

<b>Institution:</b> Bangor University, 10007857		
<b>Unit of Assessment:</b> UoA 17 - Business and Management Studies		
<b>Title of case study:</b> Constraining the loyalty penalty and complexity costs in retail financial service markets.		
<b>Period when the underpinning research was undertaken:</b> 2011 - 2017		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b> John Ashton	<b>Role(s) (e.g. job title):</b> Professor in Banking	<b>Period(s) employed by submitting HEI:</b> May 2010 - present
<b>Period when the claimed impact occurred:</b> 2014 - 2018		
<b>Is this case study continued from a case study submitted in 2014?</b> N		
<b>1. Summary of the impact</b>		
<p>Professor Ashton provided the first assessment of the loyalty penalty, how loyal customers pay more than new customers; and complexity costs, how providers raise prices of complicated products, within UK retail financial services markets. These findings have informed UK and EU regulations. Ashton advised on work considering complexity for the European Commission's Directorate General for Health and Consumer Protection. The subsequent directive has estimated benefits between EUR2,352,210,000 (04-2013) and EUR4,582,900,000 (04-2013) for EU personal current account holders between 2016 and 2026. The UK's Financial Conduct Authority has reported that its policies addressing the loyalty penalty and informed by Ashton's research, will benefit UK customers by GBP261,000,000 annually.</p>		
<b>2. Underpinning research</b>		
<p>Research at Bangor University, led by Professor Ashton in collaboration with Newcastle University [3.1, 3.2, 3.3, 3.4] examined interest rate and fee setting in the UK cash savings and personal current account markets. Ashton's research differs from preceding work through exploiting a unique, underutilised, and highly disaggregated data set of individual financial services and prices from Moneyfacts PLC. Employing this data, Ashton's work provides evidence that pricing is influenced by the complexity of product offerings [3.1, 3.2, 3.4] and inertia in customer decision making [3.3]. These are areas often overlooked in academic and policy research. The research includes the only published empirical evidence of customer costs of complexity, inertia or 'loyalty' in the UK cash savings and personal current account markets. Specifically, this work reports, that by not switching banks, or not fully comprehending the costs of using cash saving and personal current accounts, customers receive less attractively priced financial services.</p> <p>For the cash saving market, 3.1 empirically examines if interest rates paid on deposits vary with the age of the deposit product. As a deposit product ages, banks will profit maximise through, attracting and holding customers for prolonged periods, encouraging their customers to accrue large deposit balances and by providing low and declining levels of interest. The research reported this loyalty penalty has occurred since the early 1990s, persists in periods of low interest rates and varies with the type of depository institution; aspects neglected in other studies. This finding provided an academic foundation for subsequent policy work addressing this loyalty penalty in the cash savings market.</p>		

Research examining pricing in UK personal current accounts (also termed payment accounts) emerged from a Friends Provident Charitable Foundation grant-funded project [3.a] in 2011 and led to a report assessing the costs of using UK personal current accounts [3.2]. This work evolved into an academic paper, (Ashton and Gregoriou, 2017) [3.3] and informed expert guidance provided by Ashton for a European Commission (EC) consultancy report on the pricing of payments accounts across the European Union. This work [3.2, 3.3] examined the form and complexity of pricing approaches in personal current accounts and challenged the prevailing populist ‘reverse Robin Hood effect’ theory of pricing in this market. This theory predicts poor customers using overdraft services subsidise the provision of payment services for ‘rich’ personal current account users. A key innovation of [3.2] was to quantify this effect using disaggregated product level data and to measure the implicit interest costs of not switching banking services. It has since been acknowledged by the Financial Services Consumer Panel “that it is entirely possible there never was a regressive cross-subsidy between consumers .... if net credit interest forgone is taken into account”. This method of analysis, using highly disaggregated product level data and implicit interest costs arising from not switching personal current accounts has subsequently informed methods employed in EC work.

### 3. References to the research

#### Research Outputs

3.1 Anderson, R., Ashton, J.K., and Hudson, R. S. (2014) The Influence of Product Age on Pricing Decisions: An Examination of Bank Deposit Interest Rate Setting. *Journal of International Financial Markets, Institutions and Money*. **31**(8), 216-30, [DOI](#) (Peer reviewed journal).

3.2 Ashton, J.K., and Hudson, R.S. (2013) What does Free Banking Cost? An assessment of the costs of using UK personal current accounts, *Friends Provident Charitable Foundation*, [Web link](#) (Research report for external body).

3.3 Ashton, J.K., and Gregoriou, A. (2017) Does an overdraft facility influence the customer costs of using a personal current account? *International Journal of the Economics of Business*, **24**(1), 1-26. [DOI](#) (Peer reviewed journal).

3.4 Ashton, J.K., Gregoriou, A., and Healy, J. V. (2016) The relative influence of price and non-price factors on short-term retail deposit quantities? *The European Journal of Finance*, **22**(11), 1086–1108. [DOI](#) (Peer reviewed journal).

#### Grants

3.a Ashton, J.K. (2012 - 2013) *Costing current account payment services*, Friends Provident Charitable Foundation, GBP25,000, (BU: R12C01)

### 4. Details of the impact

#### Context

Retail financial services markets have long been the focus of considerable regulatory attention. As these services have become ubiquitous, how these products are priced and used has significant societal implications. These markets are also large: the UK cash savings market was valued as GBP702,000,000,000 in 2013 with products held by 87% of the UK population [5.1]. The personal current account market is used by over 90% of the UK population.

Professor Ashton’s policy engagement is long standing [5.2, 5.3] and includes participation in the UK Payment System Task Force, providing training for the Financial Conduct Authority (FCA) and membership of the Competition and Markets Authority (CMA) academic panel. This contribution is evidenced by citation of published articles in a range of policy documentation [5.1, 5.4, 5.5, 5.6, 5.7, 5.8], and acknowledgement of Ashton’s contribution [5.1, 5.5, 5.7].

The Chartered Bankers Institute and Building Societies Association report Ashton’s work has addressed ‘issues of significant and immediate concern’ for the financial services and banking industry [5.2, 5.3].

**Impact – Cash Savings Market**

Ashton's research on customer inertia influenced policies to counter the 'loyalty' penalty whereby longstanding customers receive lower interest rates on their cash savings relative to other customers. This new policy proposes a Single Easy Access Rate (SEAR) is applied to all easy access deposit and ISA accounts, no later than 1 year after the accounts' introduction [5.6]. This policy addresses concerns of the FCA that "*older [deposit] accounts receive significantly lower interest rates than recently opened accounts*" and subsequently "*low switching may be a symptom of weak competition and consumers may obtain lower returns than in a competitive market*" [5.1]. One of the policy's authors reported "*The FCA's ongoing policy proposals on the cash savings market has significantly benefitted from Professor Ashton's subject expertise. He has provided a detailed review of the Occasional Paper 41 (OP/41) which served as an ex ante cost benefit analysis of the different policy proposals. The review enabled us to revise the paper and take into account top tier academic methodology and research. This included Professor Ashton's 2014 publication in the Journal of International Financial Markets, Institutions and Money*" [5.9].

The FCA discussion [5.5], occasional [5.1] and consultation [5.6] papers outlining this policy all acknowledge Ashton's contribution, by citation of past work [5.6] or citation of past work and a statement of thanks in the report preamble [5.1, 5.5]. Ashton's research on consumer inertia in the deposit account market is also cited in this policy work as the sole UK academic contribution [5.5, 5.6]. This policy is at the consultative stage with the decision to introduce rules to be made in 2021 [5.6].

**Impact – Personal Current Accounts (Payment Accounts)**

Ashton provided expert advice and guidance for one of the two consultancy reports [5.4] informing the European Union Payments Accounts Directive 2014/92/EU (SUP16.22). This Directive, introduced and applied across all EU nations in 2018, simplified the terms and conditions of payment accounts (personal current accounts). The public benefitted through improved comprehension, use, transparency and competitive operation of this essential financial service. Confirming its significance, Solicitor, Global AML Policy, HSBC Bank Plc stated "*(The Directive) has been a major advance for UK and European banking in areas of payments and funds transfer, providing a much needed uniform approach to data capture and transparency of originator and beneficiary information. In addition, the approach and identification of 'on behalf of' payments, shone a light on a much neglected but much used area of banking, providing much needed transparency on cross border payments*" [5.10]. The influence of Ashton's work in informing the final Payments Accounts Directive is recorded in the impact assessment for the Payments Accounts Directive [5.11]. The Directorate General for Health and Consumer Protection of the European Commission (DG SANCO) report the EU wide 10-year customer benefits of the Directive range from EUR2,352,210,000 (04-2013) to EUR4,582,900,000 (04-2013) [5.4].

Ashton acted as one of four experts for GHK, consultants who authored the report [5.4]. This involvement required extensive discussions as to the design, scope and form of the report as acknowledged in the report preamble. The consultancy study [5.4] devised methods to improve pricing transparency and product comparison and determine which policy options were adopted in the final directive. These methods included the highly disaggregated product level data and implicit interest costs of not switching, both approaches championed by Ashton. This contribution is acknowledged by Global AML Policy, HSBC Bank Plc, leading industry insiders, who have reported the work by Ashton "*informing the development of the Payments Account Directive has been influential in shaping policy in this area*" [5.10].

**Impact – Further**

Ashton's research has also influenced tangential policy developments. The research is cited in the Financial Services Consumer Panels' evaluation of UK overdraft policy [5.7]. Ashton also provided evidence to the CMA investigation of the 'loyalty premium' whereby passive customers lose out in multiple utility markets [5.8]. The CMA subsequently instructed regulators to address the loyalty penalty in mobile phone, broadband, mortgage insurance and cash savings markets and is investigating the loyalty costs associated with roll over contracts.

## 5. Sources to corroborate the impact

5.1 Burnik, G. and Majer, T, (2020) **Price discrimination in the cash savings market: One Rate, one solution?**, Occasional Paper 41, Financial Conduct Authority, London. Acknowledges, cites and references Ashton's work; corroborates informing policy.

<https://www.fca.org.uk/publication/occasional-papers/occasional-paper-41.pdf>

5.2 **Testimonial from Chief Executive of the Chartered Bankers Institute** (reporter on the impact) confirming Ashton's influential work in policy engagement which has addressed significant issues of immediate concern for the financial services and banking industry.

5.3 **Testimonial from Chief Economist from the Building Society Association** (reporter on the impact) confirming Ashton's influential work in policy engagement.

5.4 GHK (2013) **Quantification of economics impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts**. Prepared for DG SANCO. Corroborates Ashton's contribution and consultancy for the Impact Assessment that subsequently influenced Payments Accounts Directive 2014/92/EU (SUP16.22).

[https://ec.europa.eu/info/sites/info/files/study-on-quantification-of-the-economic-impacts-of-eu-action-to-improve-fee-transparency-comparability-and-mobility-in-the-internal-market-for-personal-payment-accounts\\_april2013\\_en.pdf](https://ec.europa.eu/info/sites/info/files/study-on-quantification-of-the-economic-impacts-of-eu-action-to-improve-fee-transparency-comparability-and-mobility-in-the-internal-market-for-personal-payment-accounts_april2013_en.pdf)

5.5 Financial Conduct Authority (2018) **Price discrimination in the cash savings market**, Discussion Paper DP18/6, Financial Conduct Authority, London. Cites Ashton's work; corroborates informing policy.

<https://www.fca.org.uk/publication/discussion/dp18-06.pdf>

5.6 Financial Conduct Authority (2020) **Introducing a Single Easy Access Rate for Cash Savings**, Consultation Paper CP 20/1\*\*\*, Financial Conduct Authority, London. Cites Ashton's work; corroborates informing policy.

<https://www.fca.org.uk/publication/consultation/cp20-01.pdf>

5.7 Financial Services Consumer Panel (2014) **Cross-subsidisation in the Personal Current Account Market**, Discussion Paper. Cites and references Ashton's work; corroborates informing policy.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/370876/Financial\\_Services\\_Consumer\\_Panel\\_discussion\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/370876/Financial_Services_Consumer_Panel_discussion_paper.pdf)

5.8 Competition and Markets Authority (2018) **Tackling the loyalty penalty**. Response to a super-complaint made by Citizens Advice on 28th September 2018, London. Appendix A. Acknowledges Bangor University Business School contribution to the investigation; corroborates informing policy.

[https://assets.publishing.service.gov.uk/media/5c194d4940f0b60c22fb8e9b/Annexes\\_and\\_glossary.pdf](https://assets.publishing.service.gov.uk/media/5c194d4940f0b60c22fb8e9b/Annexes_and_glossary.pdf)

5.9 **Testimonial letter from Associate Principal, Charles River Associates** (formerly Economist at the FCA) (reporter on the impact) confirming Ashton's influential work in policy engagement.

5.10 **Testimonial letter from Solicitor, Global AML Policy, HSBC Bank Plc** (reporter on the impact) confirming Ashton's work informing the development of the Payments Account Directive.

5.11 European Commission (2013) **Commission Staff Working Document. Executive Summary of The Impact Assessment. Accompanying the document Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features**, SWD 165 final, Brussels. Cites GHK report [5.4], for which Ashton provided expert consultancy, subsequently influenced Payments Accounts Directive 2014/92/EU (SUP16.22).

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0164>