

# NORTHERN IRELAND BANKING

Nov 2004

## SUPER-COMPLAINT

which



## SUPER-COMPLAINT

### EXECUTIVE SUMMARY

The market for personal current accounts in Northern Ireland does not appear to be functioning in the interests of the consumer. The market is remarkably static and displays a striking degree of similarity in terms of the structure and size of bank charges. The lack of effective entry and the clear lack of competition between the main four Northern Irish banks leaves Northern Irish consumers with little choice and poor products.

We think the four main problems with the Northern Irish personal current account market are as follows:

- 1 Northern Irish banks pay considerably less interest than rivals when accounts are in credit.
- 2 Northern Irish banks charge significant sums for activities that other banks do not charge for at all.
- 3 Northern Irish bank charges often lack transparency.
- 4 Northern Irish banks display a striking degree of similarity in terms of what they charge for and the amount they charge.

We<sup>1</sup> request the OFT to investigate the Northern Irish personal current account market on the basis of these problems.

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<sup>1</sup> Consumers' Association is a designated consumer body who may bring super-complaints to the OFT under the Enterprise Act 2002. Consumers' Association is a registered charity No. 296072. Which? Limited is the trading subsidiary of the Consumer's Association and it markets and distributes the Which? range of books and magazines.



for all consumers

In our view the market in Northern Ireland:

1. is static
2. offers very limited choice to consumers
3. shows little evidence of competition
4. has very low levels of market entry
5. has low levels of innovation
6. excludes a significant portion of the Northern Irish population.

While we view these as important elements of any analysis of the market, we are not making these problems a core part of the super-complaint for investigation. However, we would expect any analysis of the problems about which we do complain to touch upon these issues in some way.

#### **THE SCOPE OF THE COMPLAINT**

Our concerns with the Northern Irish retail banking sector extend to all aspects of their dealings with consumers. However, our super-complaint focuses solely on the personal current account market and those submarkets that comprise it. The analysis below focuses on the personal current account market and, in particular, the market for overdrafts and personal current account related credit. We have concerns about the broader mortgage and credit market and also the market for small business services. While we have not focused on these markets ourselves we take from the work of the Competition Commission on small businesses and the work of others on related financial markets that the prima facie evidence we present of a serious lack of competition may well extend to those markets. These may be worthy of future consideration or be the subject of future super-complaints.

#### **OUR APPROACH**

The complaint first looks at the evidence from previous inquiries that Northern Ireland is a separate market and thus worthy of study in its own right. We have then addressed some of the competition issues found in the personal current account market more broadly, again driven largely by recent work by the Competition Commission. We have then outlined the comparative data on the products offered to consumers in Northern Ireland.



We have compared these products to those offered by other UK banks, both Which? Best Buy accounts and the less competitive big four high street banks. We have then compared the products to those offered by Scottish banks to test the hypothesis that different parts of the UK have different product structures. We have finished our complaint with an outline of the issues we think we have identified and a number of possible avenues of investigation.

### Market structure issues in retail banking

In reviewing the Northern Ireland retail banking market we will initially draw on the work of the Competition Commission in its review of the proposed takeover of Abbey National by Lloyds/TSB. This is because this merger review is the most recent statement by a competition authority of the current thinking on market structure and consumer issues in the sector.

We note that, as was the case in the Lloyds/TSB-Abbey National merger case, almost all data that identify market shares for banks is proprietary. While accurate market share data are certainly held by the banks themselves we can use as a proxy measure the distribution of bank branches. The four largest banks (Ulster Bank, Northern Bank, First Trust and the Bank of Ireland) control 80 per cent of the branch network in Northern Ireland.

Bank or Building Society	Branches in NI
Abbey National	20
Alliance and Leicester	15
Bank of Ireland	45
First Trust	61
Halifax <sup>1</sup>	15
Nationwide <sup>1</sup>	14
Northern Bank	95
Ulster Bank	88
Woolwich <sup>1</sup>	9

<sup>1</sup> These companies may also offer a limited range of services through other agents.  
Source: Mintel, Current Accounts, Irish Services, December 2003



## Is Northern Ireland a separate market?

There is clear evidence that the Northern Ireland retail banking market is separate from that of the rest of the UK. As the Competition Commission in its inquiry into the proposed merger of Abbey National and Lloyds TSB argued:

2.20. Both Lloyds TSB and Abbey National operate throughout Great Britain, while Abbey National also operates on a small scale in Northern Ireland. We received evidence that market conditions were similar throughout Great Britain for the supply of personal banking products. The position for Northern Ireland is different, at least for PCAs (Personal Current Accounts). There are grounds, reflecting both demand and supply side factors, for treating the Province as a separate market. On the demand side it seems unlikely that customers' banking habits are consistent with a chain of overlapping local markets connecting Northern Ireland with Great Britain. On the supply side all the four main clearing banks operating in Northern Ireland are different from the main operators in Great Britain (although two of the four are owned by banks which operate in Great Britain). We therefore treat Great Britain as a single geographic market and Northern Ireland as a separate market. Given that Lloyds TSB is not present in Northern Ireland, it was not necessary for us to investigate the merger's effects there.

4.24. Abbey National has branches in Northern Ireland but Lloyds TSB does not (although it markets some products in the province which are delivered by telephone or post, including savings and mortgages, its share is very small). We have considered the extent of demand-side and supply-side substitutability between Great Britain and Northern Ireland. On the demand side it is in general impractical for Northern Irish consumers to visit branches in Great Britain (and vice versa) so there is a gap in the chain of substitution in the provision of PCAs where branches are important to customers. On the supply side the leading PCA providers in the province are different from those in Great Britain and are locally based (although two of the four leading PCA providers belong to groups (RBS Group and NAB) which also own banks in Great Britain, they are operated separately and market different accounts with different terms



and conditions). In these circumstances, we consider that there are separate PCA markets in Great Britain and Northern Ireland. Since Lloyds TSB does not compete in the Northern Irish PCA market, the merger has no effect on that market and we focus only on the market in Great Britain.

The approach taken in the Lloyds TSB and Abbey National inquiry appears to be both sensible and directly applicable to our own investigation of the matter. There are no reasons to suspect that anything has changed since this inquiry to alter the analytical approach taken. Northern Ireland is clearly a separate market for the purposes of competition analysis.

#### **Financial exclusion**

Personal current accounts are an important means by which consumers access markets and pay for services. Indeed they are often a way of accessing low cost means of paying bills, for example reductions for Direct Debit payments compared with cheque or cash. Any limitation of the market caused through excessively high pricing or other exclusions are thus a concern for the wider impact that they have on consumers.

It is thus interesting to note that there are significant concerns in Northern Ireland about the degree of financial exclusion suffered by consumers. The most recent published research available for Northern Ireland (Family Resources Survey 2002-03, Department for Social Development) states that 22 per cent of Northern Ireland households do not have a current account compared with 12 per cent in the United Kingdom as a whole.

Our concern is that this prevents consumers, particularly those on lower incomes, actively participating in a range of markets. For example, lack of access to a current account facility can mean that these consumers have to pay more for utility bills (gas, electricity and telephone). This can result in the poor paying more for the same level of service. Therefore the impact goes much wider than just the financial services industry. It may also prevent them from entering the consumer credit market because of a limited financial history.



Although payment of social security and other benefits is being transferred to Direct Payment systems, anecdotal evidence in Northern Ireland suggests that the majority of consumers are choosing Post Office Card accounts and not the alternative option of Basic Bank Accounts. As a result the desired impact of all consumers having a bank account is still some way off.

The importance of a bank account cannot be understated. The Competition Commission itself recognises that:

2.36. PCAs provide customers with money transmission and deposit-holding services and, through overdrafts, may act as a source of credit. Over 85 per cent of UK households are believed to have at least one current account. PCAs generate over £5 billion in income for the banks in the form of net interest and fees....PCAs are also a 'gateway' through which suppliers can sell other financial products, such as credit cards, personal loans and savings accounts, as a result of the relationship established through the PCA.

It is difficult to believe that the higher number of 'un-banked' consumers in Northern Ireland is not related to the excessively high charges levied on bank accounts. Any investigation of the personal current account market in Northern Ireland would be well placed to explore this link.

## NORTHERN IRELAND PERSONAL CURRENT ACCOUNTS

### The use of overdraft facilities in Northern Ireland

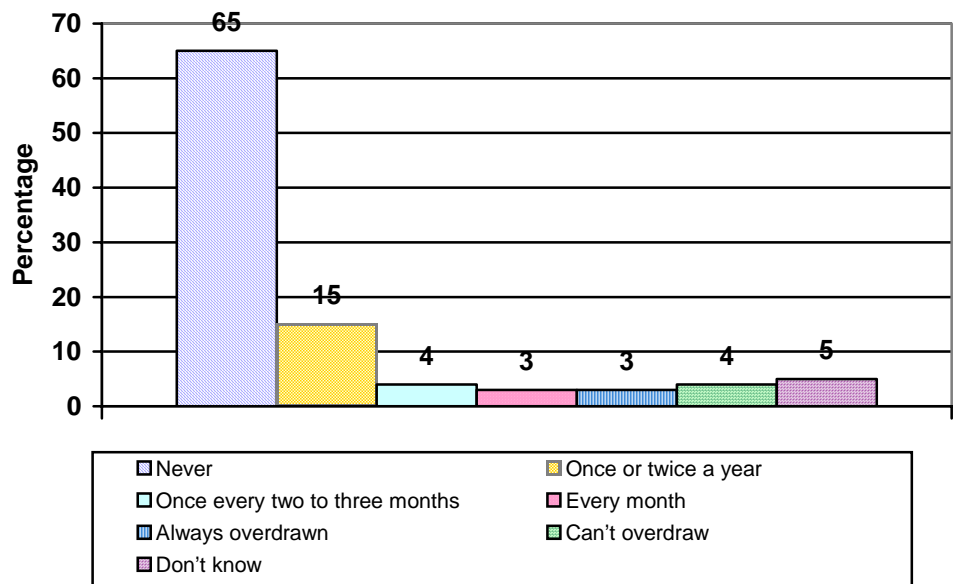
A recent General Consumer Council for Northern Ireland report *Taking The Credit: Consumer Credit and Debt in Northern Ireland* reported that 11 per cent of respondents said they had an overdraft facility. However, a quarter (25 per cent) stated they had been overdrawn in the past year at least once while 10 per cent of respondents were overdrawing on their current account at least once a quarter. Three per cent of respondents stated they were always overdrawn (refer to Figure 1).

Younger consumers were more likely to be overdrawn than older consumers, 38 per cent of those aged 34 or under stated they had been overdrawn at least once in the past twelve months compared with 22 per cent of those



aged 35 or over. So it is younger consumers who are most likely to incur the transaction charges, interest, fees and other charges levied by the Northern Ireland banks.

Figure 1: How often respondents were overdrawn in the past year



## Collusion, price parallelism and competition

Competition in the retail banking market thrives when companies compete against each other on the price of their services or the interest they offer for holding onto consumers' money. It also thrives when banks offer different products.

As the Competition Commission argues:

2.52. ..., we note that there are several features which are regarded as likely to make markets in general vulnerable to tacit collusion in pricing, that is, parallel pricing by rival firms, without any overt agreement between them, in ways which serve their common commercial interest. These features are: product homogeneity, many small customers lacking buyer power; transparent prices; stable demand; and similarity of size and cost structure among suppliers. The past behaviour of the main suppliers is also a relevant indicator...

We will return later to the issue of price transparency as this is an area where the Northern Irish banking market is peculiar. The lack of transparency on interest charges, and indeed the practice of not revealing interest charges other than on an individual basis, provides more evidence that the Northern Irish market is different and that it is not serving its consumers well.

We further note that for the mainland UK the Competition Commission argued:

2.54. ....As a result there is now some differentiation of pricing structures and some products are available which bundle PCAs with other services. However, pricing structures among the big four banks for the main PCA offering remain very similar. We consider therefore that there is still a relatively high degree of homogeneity between these banks' offerings in this market.

There has been no such change in Northern Ireland, and while the mainland banks may offer similar products the position in Northern Ireland is more extreme.



## Transparent prices

Price transparency can cut both ways for consumers. Where there is transparency the opportunity for tacit collusion is enhanced. However, where prices are not transparent there is little opportunity for consumers to compare and switch. In the latter case, there is an increased likelihood of outright collusion as consumers are unable to see whether prices are being coordinated.

What is particularly interesting in Northern Ireland is the combination of transparent and opaque pricing. Northern Irish banks are extremely unusual in the UK in levying charges for almost every aspect of the normal operation of a bank account as soon as someone becomes overdrawn. The upside of this practice is that the information on fees for cheque and ATM use are, on the whole, apparent, if unjustified. The Northern Irish banks all appear to charge for the normal operation of a personal bank account following a consumer going overdrawn, even if pre-arranged. It is also common for consumers to be charged on a quarterly basis and incur charges for the entire quarter even if they go overdrawn for just one day. The fairness of this practice is questionable to say the least. What is particularly troubling is this pattern of charging has disappeared almost completely from the wider UK personal current account market. The fact that this has had absolutely no impact on Northern Ireland is remarkable. The lack of competition in Northern Ireland and lack of impact of wider competition trends from the UK is surprising given the fact that RBS operates accounts in Great Britain and Northern Ireland, as does NAB. It would be particularly interesting to ask why this is the case.

However, whilst charges, if excessive, are transparent, the Northern Irish banks are also unique in that, in many cases, they do not have a set APR for overdrafts. While some figures are published it appears common for individuals to have to negotiate a rate. We note from the Lloyds TSB-Abbey National case that:

2.57. All the [mainland] banks publish tariffs for their PCA products. These comprise the interest rates paid on credit balances, the interest rates charged on authorized and unauthorized overdrafts and



the fees charged for particular services. These tariffs are freely available in bank branches. Similarly the terms for those accounts that combine a number of features are set out in published leaflets. Since there is little individual negotiation of prices, it is very easy for suppliers to monitor each other's pricing.

The Competition Commission argued:

2.64. ... we believe that the PCA market is vulnerable to tacit collusion in pricing.

The fact the Competition Commission could raise concerns about tacit collusion in the mainland UK market is telling. The muted nature of competition between the four big banks in the mainland UK market looks positively robust when compared with Northern Ireland. If tacit collusion is considered a risk in the more robust mainland UK market, then we can only consider the possibility of both tacit and outright collusion to be greater in Northern Ireland.

In the Lloyds TSB-Abbey National merger case the Competition Commission concluded in its section on the public interest:

We see the PCA market as one in which change has been slow over many years but where there are now signs of more rapid development and some strengthening of competition. Nevertheless the constraints on the development of competition are considerable:

(a) The entrenched position of the big four remains strong. What little market share they have lost through erosion by entrants has been recouped as a result of business acquisitions.

(b) Customers tend to see switching between banks as a difficult and unrewarding process, and the rate of switching is very low. Action is being taken to ease the process but there is little sign yet of an actual increase in switching.

(c) Although telephone and Internet-based banks, offering better price terms than branch based banks, have made some progress, they remain niche players. The great majority of customers continue to bank with multi-service providers which include a national branch network in their range of distribution.



(d) Branch-based players which have entered in the last ten years, springing from the building society movement, have grown market share only slowly despite their more favourable terms and sustained marketing campaigns.

(e) Other entry by operators not related to the incumbent banks has been very limited.

In these circumstances well-established rivals to the traditional banks are important for competition.

The entrenched position of the big four in Northern Ireland is stronger than it is on the mainland and there is even less entry from new players. This limited new entry has had a marginal impact and has certainly not made the products offered by the banks more competitive. The individual nature of charging, combined with a lack of transparency on interest rates, makes switching, which is in all events limited, even less likely in Northern Ireland.

The lack of entry is particularly troubling given the extremely poor performance of every bank account offered by the big four in Northern Ireland. Given that the banks charge for almost every aspect of the banking relationship, which mainland banks tend not to do, and do not publish the interest rates they charge, you would have thought that other banks would be chomping at the bit to enter the market.

The position of the mainland UK banks that own banks in Northern Ireland is troubling. Northern Bank is owned by National Australia Bank (NAB) which also owns Clydesdale and Yorkshire Banks. RBS owns Ulster Bank, as well as RBS, NatWest, and Coutts. They appear happy for their customers in Northern Ireland to have significantly poorer performing accounts than their customers elsewhere in the UK. These banks, along with the two independent banks, appear to have decided to carve Northern Ireland away from the competition in the rest of the country and simply charge what they want.

#### **Relative performance of Northern Irish retail banks**

There are two ways of comparing the Northern Ireland banks' offer to consumers. Assuming that the Northern Irish retail banking market is a



separate one from the overall UK market, the first is to compare the offers of the Northern Irish banks themselves. The second is to compare the offering of Northern Irish banks with those made in the rest of the UK. This is useful not just to compare the competitiveness of the Northern Irish bank products; it will also show the products that could be offered, in particular by those Northern Irish banks owned by larger parent companies operating on the mainland. The profitability per Northern Irish personal current account could also be reviewed against those in the rest of the UK.

### **The Northern Irish banks compared with each other**

If we assume that an effectively functioning market will drive prices down to the cost of the marginal consumer, we can expect to see continual reductions in charges and some degree of differentiation at any one time. The presence of parallel offerings can point to a competitively perfect market (a rarity), or it can point to collusion, tacit or absolute.

Although we have included the Bank of Ireland Freeway account, this is only offered to consumers outside of Northern Ireland. The fact that it tends to offer considerably better terms than those accounts offered within Northern Ireland is a constant reminder of the scale of the problem faced.

All data are correct at time of submission of the super-complaint.



*Table 1: Basic personal current account details*

	Monthly account fee (£)	Minimum funding requirement	Credit interest on £1 (%)	Credit interest on £1,000 (%)
<i>Bank of Ireland Freeway</i>			0	0
Bank Of Ireland Clear Account (level 1)		1,500	0	0
Bank Of Ireland Clear Account (level 2)		500	0	0
Bank Of Ireland Clear Account (level 3)			0.10	0.10
First Trust Bank Bonus Account	2.00		0.10	0.10
First Trust Bank Current Account			0	0
Northern Bank ChequeMaster			0.10	0.10
Northern Bank Current Account			0	0
Northern Bank Principal Account			0.10	0.10
Ulster Bank Current Account			0	0

NB Bank Of Ireland Clear Accounts levels 1 & 2 are offering free banking for the first year of the account.

As table 1 indicates there is no basic personal current account from the four main Northern Irish banks that provides a reasonable interest rate for staying in credit. The presence of accounts with a zero interest rate is quite rare in comparison to mainland banks. It would appear that three of the main four banks follow almost exactly the same strategy of having two main basic personal current accounts, one that pays no interest at all and another that pays 0.1 per cent interest. The position of First Trust Bank is rather perverse, having a 'Bonus' account that pays a paltry 0.1 per cent interest per month and has a fee of £2 per month. This bank account would require you to have a consistent positive balance of at least £2,000 every month just to break even on charges alone. Given the improved efforts on the mainland by a number of banks to offer improved credit rates on personal current accounts, this lack of competition between any of the four main Northern Ireland banks is surprising.



*Table 2: Transaction charges information*

	Transaction charges (p)	Overdraft arrangement fee - % (min £)	Monthly overdraft fee (£)
<i>Bank of Ireland Freeway</i>		1 (10) *	6.00
Bank of Ireland Clear Account (level 1)	43-58	£25	8.00**
Bank of Ireland Clear Account (level 2)	43-58	£25	8.00**
Bank of Ireland Clear Account (level 3)	43-58	£25	8.00**
First Trust Bank Bonus Account		1 (30)	6.50 **
First Trust Bank Current Account	40-58	1 (30)	7.50 **
Northern Bank ChequeMaster		£25	9.50
Northern Bank Current Account	43-58	1 (25)	7.50 **
Northern Bank Principal Account		negotiable	7.50
Ulster Bank Current Account	42-57	1 (20)	8.00 **

\* Only for overdrafts over £200

\*\* Quarterly fee

Table 2 indicates there is relatively little competition between the big four banks in charging for operating an account. There is a lack of clarity about exactly how and when charges are levied and we would very much welcome the OFT's clarification of this. Northern Irish banks operate a charging system that appears to operate on a number of levels:

1. Charges are made for monthly account usage. This is not in itself unique, although it is unusual on unbundled accounts.
2. Transaction charges are levied once an overdraft is breached or reached for a period arbitrarily defined by the bank.
3. Charges are levied for administrative functions, irrespective of overdraft status, such as setting up standing orders, amending those orders and indeed setting up overdrafts.
4. Charges for many credit products lack transparency.

The recent introduction by Bank of Ireland of the Clear Account saw the range of their charges for personal current accounts change from 42-56 pence per transaction to 43-58 pence. This brings it exactly into line with



the charges of the Northern Bank current account. The transaction charges for items such as cheque and ATM use and setting up direct debits are remarkably similar. As table 3 indicates, the variance in charges for individual account transactions is 1p or 2p at most. This is hardly the sort of charge-based competition that would encourage switching. Again there appears to be a parallel strategy among the main banks to operate tiered bank accounts, effectively segmenting the market and charging the same prices for each segmented product.

It should be noted that when a retail bank launches a new account it is usually done to offer consumers a better deal and indeed to compete with rivals. The fact that on launching a new personal current account the Bank of Ireland appears to have raised its overall charges probably sums up the state of competition in the Northern Ireland personal current account market.



*Table 3: Individual activity transaction charges (if in debit)*

	Cheque	Debit Card	Standing Order	ATM	Direct Debit
Ulster Bank U First Current Account	0	0	0	0	0
Ulster Bank Current Account	0.57	0.42	0.57	0.42	0.42
Northern Bank Current Account	0.58	0.43	0.58	0.43	0.43
Northern Bank Cheque Master	0	0	0	0	0
Northern Bank Principal Account	0	0	0	0	0
First Trust Bank Current Account	0.59	0.43	0.59	0.43	0.43
First Trust Bank Bonus Account	0	0	0	0	0
Bank of Ireland Clear Account (level 1)*	0.58	0.43	0.58	0.43	0.43
Bank of Ireland Clear Account (level 2)	0.58	0.43	0.58	0.43	0.43
Bank of Ireland Clear Account (level 3)	0.58	0.43	0.58	0.43	0.43
<i>Bank of Ireland Freeway Account</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Maximum variance (pence)	2	1	2	1	1

\* Customers will not incur fees if they do not overdraw their account by more than £200



*Table 4: Basic bank account overdraft charges*

	Annual overdraft interest rate (%)	Overdraft one (£)*	Overdraft two (£)*
<i>Bank of Ireland Freeway</i>	<i>14.88</i>	<i>26</i>	<i>109</i>
Bank of Ireland Clear Account (level 1)	8.84	47	214
Bank of Ireland Clear Account (level 2)	13.24	104	224
Bank Of Ireland Clear Account (level 3)	21.34	105	240
First Trust Bank Bonus Account	**	81	109
First Trust Bank Current Account	**	105	217
Northern Bank ChequeMaster	11.84	64	165
Northern Bank Current Account	**	102	220
Northern Bank Principal Account	**	31 ***	117 ***
Ulster Bank Current Account	**	98	202

\* Estimated rates using average charges across the sector for overdrafts. Overdraft one shows the annual cost of running a £100 authorised overdraft for one week per quarter. Overdraft two shows the annual cost of a £500 authorised overdraft for two weeks per month.

\*\* Rates are individually determined

\*\*\* Cost excludes negotiable arrangement fee

The lack of competition between the four Northern Irish banks on charges and credit is amplified by the problem in the overdraft market. The analysis of the overdraft rates offered by the four main banks is complicated by the fact that many of them engage in individual tailoring of overdraft rates. This not only makes getting an advertised rate problematic, but it makes the possibility of direct competition on overdraft charges difficult. It also hands enormous power to the bank with whom the consumer is attempting to negotiate an overdraft. In that light we have tended to calculate the overdraft scenarios on the basis of estimated rates using average charges across the sector for overdrafts. However, again we are concerned that the main banks do not appear willing to compete with each other on overdraft rates or fees. We would particularly welcome any light that the OFT can shed on the actual charges for overdrafts.



## Packaged accounts

*Table 5: Packaged accounts credit and fees*

	Monthly account fee (£)	Credit interest on £1 (%)	Credit interest on £1,000 (%)
First Trust Bank Packaged Account	8.00	1.00	1.00
Ulster Bank U First Current Account	7.00	1.00	1.00

*Table 6: Packaged accounts overdrafts and costs*

	Authorised overdrafts				Costs & ratings		
	Interest-free limit (£)	No fees on authorised overdrafts	Fee-free limit (£)	Arrangement fee - % (min £)	Annual overdraft interest rate (%)	Overdraft one (£)*	Overdraft two (£)*
First Trust Bank Packaged Account	100		100	1 (30)	13.75	96	150
Ulster Bank U First Current Account	250	✓		1 (20)	Neg.	84	118

\* Estimated rates using average charges across the sector for overdrafts. Overdraft one shows the annual cost of running a £100 authorised overdraft for one week per quarter. Overdraft two shows the annual cost of a £500 authorised overdraft for two weeks per month.

Most banks now offer packaged accounts, namely those accounts that include additional bundled products, such as travel insurance and credit card protection. Two Northern Irish banks offer such products. As with the normal personal current accounts the degree of similarity both in what is charged for and how much is charged is clear. We note that First Trust has recently increased the interest it offers on credit from 0.8 per cent to 1.00 per cent. While displaying the usual parallelism in charging at least it is an upward movement.



## Northern Irish banks in comparison with mainland UK banks

The second useful comparison is between the offers of the Northern Irish banks and those of the mainland UK banks. As the UK is supposed to be a single market, products on the mainland should theoretically be on offer across the entire UK as the regulation of banks and other financial services appear to be the same across the UK. In addition, two of the Northern Irish banks are actually owned by parent companies with operations in mainland UK (RBS/Ulster Bank and NAB/Northern Bank). So it is difficult to understand why these banks don't offer the same accounts in Northern Ireland as in the rest of the UK. Indeed scale economies, advertising costs and simple efficiency arguments would suggest that this would be an optimum competition strategy. Finally, the most likely entrants to the Northern Irish banking market are other UK banks.

We have reproduced a table in appendix 1 which outlines the main characteristics of the personal current account market in the UK. It lists all Northern Irish and mainland UK banks. For the sake of brevity here we will focus on some of the more notable differences between banks in Northern Ireland and on the mainland.

*Table 7: Northern Irish accounts versus Best Buys*

	Monthly fee (£)	Min. funding requirement (£)	Credit interest on £1 (%)	Credit interest on £1,000 (%)	Branch banking	Full internet banking	Full telephone banking
<b>Best Buys</b>							
Alliance & Leicester Premier Current Account		500	2.12	2.12	✓	✓	✓
Alliance & Leicester Premier Plus Current Account		1,000	3.75 *	3.75 *	✓	✓	✓
Cahoot Current Account			4.25 **	4.25 **		✓	
First Direct Bank Account		1,000	2.00	2.00		✓	✓
Intelligent Finance (IF) Current Account			2.75	2.75		✓	✓



Nationwide BS FlexAccount		1,000	3.00 ***	3.00 ***	✓	✓	
Smile Current Account			3.30	3.30		✓	✓
<b>Northern Irish accounts</b>							
<i>Bank of Ireland Freeway</i>					✓		
Bank of Ireland Clear Account (level 1)		1,500			✓		
Bank of Ireland Clear Account (level 2)		500			✓		
Bank of Ireland Clear Account (level 3)			0.10	0.10	✓		
First Trust Bank Bonus Account	2		0.10	0.10	✓		
First Trust Bank Current Account					✓		
Northern Bank ChequeMaster			0.10	0.10	✓		
Northern Bank Current Account					✓		
Northern Bank Principal Account			0.10	0.10	✓		
Ulster Bank Current Account					✓		

\* 5.5 per cent payable on credit balances up to £2,500 until 31 December 2005

\*\* 4.35 per cent without a chequebook

\*\*\* Rate is 0.5 per cent for monthly funding under £500 and 1.5 per cent for £500 to £999

Table 7 outlines the basic credit offering of our Best Buy bank accounts versus the Northern Irish bank accounts. The Northern Irish banks generally pay between 20 times and 42 times less interest than our Best Buys. It is worth noting that the comparison is not entirely fair to the Northern Irish banks as there are funding requirements for many Best Buys and a number are internet or phone bank operations. However, we note that Bank of Ireland, in the launch of their tiered Clear Account, appears to be establishing graduated funding requirements, without offering any interest payments.



**Table 8: Northern Irish accounts versus Best Buys**

	Interest-free limit (£)	No fees on authorised overdrafts	Fee-free limit (£)	Transaction charges (p)	Arrangement fee - % (min £)	Monthly overdraft fee (£)
<b>Best Buys</b>						
Alliance & Leicester Premier Current Account***	20	✓				
Alliance & Leicester Premier Plus Current Account***	20	✓				
Cahoot Current Account	250	✓				
First Direct Bank Account			1,000		1.5 (20)	
Intelligent Finance (IF) Current Account		✓				
Nationwide BS FlexAccount		✓				
Smile Current Account		✓				
<b>Northern Irish accounts</b>						
Bank of Ireland Freeway			50		1 (10)	6.00
Bank of Ireland Clear Account (level 1)				43-58	£25	8.00*
Bank of Ireland Clear Account (level 2)				43-58	£25	8.00*
Bank of Ireland Clear Account (level 3)				43-58	£25	8.00*
First Trust Bank Bonus Account					1 (30)	6.50*
First Trust Bank Current Account				40-58	1 (30)	7.50*
Northern Bank ChequeMaster					£25	9.50
Northern Bank Current Account				43-58	1 (25)	7.50*
Northern Bank Principal Account					negotiable	7.50
Ulster Bank Current Account				42-57	1 (20)	8.00*

\* This is a quarterly fee

\*\* Only for overdrafts over £200

\*\*\* 12 months interest free for new customers



The contrast between Best Buys and the Northern Irish banks is perhaps most stark in table 8. There is a real disparity between charging structures, with Northern Irish banks charging significant sums for things that Best Buy banks provide for free. The presence of fees specifically for overdrafts and for transactions adds significantly to costs for Northern Irish consumers.

*Table 9: Northern Irish accounts versus Best Buys: overdraft rates*

	Annual overdraft interest rate (%)	Overdraft one (£)	Overdraft two (£)
<b>Best Buys</b>			
Alliance & Leicester Premier Current Account	6.90	1	16
Alliance & Leicester Premier Plus Current Account	6.90	1	16
Cahoot Current Account	10.00	0	11
First Direct Bank Account	9.90	1	22
Intelligent Finance (IF) Current Account	9.80	1	22
Nationwide BS FlexAccount	6.75	1	15
Smile Current Account	9.90	1	22
<b>Other Accounts</b>			
Bank of Ireland Freeway	14.88	26	109
Bank of Ireland Clear Account (level 1)	8.75	1	214
Bank of Ireland Clear Account (level 2)	12.75	104	224
Bank of Ireland Clear Account (level 3)	19.5	105	236
First Trust Bank Bonus Account	see *	81	109
First Trust Bank Current Account	see *	105	217
Northern Bank ChequeMaster	11.84	64	165
Northern Bank Current Account	see *	102	220
Northern Bank Principal Account	see *	31 **	117 **
Ulster Bank Current Account	see *	98	202

\* Rates are individually determined

\*\* Cost excludes negotiable arrangement fee

Overdraft one shows the annual cost of running a £100 authorised overdraft for one week per quarter. Overdraft two shows the annual cost of a £500 authorised overdraft for two weeks per month.



Table 9 again provides some interesting evidence of the differences between Northern Irish banks and mainland UK banks. The greater charges for overdrafts are significant, but perhaps more so is the fact that many accounts have opaque overdraft rates that have to be negotiated between the bank and the consumer.

### Other comparators

It can be argued that comparing Northern Irish banks to our Best Buy bank accounts may not be entirely fair. We have thus, in appendix 2, set out the basic data comparing Northern Irish banks with the big four high street banks in the UK mainland. The pattern seen in the Best Buys comparison remains strong. This pattern is set out along the following lines:

1. Northern Irish banks pay considerably less interest than rivals when accounts are in credit.
2. Northern Irish banks charge significant sums for activities that other banks do not charge for at all.
3. Northern Irish bank charges often lack transparency.
4. Northern Irish banks display striking similarity in terms of what they charge for and the amount they charge.

We have also set out in appendix 3 a comparison of Northern Irish banks versus Scottish banks. It has to be noted that Scottish banks are more likely to have expanded into the rest of the UK market and so are not as closely tied into their home market. However, the comparison is useful in assessing the behaviour of Northern Irish banks. This is because Scotland is a separate country within the UK with a distinct culture and business history. The Scottish banks also print their own banknotes. If the reason for the isolation of the Northern Irish banks is some form of excessive loyalty meaning consumers value their banks more highly in Northern Ireland than elsewhere, then one would expect to see a similar pattern of behaviour and charges in Scotland.

What is clear from the comparison with Scottish banks is again the very different pattern of behaviour and charges. While both Scottish and Northern Irish banks are clearly identifiable and market their products



heavily in their home markets, the Scottish banks have similar charging structures and interest payments to other UK banks. Again, Northern Irish banks charge for things that others do not and charge fees and interest that are out of kilter with the rest of the UK retail banking sector.

### CONCERNS AND QUESTIONS FOR ANALYSIS

Our analysis points to a number of conclusions about the Northern Irish personal current account market:

1. Northern Irish banks pay considerably less interest than rivals when accounts are in credit.
2. Northern Irish banks charge significant sums for activities that other banks do not charge for at all.
3. Northern Irish bank charges often lack transparency.
4. Northern Irish banks display a striking similarity in terms of what they charge for and the amount they charge.

While the conclusions are clear from the comparative data, we are concerned as to why this situation has occurred and what contributory factors exist to embed the problem.

#### Lack of entry

Given the very poor products offered by the main four Northern Irish banks, one would expect to have seen a significant degree of market entry by other retail banks. It is interesting that this has not occurred. The gulf between the products offered by Northern Irish banks and those on the mainland is so great that this lack of entry points to some troubling questions on its own. In 1996 there were 335 bank branches in Northern Ireland, but by 2000 there were 303. We are aware that in the cinema business the closure of premises has often been accompanied by restrictive clauses preventing them being used as a cinema again. We would be interested to know what has happened to the closed bank branches. We would also be interested to know how many of these closed branches were in prime locations and how many in marginal or isolated areas.



The lack of entry and market penetration could, of course, also be affected by consumers' unwillingness to switch. This in itself is not unusual. However, the opportunity to switch between those banks with significant branch networks is frustrated by two significant factors. Firstly, there is no effective competition between the four main banks in Northern Ireland. Secondly, the lack of transparency in many instances about actual interest rates charges for overdrafts makes shopping around next to impossible. The lack of switching is less a cause of the anti-competitive behaviour of the Northern Irish banks and more a symptom of the banks' parallel behaviour and their barriers to switching.

We note that the growth of telephone and internet banking has not been particularly marked in Northern Ireland. The arrival of First Direct in telephone banking and Smile in internet accounts does not appear to have triggered much of a competitive response in Northern Ireland. While most UK mainland banks have responded to these innovations by adapting their own offering and increasing the functionality of personal current accounts, the response in Northern Ireland appears to be slower.

#### **Lack of competition**

While a lack of market entry has certainly contributed to the lack of competition in Northern Irish retail banking, there also appears to be an underlying lack of competition. The extent of this lack of competition is remarkable in what is supposed to be a national financial services market. The fact that Northern Irish banks actually levy a range of charges for many aspects of the retail banking relationship when virtually no mainland bank does indicates the isolation of the market from the rest of the UK. Although there is a range of circumstances when charges are levied, the competition between banks appears to be in when to levy charges rather than when not to. When a market shifts to a new business model, which has occurred in the mainland on personal current account charges, one would expect to see at least one player in the market innovate and charge differently to its competitors. This is particularly the case given that two of the Northern Irish banks are actually owned by larger mainland UK banks. The complete unwillingness to offer Northern Irish consumers the sorts of account terms offered in the rest of the UK displays a rare lack of competition.



There is also a very worrying degree of parallelism in the Northern Irish banking market that suggests, at the very least, tacit collusion. The Competition Commission has already clearly pointed to the problem of tacit collusion in retail banking in the UK. The scale of the problem in Northern Ireland is significantly greater than that for the UK as a whole. The striking similarity in what is charged for and the amount charged is remarkable in anything resembling a market. We would like to see the OFT look at what mechanisms exist in the Northern Irish banking market for creating and maintaining this parallelism and also to discover why no individual bank has tried to do anything differently.

#### **Lack of innovation**

The very high degree of parallelism in the market is re-enforced by a remarkable lack of innovation on the part of the Northern Irish banks. The low level of full phone and internet banking and the lack of any deviation in charges among the main four banks indicates that innovation is almost entirely absent from this market.

#### **Unwillingness of UK banks with sub offices in NI to break ranks**

We are particularly concerned about the reasons why those banks in Northern Ireland with larger UK parents continue to offer such incredibly uncompetitive products to consumers in one part of the UK. We assume that there must be some scale economies from offering a single product in a single country and there must be other advantages in unifying product ranges within a group. We are also surprised that no bank has broken ranks, given the extremely poor products in Northern Ireland. If all Northern Irish customers were offered the same bank accounts available to UK bank customers then the poor performance of Northern Irish products would be quickly exposed. Again, we would welcome the OFT taking a close look at why UK based banks choose to offer very different and very poor products to residents in one part of the UK.

#### **Lack of transparency in accounts and charges**

As we have argued above we are very concerned about the lack of transparency in the charges of Northern Irish banks accounts. It is



remarkable that some bank accounts do not publish clear interest charges for overdrafts and require consumers to negotiate individually. It can be argued that negotiating individual charges reflects an advanced market that provides consumers with significant choice. However, this is unlikely to be the case in a market where competition is generally stifled and where the consumer is in a weak negotiating position with their bank.

## CONCLUSION

We are convinced that the Northern Irish retail banking market does not provide personal current accounts that work for consumers. The enormous difference between the products available in Northern Ireland and in the rest of the UK suggests the Northern Irish market is separate. The fact that the products on offer in Northern Ireland are so universally poor suggests a market that doesn't work for consumers. The fact that these poor products are so strikingly similar suggests that competition is almost entirely absent from Northern Irish personal current account banking. When half of the banks operating in this market are actually owned by banks offering better (but by no means the best) products in the rest of the UK, one has to question whether the parallelism in Northern Ireland is tacit or coordinated in some way.

The impact of this anti-competitive and anti-consumer market cannot be underestimated. The access problems created by an expensive retail banking market cannot be separated from the high number of people in Northern Ireland without bank accounts and the exclusion that being 'unbanked' creates for individuals is a significant and worrying side effect of a dysfunctional retail banking market. The impact of this dysfunctional market is thus broader than simply consumers paying too much for their banking services.