

Competition and innovation in retail banking - a CMA perspective

Presentation to Portuguese Competition Authority

Julie Bon, Director of Economics
15 March 2018

- Enterprise Act 2002
- The CMA is able to investigate markets where there may be competition concerns.
- Whether any feature or combination of features, of each relevant market, prevents, restricts or distorts competition and thereby has an adverse effect on competition (AEC)
- What actions should be taken to as comprehensively as possible remedy, mitigate or prevent the adverse effect on competition or any detrimental effect on customers
- Retail banking market investigation, launched in November 2014:
 - Personal current accounts
 - Business current accounts and SME lending

“Banks don’t have to work hard enough to keep their customers.”

- **Outcomes:**

- 4 major UK banks sustain high and stable market shares
- New entrants, but very slow growth
- Very low switching rates despite gains from switching
- High overdraft charges
- Very little shopping around for loans by SMEs

- **Features leading to lack of competition:**

- Barriers to accessing and assessing information
- Low levels of customer engagement
- Incumbency advantages for established banks
- Product linkages / Information asymmetries

Market investigation findings (2)

- Adverse effect on competition in the provision of:
 - Personal Current Accounts
 - Business current accounts
 - SME lending
- Static customer harm: **£200m per year**
- Duty to remedy the AECs as comprehensively as possible and in a proportionate manner

Our remedies package

Foundation measures

Open Banking standards
Service quality information
Customer prompts

Current account switching measures

Better governance of guaranteed switching service
Extended redirection of payments following switching
Customer access to transactions history
Customer awareness and confidence

PCA overdraft measures

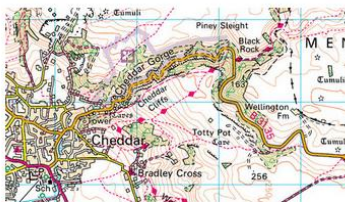
Overdraft alerts with grace periods
Monthly maximum charge (MMC)
Improved account opening and switching process

Additional remedies for small businesses

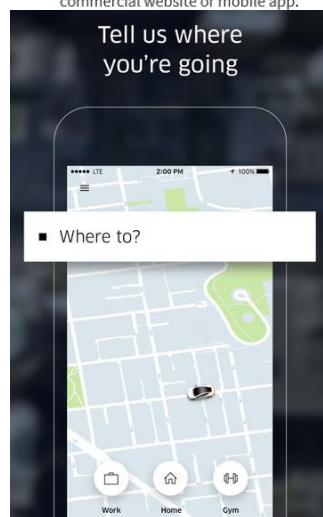
Competition to develop SME comparison tools
Loan rate transparency
Loan price and eligibility indicator
Standard information requirements for BCA opening
Sharing of SME information
'Soft' searches
Role of professional advisers

Open APIs - features

OS OpenSpace

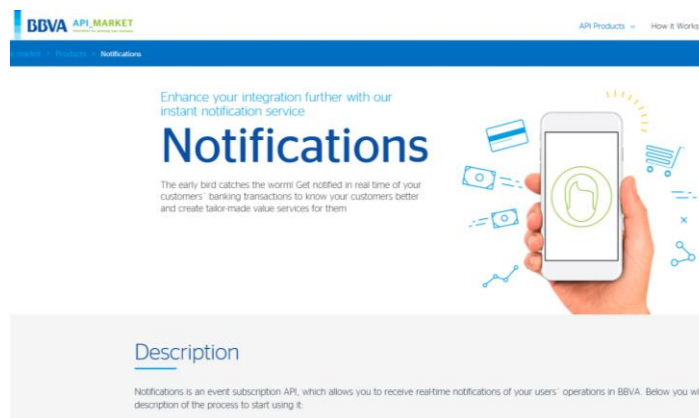


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Alexa! Your Uber is arriving now

The simplicity of ordering an Uber can be a magical experience and one that we continue to iterate on. Today we are excited to take it one step further by allowing you to request an Uber ride with just your voice. This is all made possible thanks to our the [Uber API](#) and our integration with Alexa, the brain behind Amazon Echo.



BBVA API MARKET

API Products - How it Works

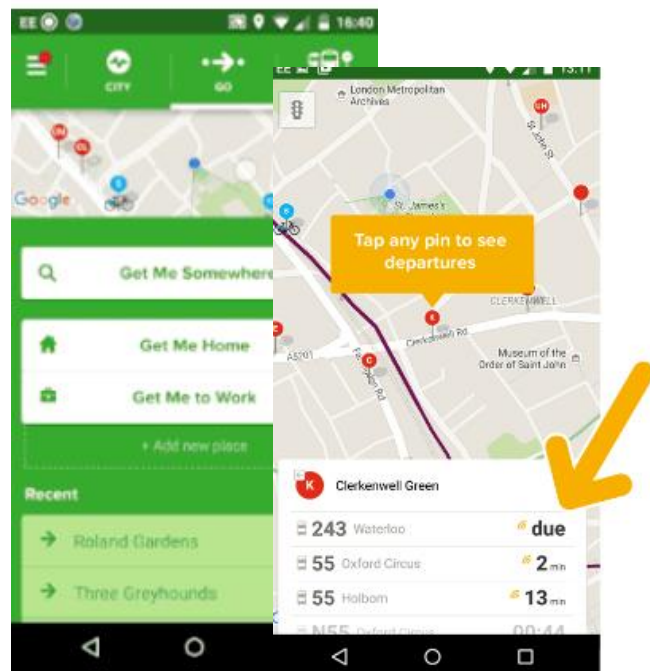
Enhance your integration further with our instant notification service

Notifications

The early bird catches the worm! Get notified in real time of your customers' banking transactions to know your customers better and create tailor-made value services for them

Description

Notifications is an event subscription API, which allows you to receive real-time notifications of your users' operations in BBVA. Below you will find description of the process to start using it.

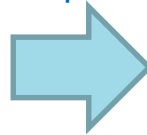


APIs allow applications to share data and functionality bringing benefits to consumers and SMEs. Common and open standards for APIs enable (smaller) developers to create products more easily and efficiently.

Benefits of Open Banking 1



1 Customer visits comparison site.



knowyourmoney

Excellent  based on 2

Credit Cards Bank Accounts Insurance Loans Mortgages Business

Business Bank Accounts

- ✓ Help your company grow by choosing the right business bank account to suit your business needs.
- ✓ Whether you're looking for your first business bank account or want to switch from your current provider.
- ✓ Compare the UK's top business bank accounts from the high street bank to alternative options.

Select an account by type

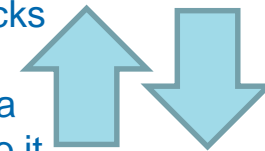
Startups

Switchers

No Credit Checks

4 PCW uses transaction data to calculate which product is best for that customer, including rewards and charges

3 Bank checks PCW and sends data securely to it



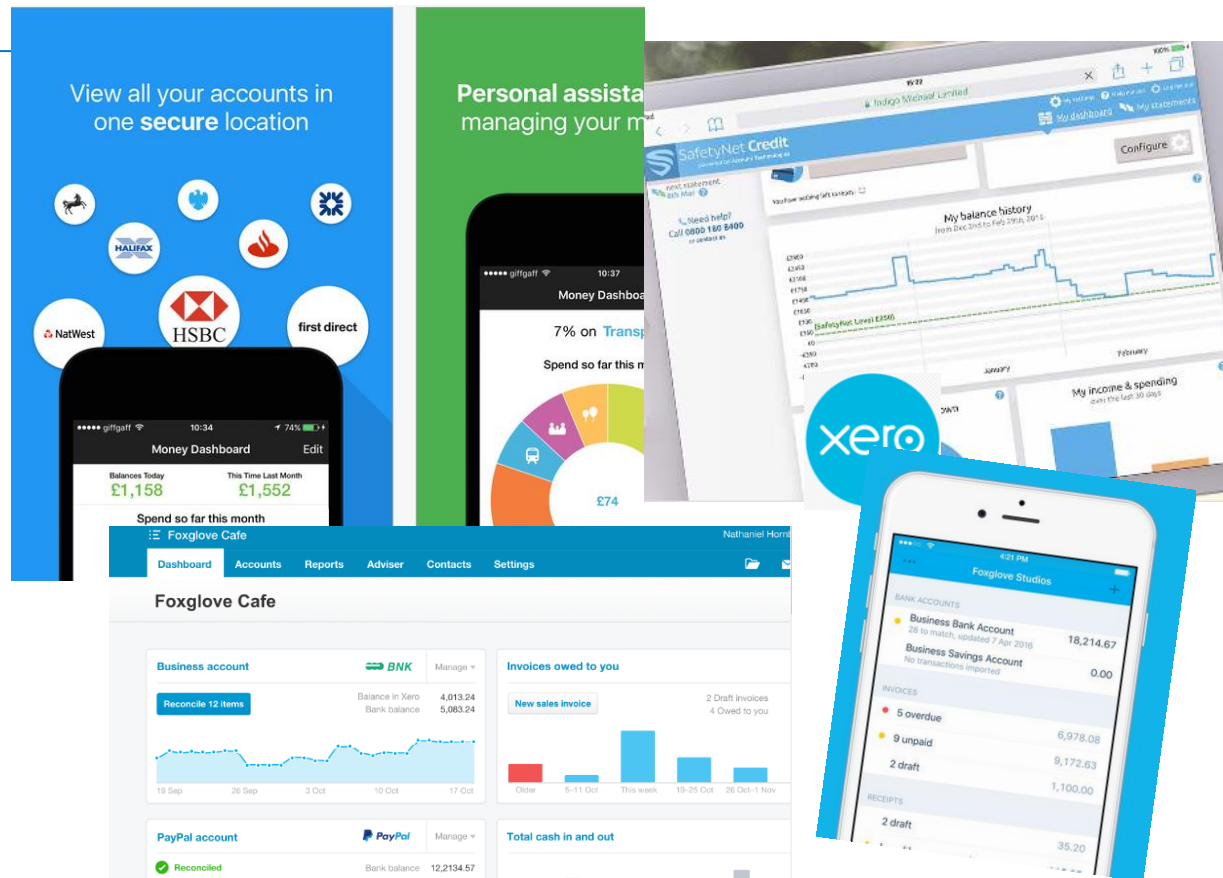
2 Customer clicks through to online bank account and enters credentials. Tells bank to send transaction details to PCW

5 Customer switches account



Secure sharing of data with trusted partners enables consumers and SMEs to find the best products for them. The use of APIs means customers do not have to disclose their online credentials to TPPs (as they do with screen scraping).

Benefits of Open Banking 2



“FinTech’s true promise springs from its potential to unbundle banking into its core functions of: settling payments, performing maturity transformation, sharing risk and allocating capital. This possibility is being driven by new entrants – payment service providers, aggregators and robo advisors, peer-to-peer lenders, and innovative trading platforms. And it is being influenced by incumbents who are adopting new technologies in an effort to reinforce the economies of scale and scope of their business models.”

Mark Carney, Governor of the Bank of England, 25th January 2017

- *The current account is a bundle of services: cash storage, payment, short term credit. New providers will be able to unbundle the more profitable of these, for example overdrafts.*
- *Personal and (SME) business financial management tools will integrate with current and other accounts, providing ‘a single lens’ and **new tools**.*

An example of unbundling

Underwriting

- Use of bank transaction data to create the best credit and affordability outcomes in real time
- Keyword analysis for scorecard development
- Provision of credit to previously underserved customers

Affordability

- Discretionary income calculation that is tailored to individual affordability; assessing their disposable income in order to provide credit limits that are affordable for each customer.

Deposits and repayments

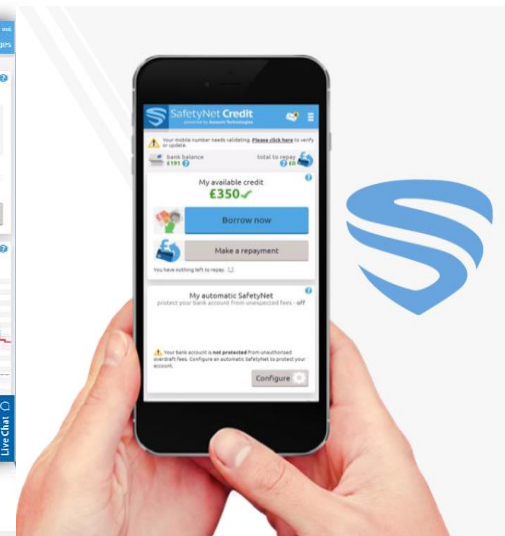
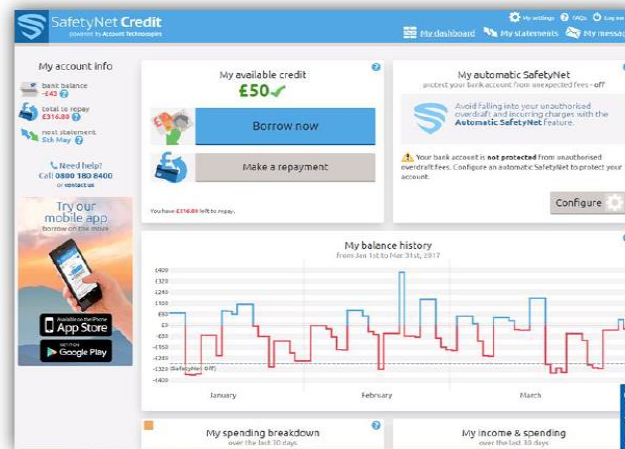
- Automatic top ups before bank charges are applied.
- Repayments taken only when affordable.
- A structure which focuses on minimising the interest paid by customer

Responsible lending

- Weekly recalculation of affordability throughout lifetime of customer to determine whether credit limit changes are required.
- Both graduation and termination of credit limits implemented where appropriate.

How does it work?

- Customers have access to an online dashboard which allows them to manage their borrowing; make manual deposits and set their SafetyNet level to control automatic deposits.
- Depositing funds: SafetyNet Credit monitors customer balances and deposits funds rapidly when balance falls below SafetyNet level
- Taking repayments: Once balances increase repayments are taken - always designed to leave funds remaining post repayment
- High customer engagement - on average 10 logins per customer per month
- Customer has better control over their financial position with more flexible terms



This product will monitor your current account balance and, if needed to avoid overdraft charges, will pay in money from either your deposit account or a line of credit guaranteed to be cheaper than your bank's. Similar products can transfer excess cash into an interest paying account.

Implementing Open Banking

The CMA required the leading banks to set up a special purpose vehicle, tasked with agreeing, implementing and maintaining open and common open banking standards.

The CMA needed to strike a balance between:

- creating an implementation vehicle with narrow representation, to maximise speed of decision-making, with
- one which was more broadly based but less agile.

We designed the **Implementation Entity (IE)**:

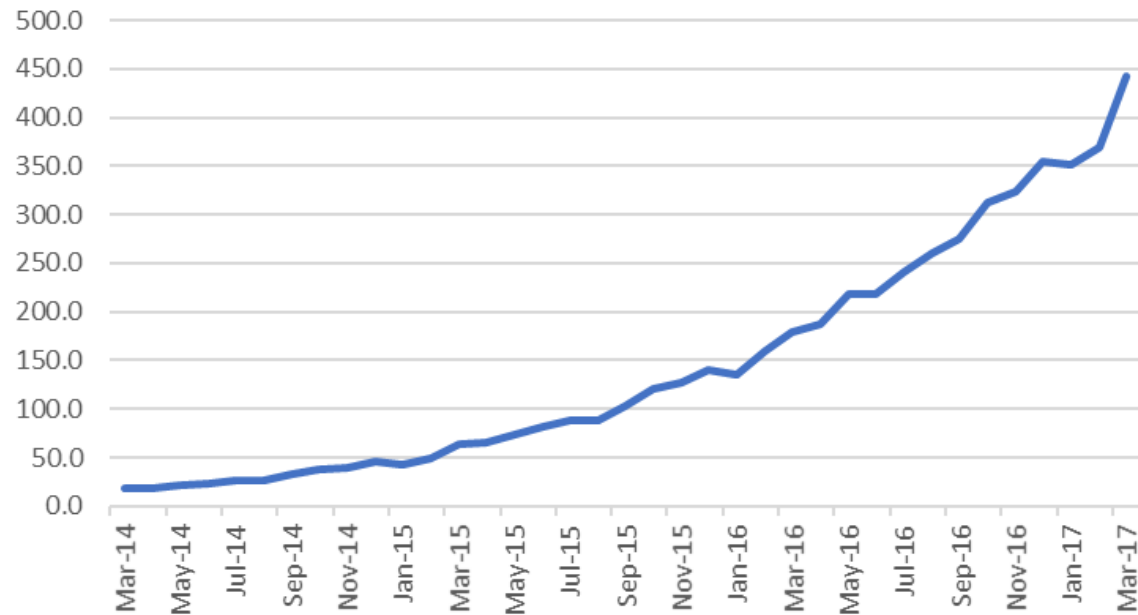
- Adequately resourced (c €30m pa, 75 staff) - funded by banks
- FinTechs, Challenger Banks, Payment Service Providers and consumers are represented through Stakeholder Groups, with representation on **IE steering group**
- Chaired by the **Implementation Trustee**

Where we are at in the implementation

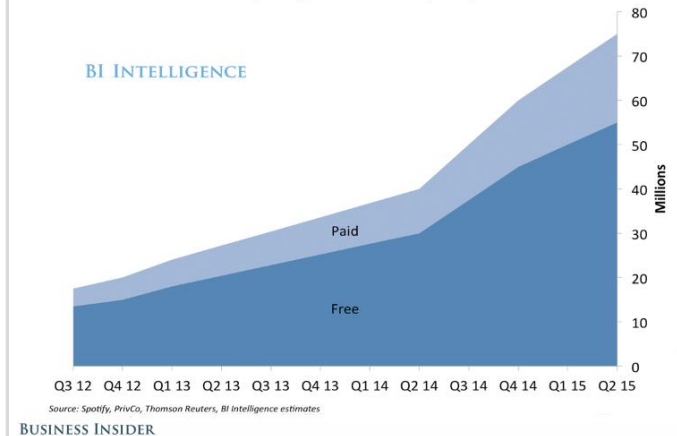
- Our decision was published in **August 2016**
- This launched the remedies implementation process
- Release of information under Open banking was organised in stages:
 - **Phase 1** (tariff information, branch locations etc.): rolled out mid 2017
 - **Phase 2** (transaction data and read/write functionality): rollout began on 13 January 2018 (to coincide with PSD2).
- Going live to customers this month

Consumer adoption unlikely to be rapid

Monthly UK contactless transactions (millions)



Spotify Subscribers (Global)



*Likely to follow a “J” curve. Early adopters will probably be younger (“digital natives,” “Generation Z”). Adoption will be dependent on compelling customer propositions as well as **trust in data security**.*

The key challenge - trust



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PREMIUM

News

'Open Banking' revolution will leave account holders at mercy of 'hackers and thieves', banks warn



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The scheme was designed by competition watchdogs to help customers compare bank accounts and manage their money better by seeing all their money on one screen CREDIT: BLOOMBERG NEWS

Open banking: customers 'not willing' to share data



'Banks are trying to scare their customers over Open Banking' – Beaumont

by Victoria Hartley

12/01/2018 • 1



The co-chair of the techUK's Open Banking Working Group said few UK banking service providers have embraced the Open Banking era with positivity, with warnings about data sharing being the only customer communications.

Updated terms and conditions about the dangers of sharing information are the biggest changes consumers will have seen to date and that really needs to improve, said Dr. Louise Beaumont.

Customers are, naturally, concerned about the risks of sharing their data; levels of understanding of open banking and the safeguards built into it are low. Confidence will grow with experience and the entry of trusted brands into the banking services market.

- The CMA put in place a broad package of remedies which has the potential to radically transform the UK banking market
- Our remedies:
 - Opens the way for new entrants and business models in banking market
 - Creates opportunities for innovation in services and products
 - Reduces the barriers to access and assess by creating a seam-less process for customers to compare and switch accounts
 - Increase customer engagement with their finances
- Key challenge - consumer trust