers in the last 12 months, 3. Forecast ahead to end of 2021

Current Account Switch Service survey analysis

The Service's tracker survey contains more than seven years of data about switching. It is primarily used to inform Pay.UK about key audiences, and report on awareness of the Current Account Switch Service and service satisfaction. In this part of the analysis, the basis of the survey is revisited and new analysis conducted to tell a fuller story about which survey metrics the Service affects and by how much.

2.3 Findings from data investigation

In 2017 69% of all switchers moved to mid-sized challenger banks but this had fallen to 17.5% by 2021. In the same period switching to digital banks had grown from 3% to 25%. **This suggests that switchers are choosing a different way to bank; from traditional high street access to mobile-based digital banking.**

The primary influence to switch is receiving a reward for doing so.

Bank promotion and advertising strategies have changed. In 2016 we estimate banks spent £62m on advertising materials that promoted the Current Account Switch Guarantee. In 2020 that spending had fallen to £14m. Over the same period, brand-centred marketing which did not feature the Guarantee rose from £21m to £70m. Overall, the promotion of accounts with interest and cashback has declined significantly, while banks now emphasize their whole brand offering. **This relates to a change in overall awareness of the Current Account Switch Service as the trustmark is not used in bank brand-centred marketing.**

The past five years have seen significantly different switching volumes for different provider types. Mid-sized challengers were acquiring 69% of all switches in 2017 but this declined to 17.5% in 2021, while digital banks have grown from 3% to 25% of total acquisition.

This matches with significantly different promotional strategies. Promotion of accounts with interest and cashback has declined significantly, while banks now emphasize their whole brand offering.

Since the pandemic, switching volumes have declined across the entire UK banking landscape. The rate of this decline was much steeper in mid-sized challenger banks.

From the onset of the Covid pandemic in March 2020, the “lifts” coming from major switching drivers declined substantially. This has been the major cause for the decline in switching.

Across all banks, there have been some recent reversals in negative trends. This recovery should elevate the major drivers of switching to pre-Covid levels.

2021 was a pivotal turnaround year for the Current Account Switch Service and bank switching. The Service facilitated over 782,000 switches in 2021, taking the total number of switches in 2022 to more than 8 million since launch.

This was close to but under 2019 volumes, which saw 978,000 switchers, but a significant increase on 2020 volumes of 691,000.

2021 was another successful year for the Service in meeting all its regulatory KPIs: 99.8% of switches were completed within seven working days and consumer satisfaction averaged 92% across the year. In addition, 76% of consumers said they were aware of the Service, exceeding the overall awareness target of 75%.

These are encouraging results and demonstrate how macro factors have a strong impact in a consumer’s consideration to switch.

2.4 Switching volumes analysis

In this section we describe trends in switching volumes and explore what factors contribute to switching.[39]

Current account switching trends

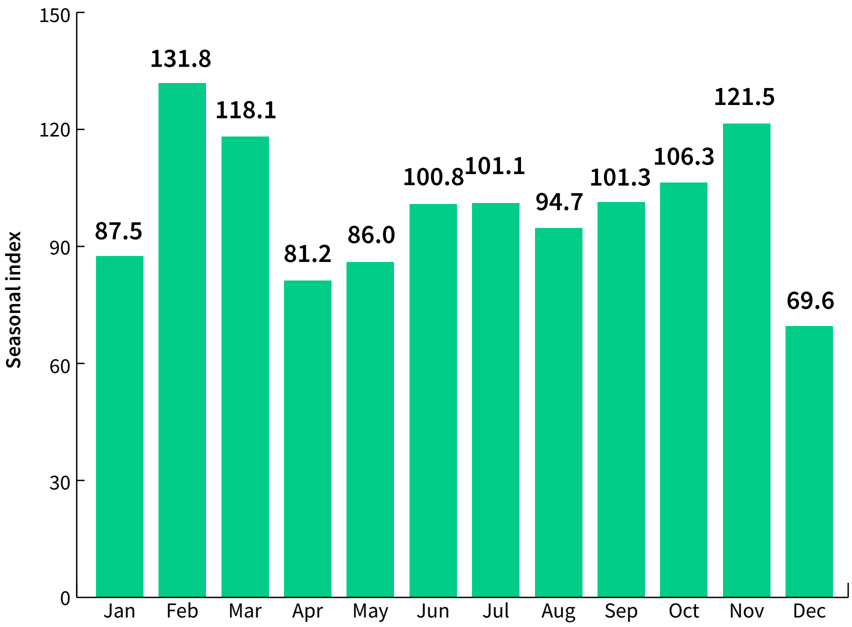
Looking at all banks and full switches, the market for switching current accounts in the UK was relatively healthy at around 78,670 full switches per month between July 2017 and February 2020. **(See Figure 26)**

There are seasonal patterns in switching, with higher levels in February, March, October and November.

Seasonal switching is a blend of customer behaviour, competition and annual patterns of activity such as going to university, house-buying etc.

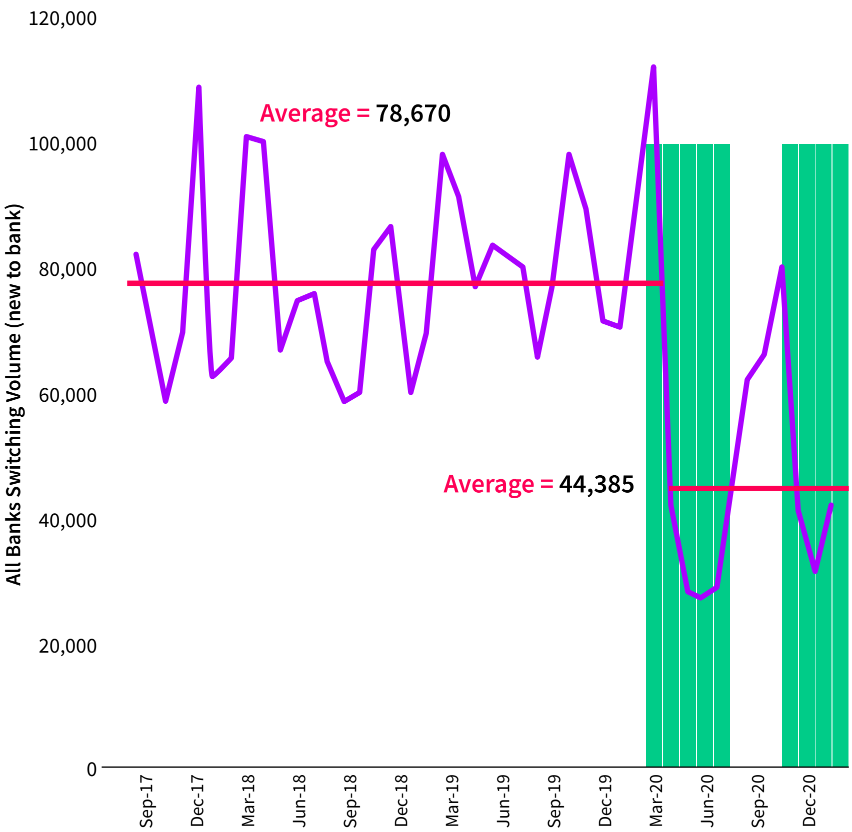
The Covid-19 pandemic saw the UK go into national lockdown in March 2020 which coincided with a significant drop in switching activity of around 30%. The average number of switches has dropped to 44,385 per month since March 2020. **(See Figure 26)**

Figure 25: Monthly Seasonal Indexes (All banks, full switching volume)



Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

Figure 26: Switching volume across all banks



Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

Looking at the Big 4 (HSBC, Barclays, Lloyds Banking Group and NatWest Group), mid-sized challengers and digital banks it can be seen that:

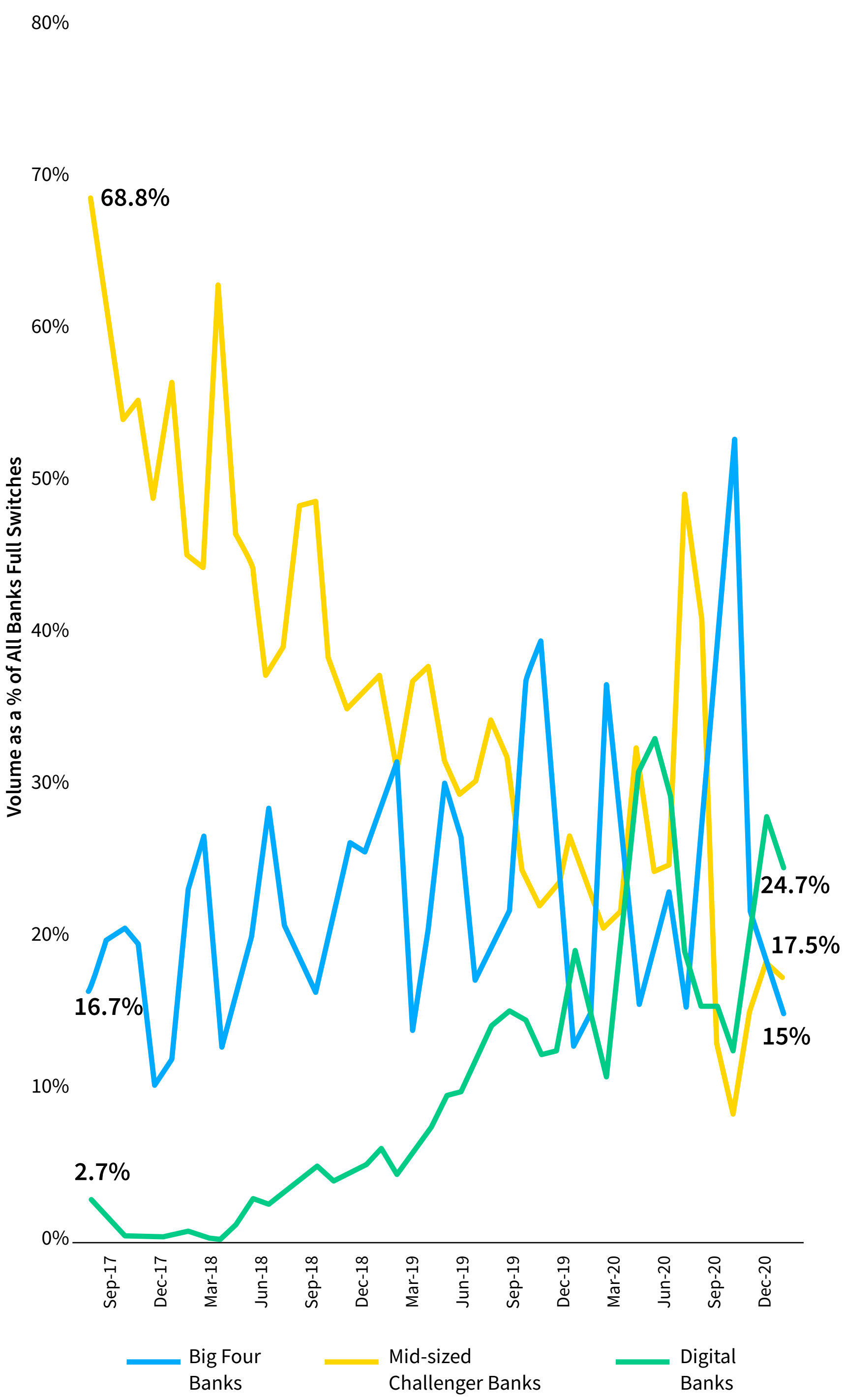
It has been a poor five years for the Big 4 in terms of PCA customer base. But in 2019 and 2020 this group began returning to net switching growth. In 2021 the Big 4 acquired 15% of switchers. **(See Figure 27)**

The dominant acquisition strategy of mid-sized challengers led by deals and interest rates in the mid-2010s has not been sustained. These were acquiring 69% of all switches in 2017 but this has declined to 17.5% in 2021. This group became net negative in switching acquisitions from 2019 onwards.

Digital banks are on a continued growth curve from 3% of switches in 2017 to 35% in 2021. However, 'main bank' switching volumes remain minimal compared to historic volumes delivered by larger players.

Digital bank customers do not always use them as their "main" current account, and so account growth may be much higher than captured here.

Figure 27: Share of All Bank Full Switches

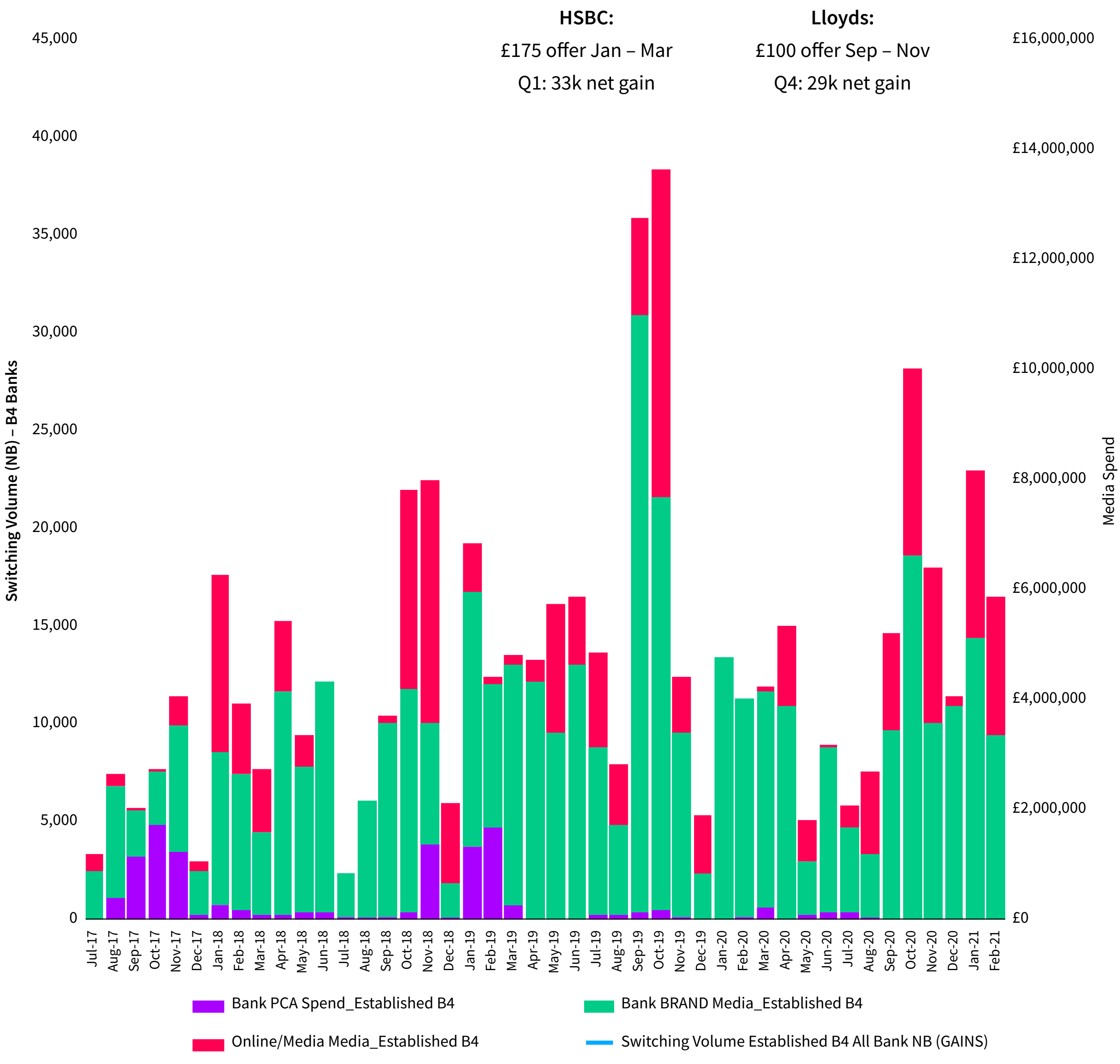


Source: Current Account Switch Service econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

For the Big 4 and mid-sized challengers, we can also observe differences in promotional strategy over the same time period.

The Big 4 show a strong focus on brand building promotion that works across the product portfolio. **(See Figure 28)** This is topped up with digital service promotion from some Big 4 members. When banks advertise their current accounts or incentives to switch to them, they must carry the Current Account Switch Guarantee Trustmark so that customers can be confident that banks are members of the Service. Brand media spend does not have to carry this symbol. Previous analysis shows that the presence of the Trustmark in bank media campaigns contributes to a baseline of awareness for the Service. So any decline in PCA promotion may also impact on awareness of the Service.

Figure 28: Total new to bank vols & media spend (Established B4 Banks)

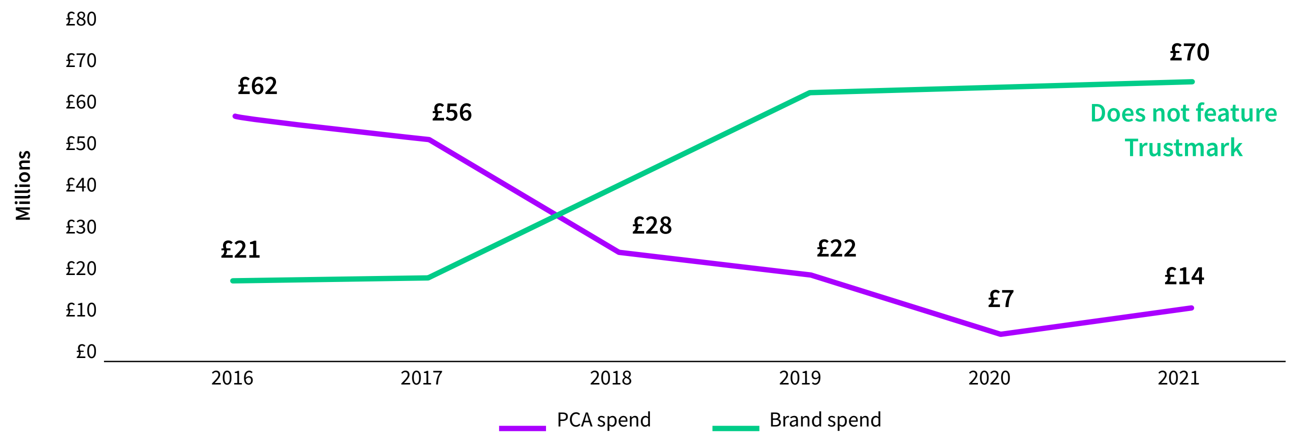


Source: Current Account Switch Service econometric modelling analysis and forecasting conducted by Bottom Line Analytics

For mid-sized challengers, media spend focuses much more on PCA promotion. However, spend has declined in both quantity and by type over time. In 2020 and 2021, challengers switched to brand promotion, focusing on reassurance messages for customers during the pandemic.

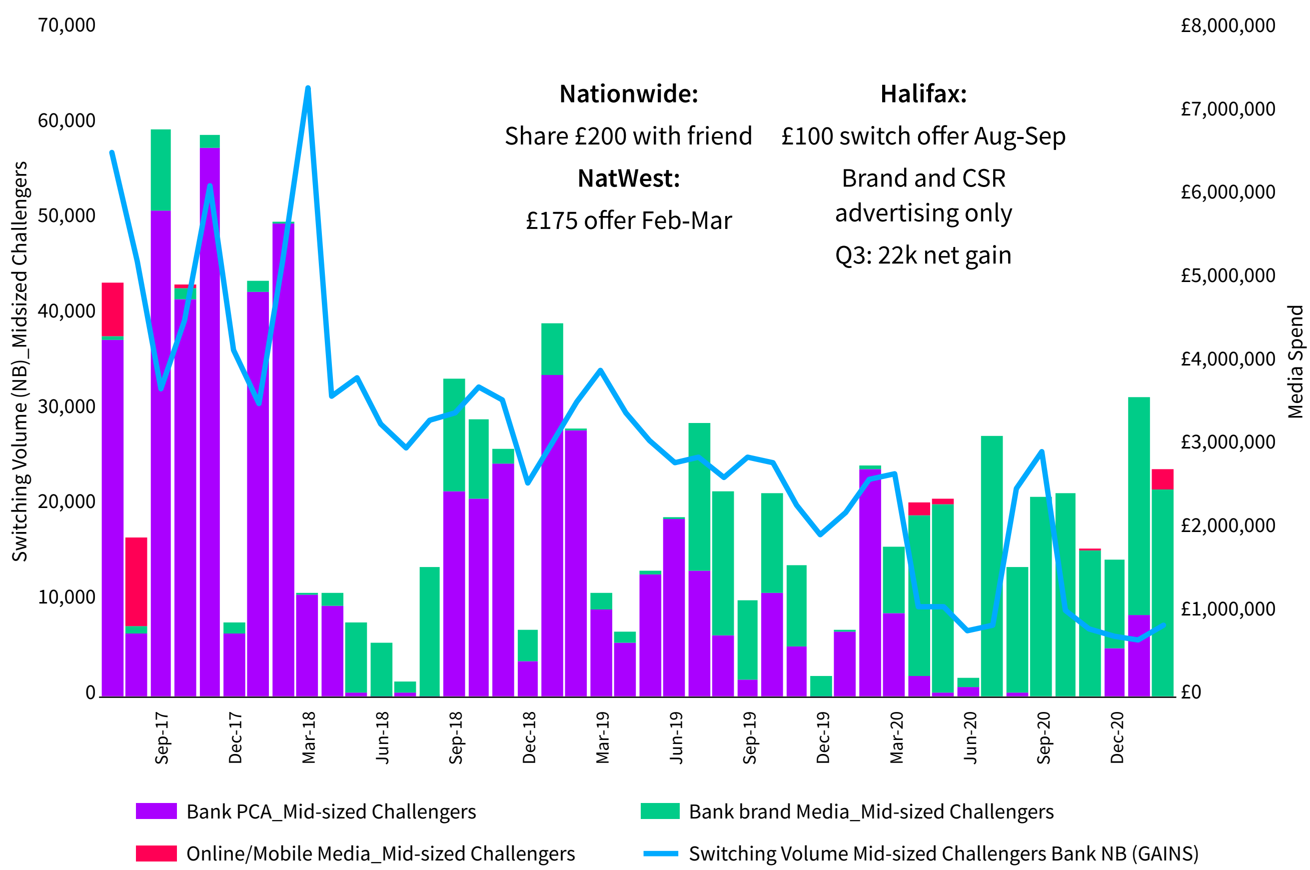
This table **(see Figure 29)** demonstrates the fluctuations in spending on PCA promotion vs. brand awareness:

Figure 29: Participant PCA vs Brand Media Spend 2016-2021 (£ millions)



Source: Media Spend data from Nielsen Adintel, UK data, 2016-2021

Figure 30: Total New to Bank Vols & Media Spend (Mid Sized Challengers Banks)



Source: Media Spend data from Nielsen Adintel, UK data, 2016-2021

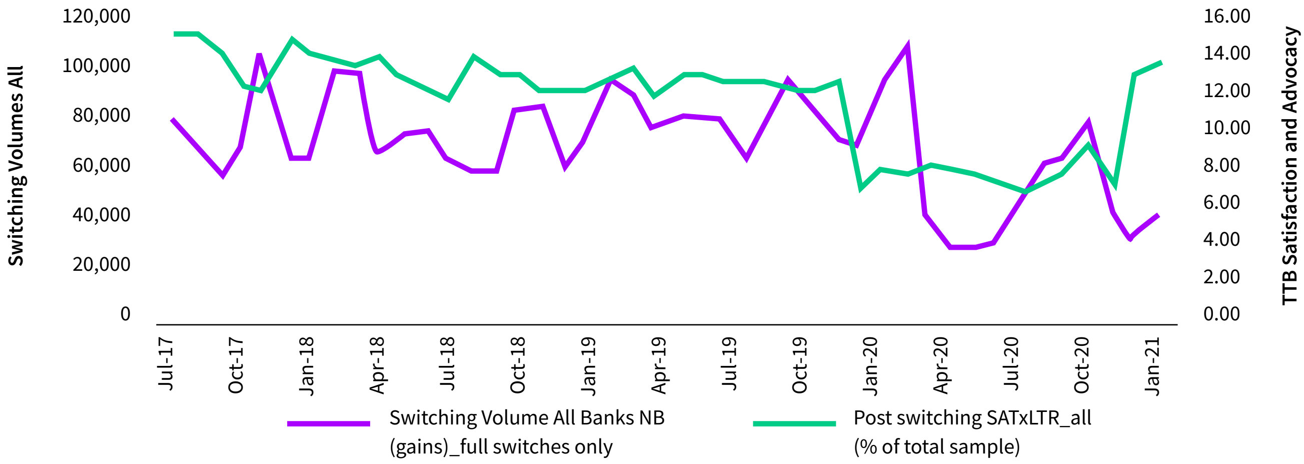
As mid-sized challengers limited marketing to attract new customers, both the Big 4 and digital banks started to see further net growth in accounts **(see Figure 30)**. It could be that winning providers were:

- **Big 4 –** more trusted and salient at a time of lower confidence and promotion, leading to greater acquisition.
- **Digital banks** – offering better digital access to finances and money management tools that appeal to customers at a time of lower financial confidence and during a pandemic, when access to a bank branch was more difficult.

Backdrop to the switching market and the economy

Below, we compare switching volumes to the related data sources we have identified **(see Figure 31)**. We find that post Current Account Switch Service satisfaction and advocacy is moderately correlated with switching volumes but dropped off in early 2020.

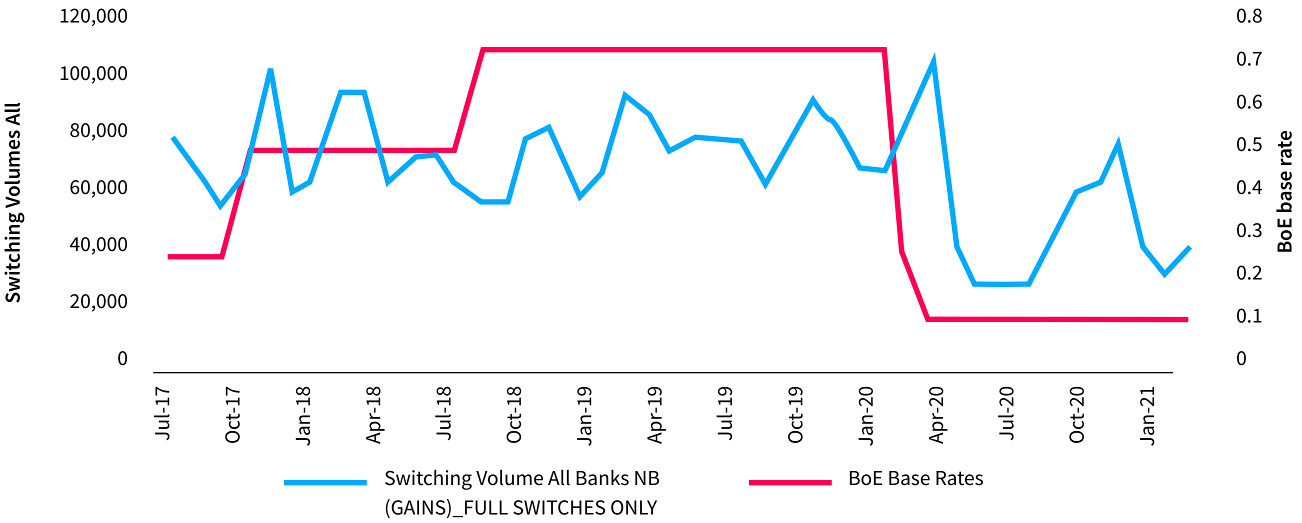
Figure 31: Switching and Advocacy of Current Account Switch Service



Source: Current Account Switch Service Monthly Tracker

Bank of England's base rate was lowered to 0.1%. **(see Figure 32)**

Figure 32: Switching and Bank of England base rates

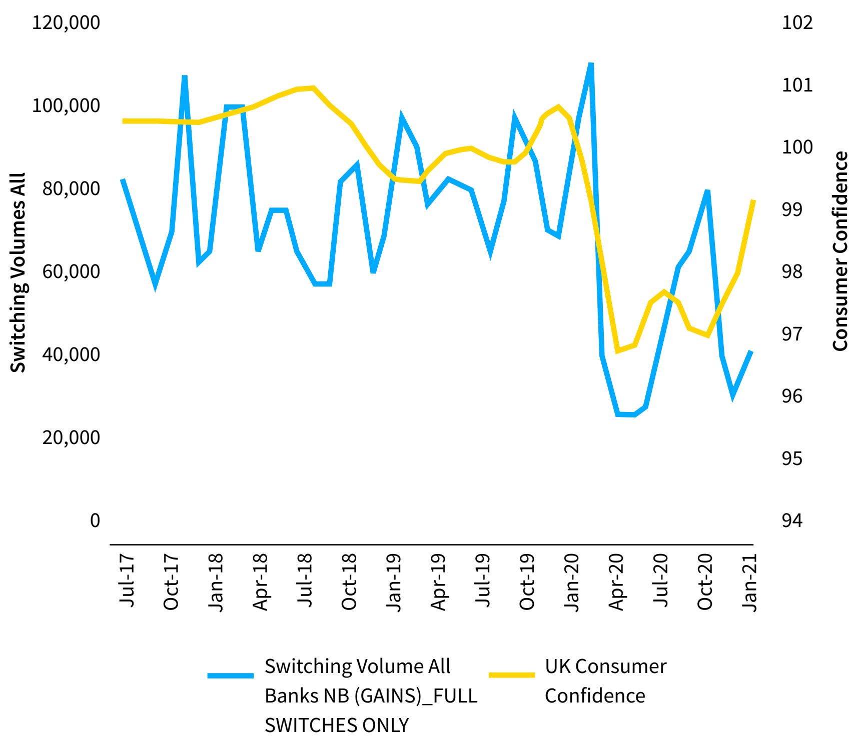


Source: Switching data from Current Account Switch Service, base rate data from Bank of England

The Consumer Confidence Index, representing future spending intention, fell to 97 by April 2020 **(see Figure 33)**. Indexes below 100 signify times when customers are more conservative and less bullish with their finances. These are times when consumers plan to cut outgoings, invest less and aim to save more.

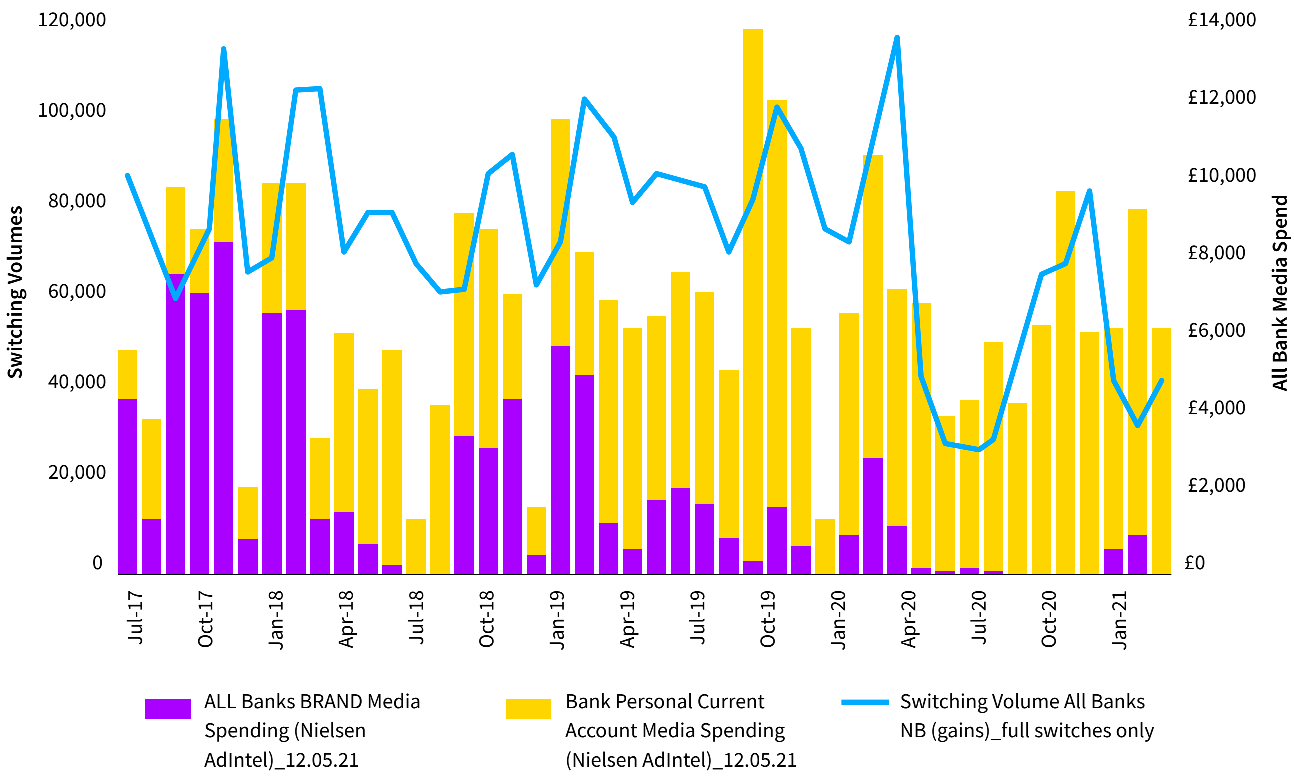
PCA media spend has been in decline, while brand advertising has risen. PCA media spend was completely phased out at the start of the first lockdown in March, but bank brand media continued apace. **(See Figure 34)**

Figure 33: Switching & UK Consumer Confidence Index



Source: Switching data from Current Account Switch Service, Euro Area Consumer Confidence data for UK

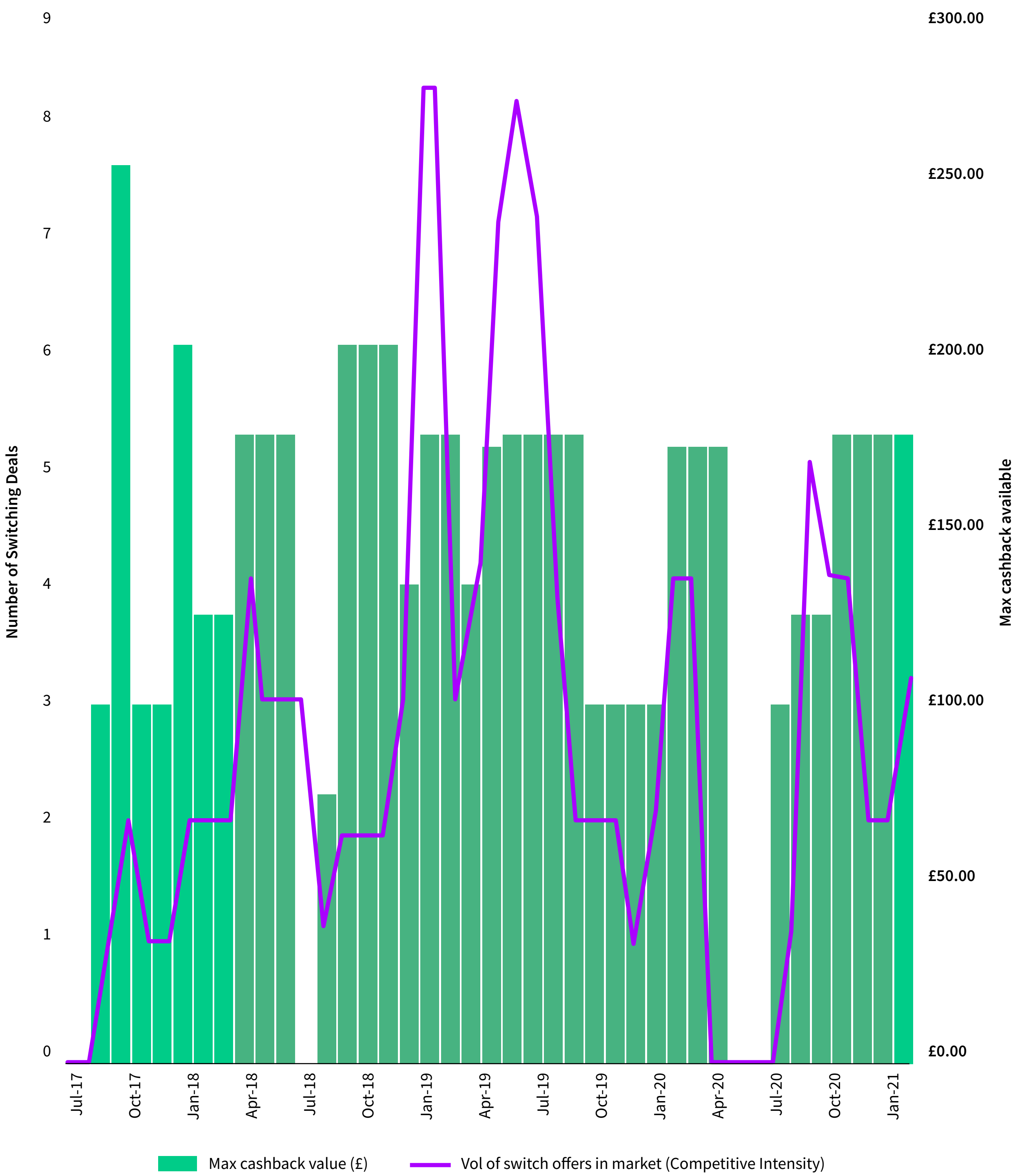
Figure 34: Switching Volumes and Bank Media Spend



Source: Switching data from Current Account Switch Service, media spend data from Nielsen Ad Intel

There were no current account deals offering incentives to switch in the market between April and August 2020, although incentives did return towards the end of 2021. **(See Figure 35)**

Figure 35: Number of deals in market and maximum cashback available



Source: Monthly switching incentives data from Money Saving Expert

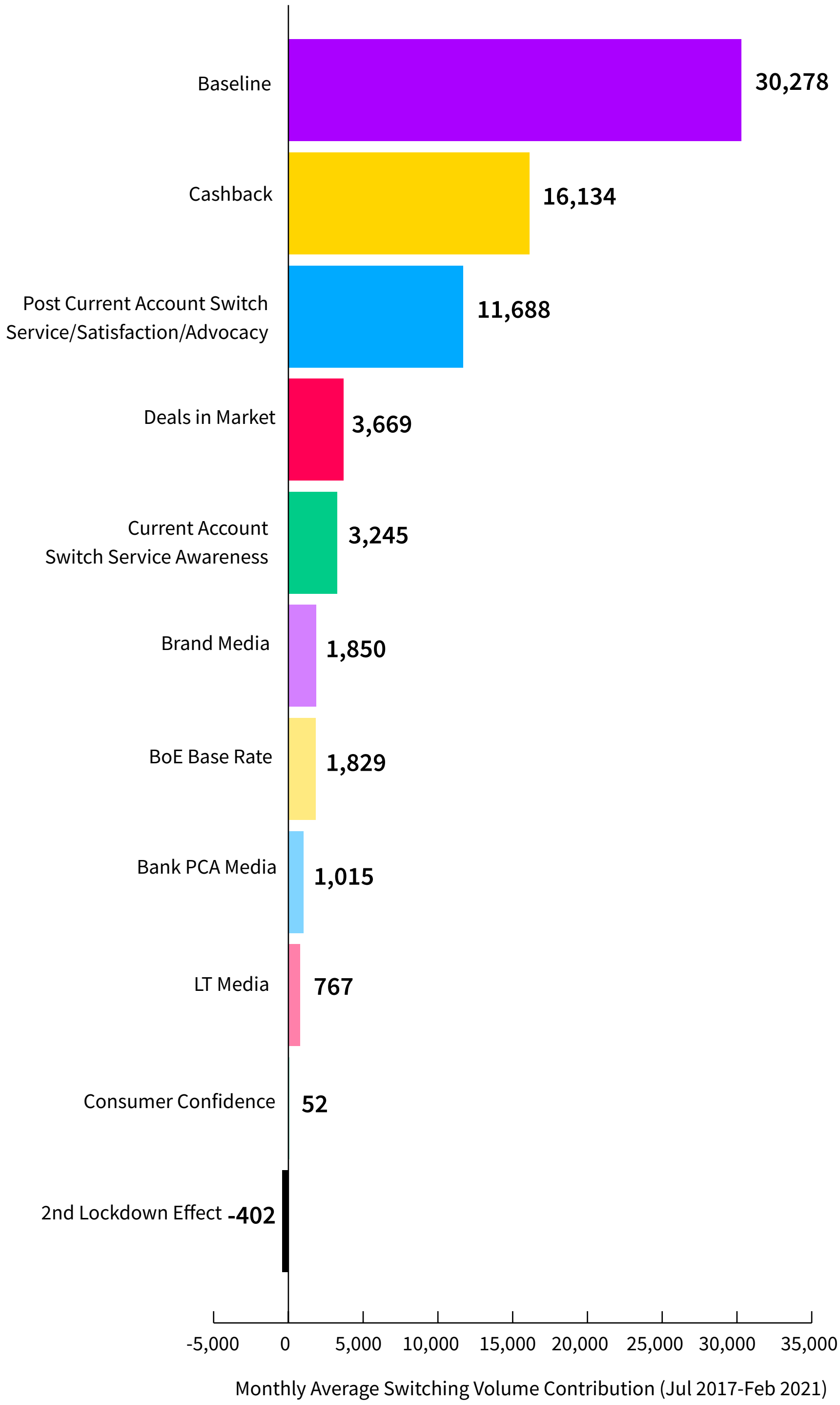
Taking these metrics as inputs, the correlation with them and the downstream volume of current account switching volumes can be explored. This allows understanding of the contribution made by key behavioural, market and macroeconomic drivers. (See Figure 24)

This analysis enables modelling of the contribution of different factors to overall volumes since July 2017. In this analysis:

- Cashback levels, Current Account Switch Service satisfaction, deal frequency and awareness are the most important drivers of switching volumes across the market
- The total market for full switches dropped by 44% year-on-year for February 2021
- Declines in cashback and Service satisfaction/advocacy were the two largest drivers of the overall annual decline in switching.

Figure 36 shows the modelled monthly contribution that each measure makes to Service volumes:

Figure 36: All Bank: Switching Driver Importance (Modelled Attribution)



Source: Current Account Switch Service econometric modelling analysis using data from Current Account Switch Service monthly tracker, Nielsen Ad Intel, Money Saving Expert, Bank of England and Euro Area Consumer Confidence

Most of these measures are supply-side factors and not under the Service's control. However, post service satisfaction/advocacy and awareness are, and this analysis shows the importance of:

- Maintaining awareness of the Service
- Ensuring that customers have a brilliant switching experience that they can recommend to others.

The importance of post switch satisfaction/advocacy

In other markets it has been found that happy customers and super advocates often impact perceptions and purchase decisions among their peers. The post switch satisfaction/advocacy measure looks at people who had a really good experience and are therefore likely to advocate for the Service and the impact of this on switching volumes.

It takes Q6 of the Service's survey "Overall how satisfied were you with the overall process of switching banks?" and Q7 "How likely is it that you would recommend the overall switching process to friends or relatives?" and looks at only those who agree with both questions with the top two box responses (Very and Strong Agreement).

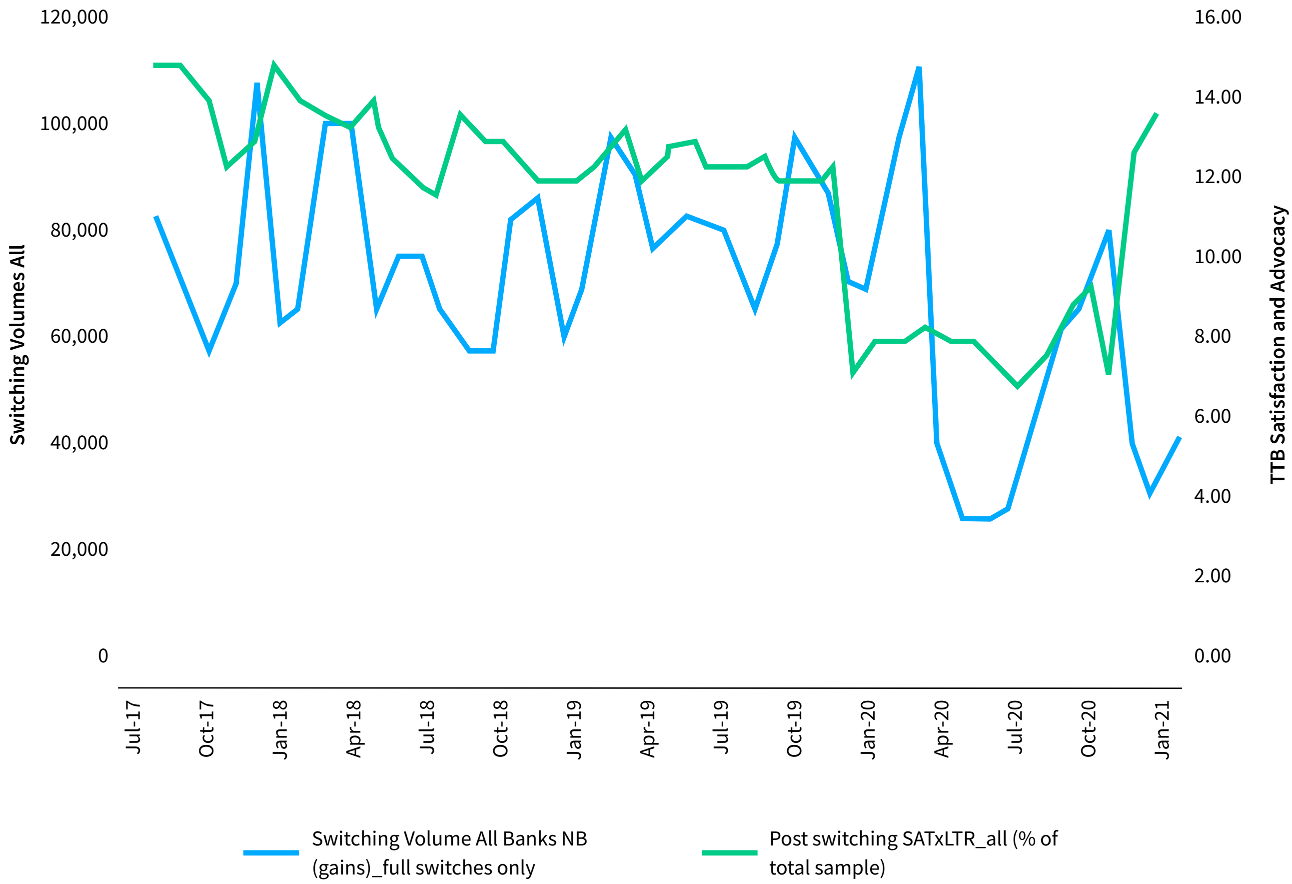
Across all waves, from 2017 to 2021, 11.6% of the total sample responded positively to both questions. This total sample also includes non-switchers.

The percentage who responded to this question in total (valid %) was 71.3% of the total sample. **(See Figure 37)**

When this 11.6% is analysed over time, a moderate to strong correlation is found with both switching volumes and awareness of the Service. When a time lag of one and two months is introduced, correlation increases further.

This new analysis shows the importance of the switching experience and the new bank experience to users of the Service. The correlation with switching volumes would suggest that people who have good experiences tell others and influence their decision to initiate a switch.

Figure 37: Switching and Advocacy of Current Account Switch Service Process



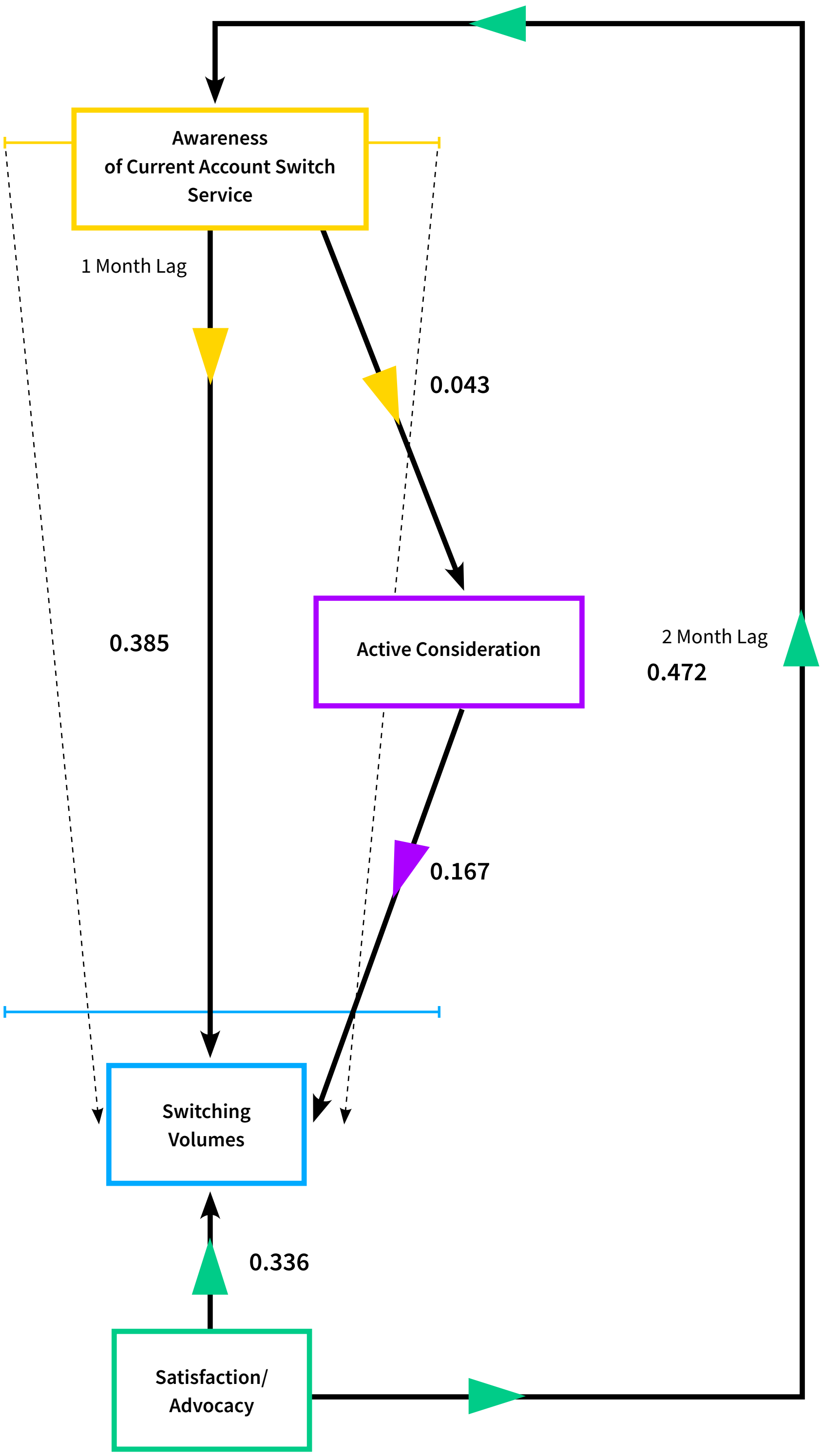
Source: Current Account Switch Service econometric modelling analysis and forecasting conducted by Bottom Line Analytics

Awareness

The more people are aware of the Service, the more likely they are to switch. Awareness therefore drives switching volumes. It is also more likely to make people consider whether to switch accounts. Finally, those who have used the Service successfully and are satisfied are more likely to become advocates of the Current Account Switch Service. This in turn drives switching volumes and awareness after a period of time. **(See Figure 38)**

- Current Account Switch Service awareness indirectly drives active considered and by extension full switching volumes
- Current Account Switch Service awareness has a significantly greater 'Direct' impact on volumes
- Post switching satisfaction/ advocacy of Current Account Switch Service drives volumes
- Post switching satisfaction/ advocacy of Current Account Switch Service also feeds back into awareness

Figure 38: Mapping the Current Account Switching Funnel

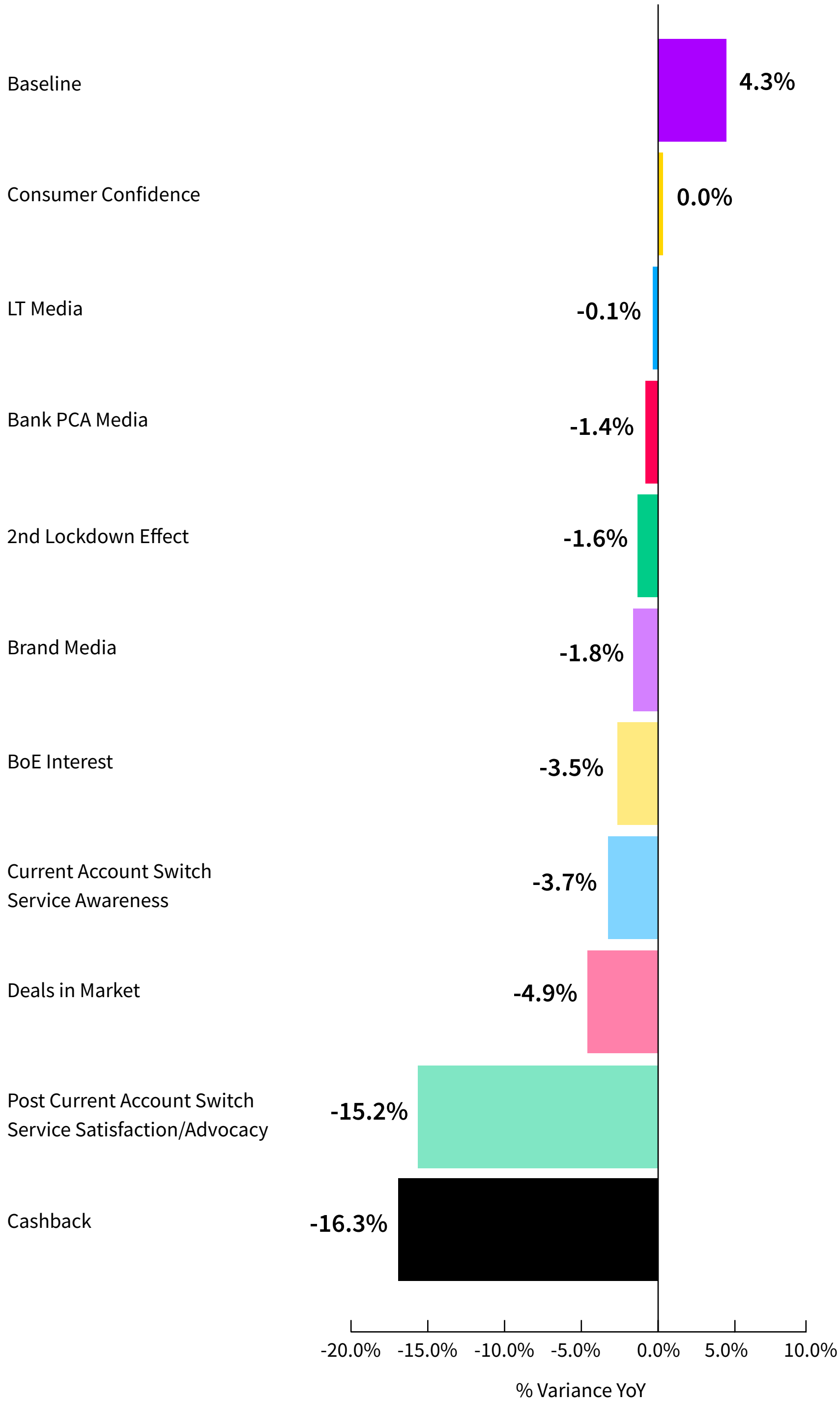


Source: Current Account Switch Service econometric modelling analysis and forecasting conducted by Bottom Line Analytics, data July 2017 - Feb 2021 (aggregated)

2020 Picture

As part of the decrease in switching volumes in 2020, a retraction across all drivers was analysed. This correlation helps to explain why switching decreased in 2020 and under what conditions it might recover. **(See Figure 39)**

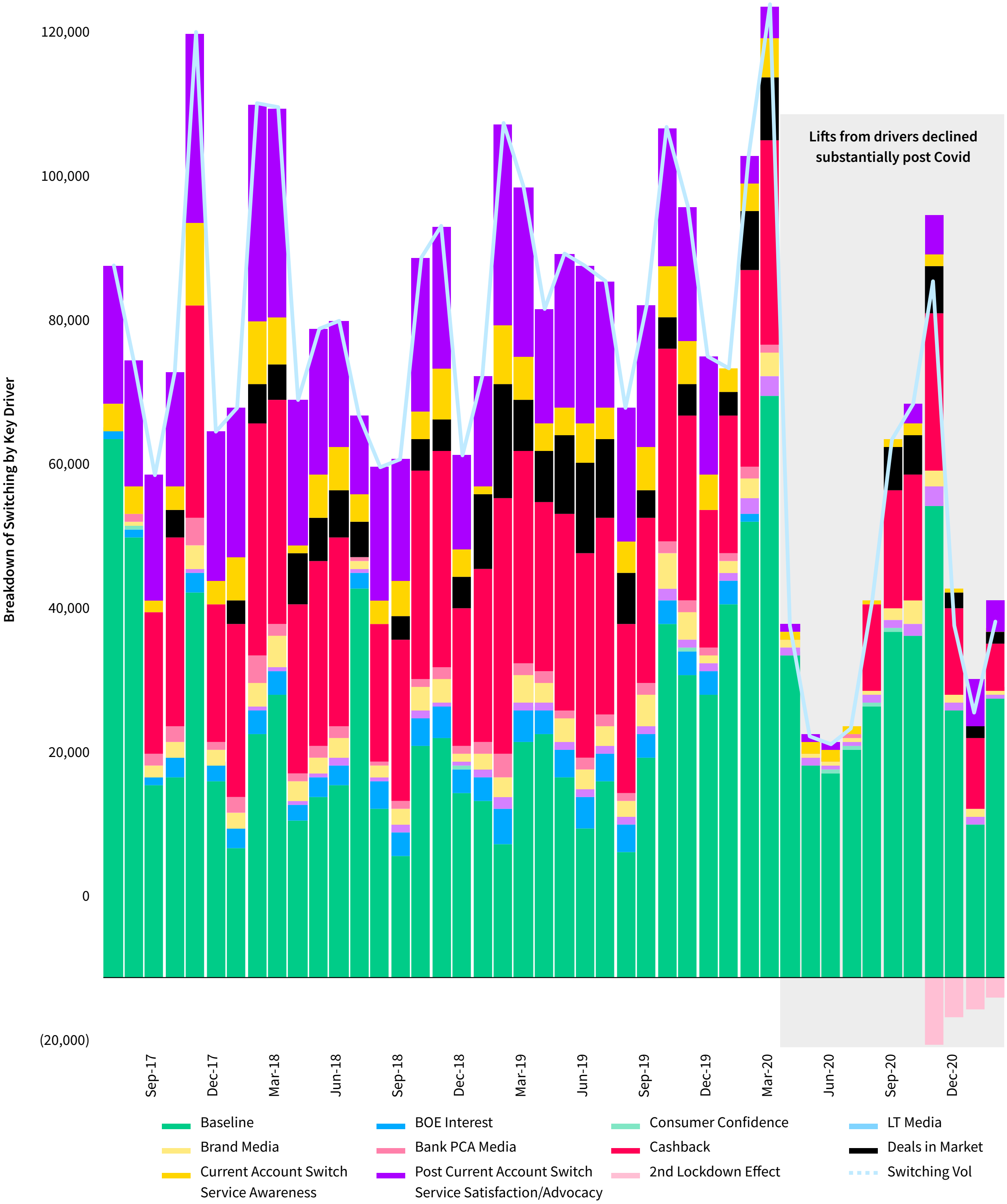
Figure 39: Drivers of Switching Variance: All Banks



Source: Current Account Switch Service econometric modelling analysis using data from Current Account Switch Service monthly tracker, Nielsen Ad Intel, Money Saving Expert, Bank of England and Euro Area Consumer Confidence

Below, switching volumes over time are broken down, demonstrating month-on-month how these factors contribute to switching volumes. **(See Figure 40)**

Figure 40: Decomposition of Switching Volumes since July 2017 (All Banks)



Source: Current Account Switch Service econometric modelling analysis using data from Current Account Switch Service monthly tracker, Nielsen Ad Intel, Money Saving Expert, Bank of England and Euro Area Consumer Confidence.

Based on this analysis, projections were developed for the remainder of 2021. **(See Figure 41)**

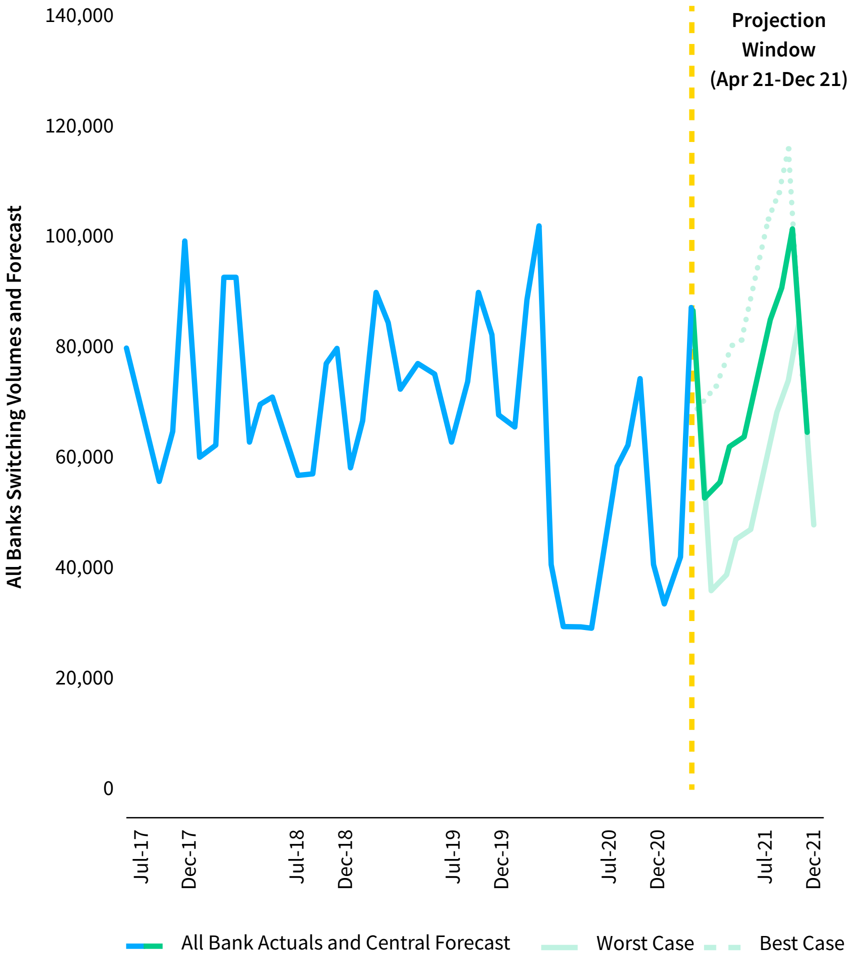
Broadly, switching volumes would recover if:

- Lockdown was lifted by July (it was and volumes recovered)
- More and higher cashback deals are offered from August onwards
- Recommendation remains constant (as measured by post-switch satisfaction and advocacy)
- Slow climb in consumer confidence
- Media activity (PCA and brand) remained subdued at around 2020 levels
- Awareness of the Service only gradually climbs back to above 80%.

Risks:

- Changes in relation to the pandemic and associated continuation of lockdown measures delaying recovery activity.

Figure 41: Full Market New Switching Projections to December 2021



Month/Year	Worst Case	Central Case Projections	Best Case
Jan-21	-	**30,841**	-
Feb-21	-	**41,233**	-
Mar-21	75,112	95,804	116,495
Apr-21	33,548	54,240	74,931
May-21	36,985	57,676	78,368
Jun-21	45,056	65,747	86,439
Jul-21	46,723	67,415	88,106
Aug-21	58,406	79,098	99,789
Sep-21	70,998	91,689	112,380
Oct-21	76,535	97,226	117,917
Nov-21	90,241	110,933	131,624
Dec-21	47,634	68,326	89,017
2020 Full Year		691,489	
2021 Full Year (Proj)		860,227	
Annualised % Change		24.4%	

Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

Below **(See Figure 42)** are the assumptions used for the projections:

Figure 42: Assumptions for projections

Date	% Awareness of Current Account Switch Service	% Current Account Switch Service Switching/ Advocacy	2nd Lockdown Effect	No. of Deals in the market	Max Cashback Value	Bank Personal Current Account Media	Bank Brand Media	UK Consumer Confidence Index	Bank of England Bast Rate
Mar-21	75.5	13.3	2nd Lockdown impact present	4	£100	**£91,706**[1]	**£8,888,404**[1]	**99.2**[1]	**0.10%**[1]
Apr-21	77.5	10.3	2nd Lockdown impact present	4	£150	**£48,664**[1]	**£5,318,864**[1]	**99.7**[1]	**0.10%**[1]
May-21	77.6	12.2	2nd Lockdown impact NOT present	4	£150	**£5,465**[1]	**£4,050,046**[1]	**98.7**[1]	**0.10%**[1]
Jun-21	78.10	14.00	2nd Lockdown impact NOT present	5	£200	**£129,325**[2]	**£5,022,868**[4]	99	0.10%
Jul-21	79.20	14.00	2nd Lockdown impact NOT present	5	£200	**£90,751**[2]	**£6,687,859**[4]	99	0.10%
Aug-21	79.30	14.00	2nd Lockdown impact NOT present	5	£200	**£98,461**[3]	**£5,138,500**[4]	101	0.10%
Sep-21	80.10	14.00	2nd Lockdown impact NOT present	5	£200	**£161**[3]	**£7,532,068**[4]	102	0.10%
Oct-21	81.00	14.00	2nd Lockdown impact NOT present	5	£200	**£2,225**[3]	**£11,667,496**[4]	110	0.10%
Nov-21	82.00	14.00	2nd Lockdown impact NOT present	5	£200	**£441**[3]	**£7,331,403**[4]	112	0.10%
Dec-21	82.30	14.00	2nd Lockdown impact NOT present	5	£200	**£592,356**[3]	**£6,746,644**[4]	114	0.10%

[1] **entries are reported actuals**

[2] **entries are 50% of 2020**

[3] **Red entries are same as 2020**

[4] **Purple entries are a 25% increase on 2020**

Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

2.5 Current Account Switch Service survey analysis

The Service's tracker survey can be used to explore the statistical relationships between a customer's dissatisfaction with their main current account provider, consideration to switch and their perceptions of the Service's process pre-switch in the tracker.

Key findings:

Dissatisfied customers who do not trust the switch process have low consideration, meaning they are likely to remain stuck with a bank they aren't happy with.

Positive perceptions of the Service's process moderate the relationship between dissatisfaction with their current bank and consideration to switch (our proxy for customer intent).

Positive perceptions of the Service's process help to drive intent to switch for those who are growing more dissatisfied with their current bank. This can help individuals break out of the "inertia trap".

Of the five perceptual statements relating to the Service (trust, surety, speed, ease, hassle), trust and surety play a more important role in driving recommendation among friends and family than speed and ease. This implies that the Guarantee and a safe experience of switching are most important with regard to driving driving confidence.

Supporting Analysis: Dissatisfied Customers

For each stage of the switching journey, the relevant data the Service has via its monthly quantitative TNS Tracker surveys was identified. **(See Figure 43)** Those data points were mapped below in the order of the customer journey. Within those datapoints, the relationship between a customer's satisfaction with their current provider, how much they are considering alternatives and their willingness to switch, were analysed.

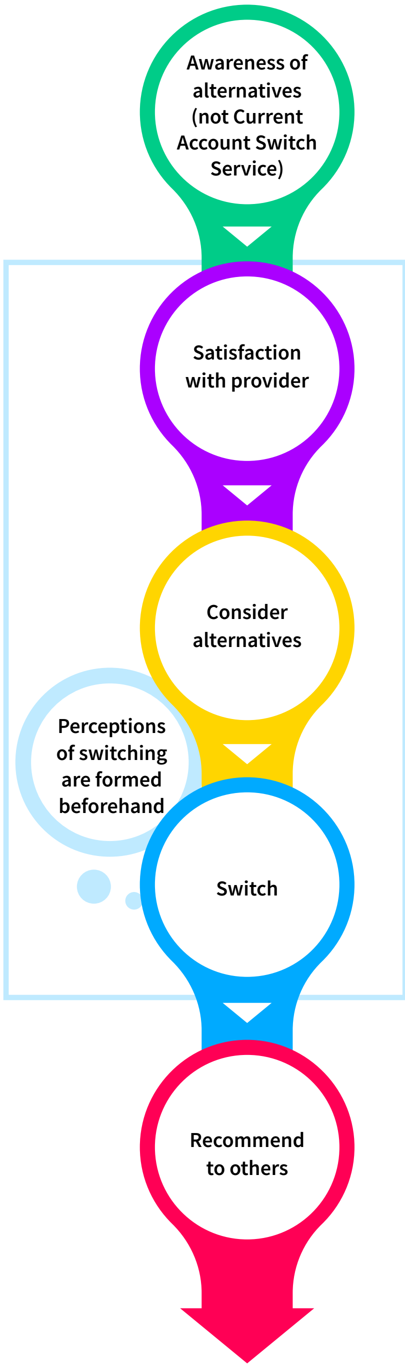
This analysis explores the relationship between:

1. Dissatisfaction with main bank

2. Considerations to switch

3. Perceptions of Current Account Switch Service process (pre-switch)

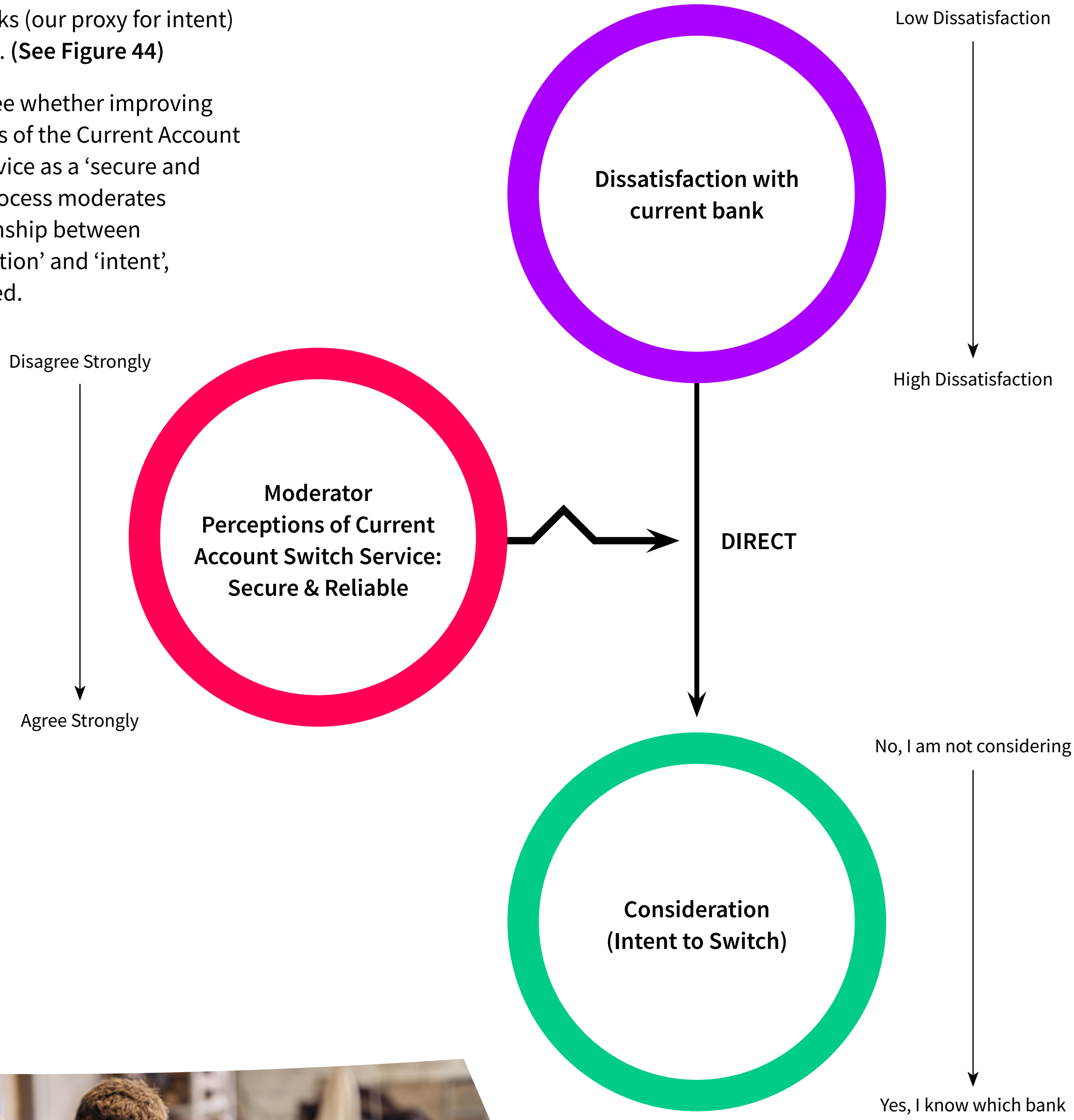
Figure 43: Switching Customer Journey Framework



Here the direct relationship between dissatisfaction with the current bank and consideration to switch banks (our proxy for intent) is assessed. **(See Figure 44)**

A test, to see whether improving perceptions of the Current Account Switch Service as a 'secure and reliable' process moderates the relationship between 'dissatisfaction' and 'intent', is conducted.

Figure 44: Dissatisfaction with current bank and intent to switch (moderated by Current Account Switch Service as a Secure & Reliable process

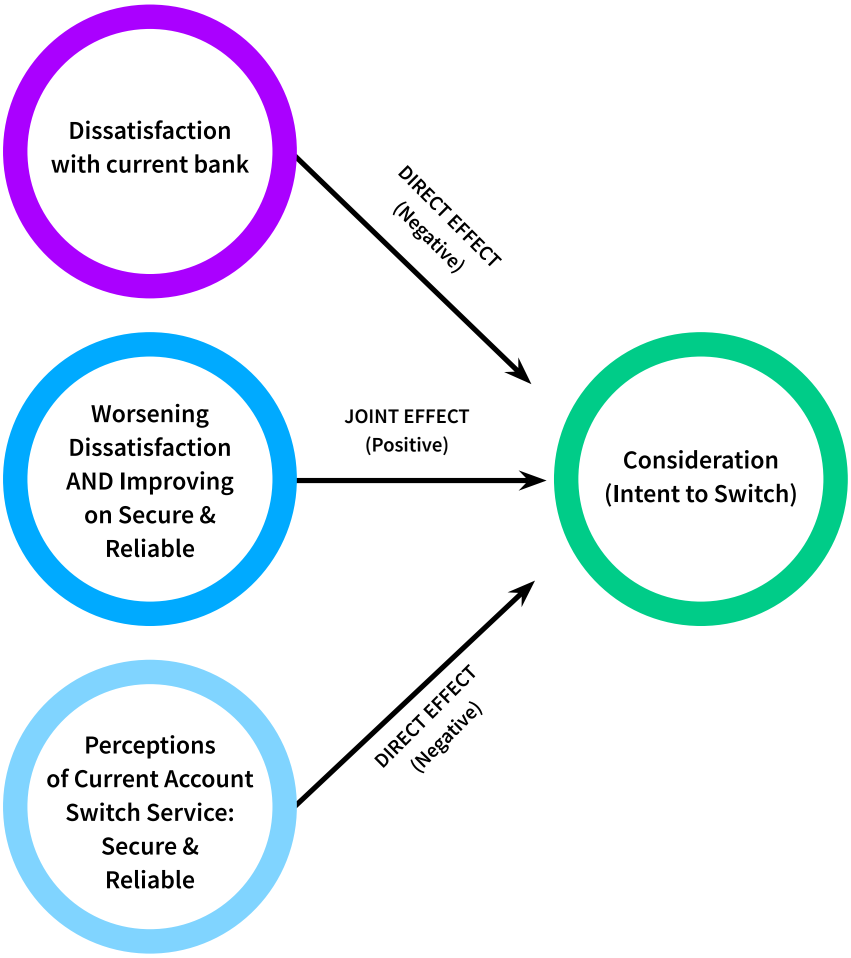


The direct relationship between dissatisfaction with current bank intent is negative – this is the effect of inertia. **(See Figure 45)**

However, increasing perceptions of the Current Account Switch Service as a 'Secure & Reliable'* process positively moderates the relationship between worsening dissatisfaction with the current bank and consideration to switch account.

Positive perceptions of the Current Account Switch Service process help to drive intent to switch for those who are also growing more dissatisfied with their current bank.

Figure 45: Dissatisfaction with current bank and intent to switch (moderated by Current Account Switch Service as a Secure & Reliable process)

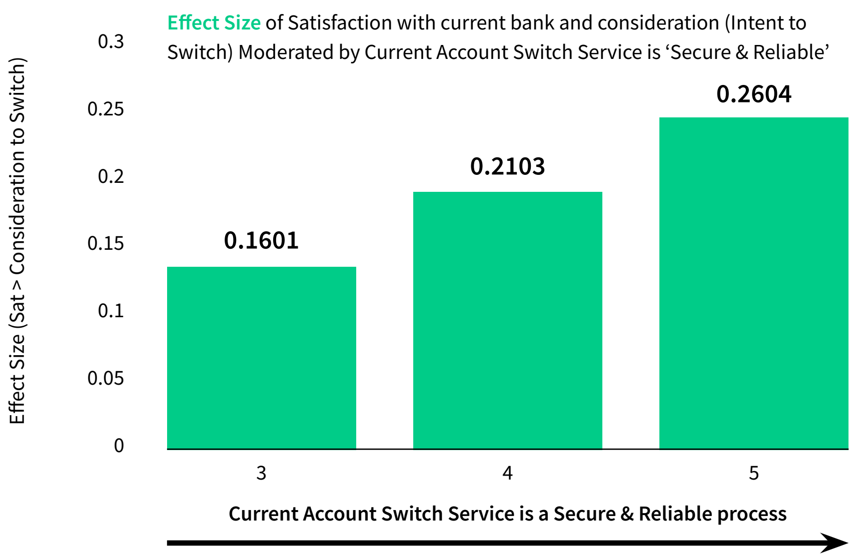


The impact of worsening dissatisfaction on consideration to switch is measured by the effect size. **(See Figure 45)**

The effect size increases as higher scores on the perception that Current Account Switch Service is a 'Reliable & Secure' service are introduced.

CASS's role therefore is crucial in reassuring potential switchers around the safety and reliability of the process. Without this customers may remain stuck in an inertia loop.

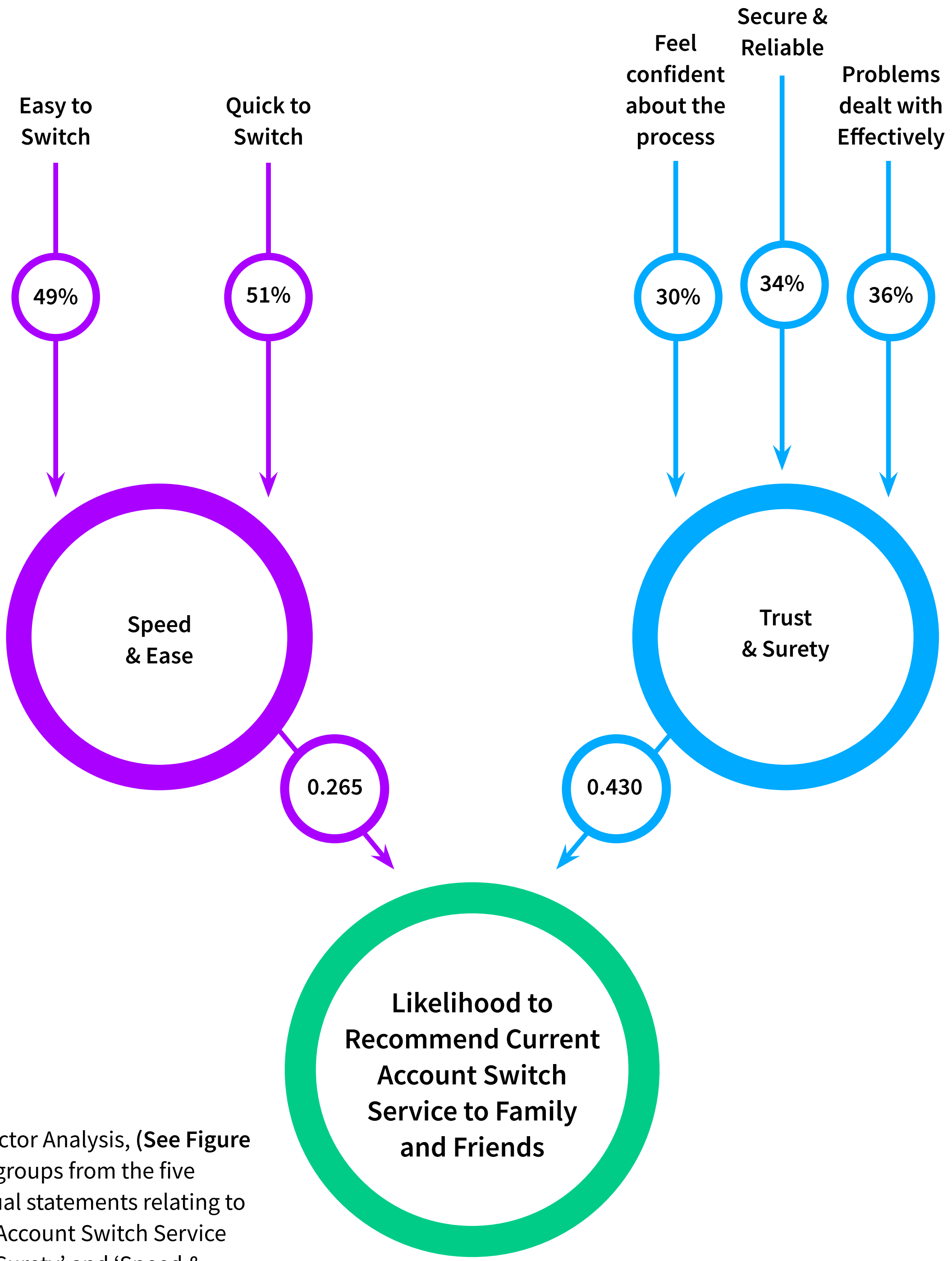
Figure 46: Dissatisfaction with current bank and intent to switch (moderated by Current Account Switch Service as a Secure & Reliable process)



Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

Factor analysis:

Figure 47: What is Driving Current Account Switch Service Advocacy?



- Using Factor Analysis, **(See Figure 47)** two groups from the five perceptual statements relating to Current Account Switch Service 'Trust & Surety' and 'Speed & Ease' were determined
- Trust & Surety plays a more important role in driving a recommendation.

Source: Current Account Switch Service data from econometrics modelling analysis and forecasting conducted by Bottom Line Analytics

In summary, interrogation of dissatisfaction and perceptions of the Service within the tracker shows that:

- Dissatisfied customers who do not trust the switch process are likely to remain stuck with a bank they aren't happy with
- Increased trust in the Service (secure, reliable, ease, etc.) is positively linked with increased consideration (active, passive)
- Trust and surety are relatively more important than speed and ease when influencing the likelihood to recommend.

Chapter 3

Outside opinions: stakeholder engagement

Chapter 3

Outside opinions: stakeholder engagement

Quotations used in this section come from anonymised stakeholder interviews

3.1 Overview

This section is based upon evidence from a series of one-to-one interviews with internal and external stakeholders, as well as a participant workshop, conducted to gather views to establish how the Current Account Switch Service is perceived by these audiences and how these perceptions might influence and shape its future role.

In each interview and workshop, interviewers sought stakeholder input on:

- The state of the current account market
- Retail banks' priorities and customers
- The Service's role in the market
- Vision for the future and barriers to success.

Input was received from external sources, including:

- The Current Account Switch Service non-executive board
- The Pay.UK End User Advisory Committee
- Which?
- Starling Bank
- Nationwide
- Barclays
- Bank of Ireland
- HSBC
- NatWest.

3.2 Key themes

3.2.1 State of the market – digitisation and how the pandemic has hurried things along

Stakeholders agree the market has changed dramatically since the 2008 review and the 2017 CMA order. Since the Current Account Switch Service was launched, this study shows competition has been at the forefront of the agenda since then, with many positives and plenty of regulatory change, which has made a big difference.

Digitisation was heralded as the key development in the current account market, with interviewees and workshop participants alike reflecting this had had the biggest impact on product differentiation and customer experience. Participants reflected it was now normal to separate the customer service provision into in-person "advice" and digital "device" based interactions. For many of the banks, "advice" interactions were higher value, while higher volume and self-serve interactions occur on "device".

Innovation in the market that has driven change, includes: technology; the rise of digital banking; a race to produce app-based solutions; and the rise of Open Banking-powered services to meet consumer needs.

In light of this digitisation, there has been growth in digital first banks and challenger propositions, which have driven movement in the market as some consumers look to diversify how they use their products. This has put pressure on the large incumbent banks to expedite their digital services.

It was broadly agreed that this drive towards digital would be beneficial to consumers, particularly SMEs, but that there would always be winners and losers when it came to product development.

The Covid pandemic accelerated a lot of changes that were beginning to emerge:

- Covid drastically accelerated the shift to digital, the fact there was an element of "need to" which increased awareness and adoption. There was an acceleration of expectations and willingness on both the consumer and provider sides of the fence
- Branch closures have been a major change in the market. Covid was a catalyst but this is a long-term consideration, with branches increasingly divorced from the current account market.

The current account market is also different from other markets where switching is promoted and considered to drive good consumer outcomes:

- The inertia in current accounts is driven by factors that don't apply to other markets (i.e. electricity, energy and insurance markets); there is a counterbalancing part of our thinking, which says that switching your current account is more difficult than moving energy provider
- The regulatory interventions in the insurance market show that consumers shouldn't have to switch every couple of years because prices are rising or services are getting poorer; that's not what competition should look like. As there isn't the same perception of detriment from a current account provider, there is therefore less need for consumers to switch because they "aren't being treated well" by their provider.

The arrival of new digital-first providers has also had a significant impact:

- Regulators have created an environment that allows challengers and new propositions to emerge, following an intense focus on this area since 2008
- There is also a phenomenon of customers utilising digital banks or services in addition to their existing provider, rather than instead of. Providers can use a "traditional" high street bank to manage their bills, but day-to-day cash spending is done via a digital bank or app.

3.2.2 Consumers

There was a consensus among stakeholders that the "winners" of the current account market were those who were highly engaged, financially literate and those most likely to switch. For many, that meant that the financially vulnerable and those with low financial literacy were still not benefiting fully from the market.

Broadly, stakeholders believed that:

- While concerns over the current account market, particularly overdraft charges, have been addressed by FCA intervention, those worst served by the market continue to be the financially vulnerable/disadvantaged
- As with the market, digital and online bankers were seen as the "winners" of the current account market and those who are benefiting most from innovation and developments in the market. Anecdotally, a number of workshop participants felt that there was an overlap between the digitally enabled and savvy switchers audience group, as both demographics are actively looking to manage their finances
- There was an overwhelming consensus that financially-vulnerable customers and non-digitally engaged customers are continuing to lose out. Broadly, all interviewees and workshop participants felt that these groups should continue to be a main focus for the Current Account Switch Service.

"High engagement audiences are winning: confident money managers, multi-bankers, serial switchers."

SMEs were largely missing from the picture:

- Very few interviewees and workshop participants mentioned SMEs in their contributions, even when prompted on the mandated target audiences
- Where there was mention of the SME audience group, one of the Pay.UK End User Advisory Committee interviewees noted that switching was unlikely to be a priority for this group as "stability is the goal" for many business owners. During Covid, the situation has become more difficult for SMEs, leading to many moving into "survival mode" where switching is even less of a priority
- The digitisation agenda and the shift to more app-based products would alleviate barriers to switching for SMEs, as the personal relationship with the bank manager/account manager will become less important as greater app functionality allows business owners to drive their own accounts
- There was also a view that the Service could have a key strategic role in developing a competitive SME space, building on the work that it has already done in this area.

However, participants were keen to point to the need to differentiate between audience groups:

- Every customer is different. There is major segmentation in what customers value, and being able to differentiate between those needs is a vital requirement for the market. Participants felt that the Service should consider this as it evolves to make sure it is “helping” the right groups
- There needs to be clarity over who the Service is trying to reach and there was also an internal recommendation that a review of its mandated audience groups should be undertaken in order to ensure that they were still the “right” groups.

“Switching is easy, but the perception is / was that the impact on the relationship could be detrimental. Now, more tech-driven accounts could relieve this as it’s more competitive, but some consumers still don’t think switching would be a priority.”

3.2.3 The Current Account Switch Service's role in the market

Overall, stakeholders said the Service has successfully delivered against the mission and vision it set out when it was launched in 2013. It has lowered barriers to switching, made the process much easier for participants than a manual switch, enabled a significant number of switches, and enabled industry conversations that wouldn't otherwise have taken place.

They agreed there is significant value in a centrally-provided service that enables people to reduce the level of fear and uncertainty around the switch, which helps to make it feel achievable, and helps normalise this kind of change.

The Service provides operational efficiencies to the participants that they don't really notice. It has so successfully embedded itself in the infrastructure that consumers and participants alike now expect the switch service to be there.

However, there are some challenges that need to be overcome to ensure that the Service continues to be a success:

- Staying relevant in a changing market is the main challenge the Service faces. There was a feeling that it would need to evolve to ensure it is still providing a switch service for the products that consumers use most (i.e. partial switching/payments switching or services that use Open Banking)
- There was a broad consensus that the success of the Service is inhibited by the amount of money participants are required to spend on different priorities (e.g. Open Banking) and that there is a disconnect between how the Service and participant banks view the Service and its ambitions
- They commented that this lack of clarity around the role of the Service, particularly in terms of promoting switching rather than raising awareness of the function, was a key consideration for how it should evolve in the future. Ensuring there is a clear role for the Service will help mitigate the above barrier
- The impact of Brexit on participant banks was raised as a possible barrier, as it's currently unknown what long-term impact the changes will have on bank strategy and the "offer" to consumers, particularly if there is increased pressure on the banks to drive growth and income from current accounts.

"If the CMA had in mind a market which would work like the energy and insurance market where people switched easily and frequently, that is absolutely not what has evolved.

The inertia in current accounts is driven by factors which don't apply to those other markets; there is a counterbalancing part of our thinking which says "this is really important and what risks do I take if I keep moving things around", whereas if you change energy provider that is an irritation, not a risk."

3.2.4 What does the future look like?

The Service has successfully established the infrastructure for a current account switch and stakeholders agreed that now was the time to consider its role in the future.

There was a consensus that the Service will continue to be necessary until banks and other payment services demonstrate more of a consistent focus on the needs of financially vulnerable audience groups, which participants felt was unlikely to occur without intervention.

Areas which emerged for consideration were:

> “It’s important for the Current Account Switch Service to be proactive. We should be going to the CMA and saying ‘We have achieved our initial goals’. How do we move on from here?”

The Service should be proactive in defining its role:

- Because the Service is good at what it does, it should be looking to diversify and ensure that its remit remains relevant to “today’s problem”
- The Service’s focus areas in the market may need to change, with a mature service being able to adapt on a yearly basis to those areas of most need
- It is important that any future direction is evidence-based and shows how the Service has delivered against its original objectives, what the problem it now needs to address is, and what the strategy for achieving that could look like
- The Service’s future role should be dictated by what is needed to allow people to switch accounts and what the UK “needs right now” to support an effective and competitive current account market. That needs to be evidence-based, consumer-led and not driven by either the regulator or the participant banks.

The Service’s future role needs to recognise changes in the market and in consumer behaviour:

- The landscape has shifted significantly since the Service was formed, and while it needs to continue its enabling function, it must also consider the role that it will play following the next big leap in the market
- New technology entering the market will place burdens on the Service that it cannot solve in its current remit, but it also has an opportunity to expand that remit to revolutionise switching in the future
- A more integrated, open proposition is being made available to consumers because of the rise of digitisation and Open Banking measures, so the Service needs to ensure it understands these changes and how they will impact switching behaviour
- Any changes must be mindful of the limited industry funding available and the pressure on participant banks to fund other market developments (e.g. Open Banking)
- Given how much the market has changed since the Service was launched, there would be merit in regularly revisiting who it is targeting and who it is helping and re-establishing that. Post pandemic, vulnerability could be different in the next couple of years than it was five or six years ago, as the financial pressures are different now.

“ ”

“Ideally, the Service would be able to identify people who need its offering or are in the market for a switch, and then target them with the information. The main barrier to this would be that the Service does not have access to the information that would allow it to pinpoint who these people are.”

3.2.5 What does success look like?

The Current Account Switch Service has achieved its initial objective of establishing the switching infrastructure and continues to deliver its primary objective: enabling millions of switches. It has enabled over eight million switches and it has allowed difficult industry conversations around competition and consumer harm and benefit to take place.

The stakeholders commented that the reason why it hasn't been more effective is there are too many other things participants are required to spend their money on, and therefore they are reticent to spend money on making the Service better. There are lots of ideas for making it better, but when we get to the "now we need to spend money" section, participant interest disappears. They are driven by regulatory mandates to a large extent, so their priority is to do what the regulator tells them, and the regulator is not telling them to make the switch service better.

In considering its future role, the Service should take account of the following:

- Volume metrics won't go away, but there needs to be a smarter way of defining market segments within these big volume-based targets. The Service should be reaching smaller sub-audiences to enable closer engagement with the audience groups that would most benefit from switching
- It is important to measure and understand consumer satisfaction, but this data needs to be robust enough to withstand scrutiny. Most people are rejected for a switch because of mismatched data or ineligibility. However it is vital this is monitored closely.

“To me the Current Account Switch Service is the spoon stirring the market up. People’s reluctance to move means turgid relationships. The more you can stir the pot the better.”

There is scope for a new product proposition:

An evolving marketplace may well come to regard the Payment Transfer service, or partial switching, as a necessity, with significant risks for the Current Account Switch Service if it is unable to keep up with that evolution.

The customer journey is different for every customer, with varying requirements from their bank, building society, savings account, financial services provider or whatever other product it might be. Stakeholders interviewed said the Service should be in a position to underpin its existing service with an offer on partial switching, to better reflect the many different customer journeys.

The Service could offer a switch service for similar services, such as savings, or an amalgamation service that rolls dormant accounts up. It would be better for consumers and good for participants.

The Service should look to the future and put effort into pre-empting what the next big ‘left turn’ will be in the market, to ensure that it is in a position to adapt to it when it comes.

There is still a big role for the Service to play in targeting key audiences.

The Service still has a strong role to play to make sure that it increases awareness where market forces would have less of an incentive to do so. Researching and understanding those audience groups who are less likely to switch and who would benefit from it is a key starting point.

> “The Service would be more powerful if it was enabled to switch more than just a current account. There is more inertia in the current account market because of payments associated with it, but the Current Account Switch Service should be able to take account of people’s different relationships with banking and financial services, of which current accounts are just one element.”

> “The best message you can put out there is something that simply says you can change bank account.
>
> The next question is about what messages the Current Account Switch Service conveys. The media strategy needs to come from what it wants to set as its objectives. The first thing is to improve competition, so let’s talk about competition and the benefits of trying another bank. You might have better service, money management tools, you might find you save money.
>
> The more we can raise awareness of the benefits of a competitive market place, that’s a huge platform to build on.”

Each of the existing priority groups should be re-examined to see if they would truly benefit from switching current account, why they are more difficult to reach than the mass market, and how to reach them. There is a suggestion that some priority groups are far more relevant and important for the Service than others.

Awareness is good in the mass market but, for those niche areas (ever expanding as a result of the Covid pandemic) where it is lower, the same approach won’t work, so it needs to be more tailored.

Covid has been a catalyst for change in the current account market, but the longer-term impacts of challenger banks and digitalisation were already making defining changes in the way the market operates.

There was a view that the financially vulnerable and SMEs, two groups that underuse the option to switch, are those that could benefit from it. Therefore, more can be done to rectify the market forces that see these two groups lose out, as much as it is possible.

The Service has delivered a series of excellent achievements in realisation of the task that it was set. However, it needs to be flexible in order to adapt to change in the market, which isn’t going to stand still.

The Service’s KPIs need to be consistently addressed and revisited, using the latest research, in order to remain relevant in a quickly-moving market.

Chapter 4

Conclusions and implications for the role the Service should play in enabling an effective current account market

The Current Account Switch Service was set up to encourage switching in the personal current account (PCA) market. It was also given a further responsibility by the Competition and Markets Authority (CMA) to communicate to subgroups that would benefit most from switching their bank account.

Higher levels of awareness have also driven greater confidence levels. The Service has a polling tracker that clearly shows awareness of the Service and the Current Account Switch Service Trustmark lags by one month from marketing activity.

Changes to switching volumes across the year show the promotional activity directly drives switching volumes.

Awareness also affects switching volumes through its transmission via active consideration to switch accounts, but it appears this relationship is weak.

Taken together, these two factors show that the Service's role in driving current account switching volumes runs throughout the customer journey. It is also clear that a good switching experience and positive word of mouth drives future switching volumes.

Competition in the current account market

The Service does still aid competition because it underpins the competitive process. Manual switching would decrease volumes and therefore reduce competition.

However, that competition is declining in the PCA market. There has, over time, been a shift in promotional activity towards brand advertising and away from PCA promotion. In time, this is likely to have an impact on the salience of switching and the prevalence of the Service's Trustmark in the media, which could in turn impact awareness of the Service and switching volumes. This will need to be monitored carefully.

It is important that the Service continues to offer a brilliant switch – future KPIs should maintain a focus on operationally-excellent service and high switch-acceptance rates. Promotional campaigns should continue to prompt word-of-mouth recommendations of the Service.

Regulators are also likely to demand that the Service continues to further drive positive perceptions among harder to reach groups and those who have never switched, as positive perceptions of the Service among those groups are lower.

Driving positive perceptions of the Service as a secure and reliable process can break the inertia loop and is more likely to drive recommendation among friends and family. The Service should focus on how it can further drive positive perceptions among harder to reach groups and those who have never switched.

The growing importance of protecting consumers

In addition, it should continue to demonstrate it can protect consumers through the Guarantee and support those who would most benefit from switching. Also, as the market becomes more diverse it needs to be underpinned by a guarantee that allows switchers to move their financial arrangements safely.

Today, there are fewer "pull" factors to switch through incentives, but higher levels of consumer vulnerability mean that "push" factors such as unsuitable services mean the Service's role to protect customers is still important.

Consumer protection is now a higher priority than competition in the marketplace. This reflects a shift among many participants to focus on brand strength and their services rather than competitive advantage through incentives.

Barriers to switching have been clearly identified by the Service and more needs to be done to motivate people to overcome them, especially for vulnerable customers who remain a priority group. This remains a core purpose and any changes to the Service or its KPIs must be seen to help achieve that aim.

Covid has been a catalyst for change in the current account market, but the longer-term impacts of challenger banks and digitalisation were already making defining changes in the way the market operates.

Measuring success into the future

It is clear the Service has met its KPIs for most of its lifespan. Accurate modelling means that media spend can be closely correlated to awareness and reach.

However, those metrics have flatlined for three years, which means they may have plateaued and it is now necessary to consider whether metrics that were designed to provoke awareness of a scheme that had just been launched are still the best way to assess the effectiveness of the Service after nine years.

Maintaining awareness above 75% amongst the mass UK population may no longer be the key indicator that the Service is achieving its intended purpose in the market. It is also not always possible to effectively reach and engage our sub-audiences within the current budget levels when 75% mass awareness and 90% media reach must also be achieved. The challenge now is to be flexible in order to adapt to changes in the market, which is not going to stand still.

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