

Pricing analysis

Introduction

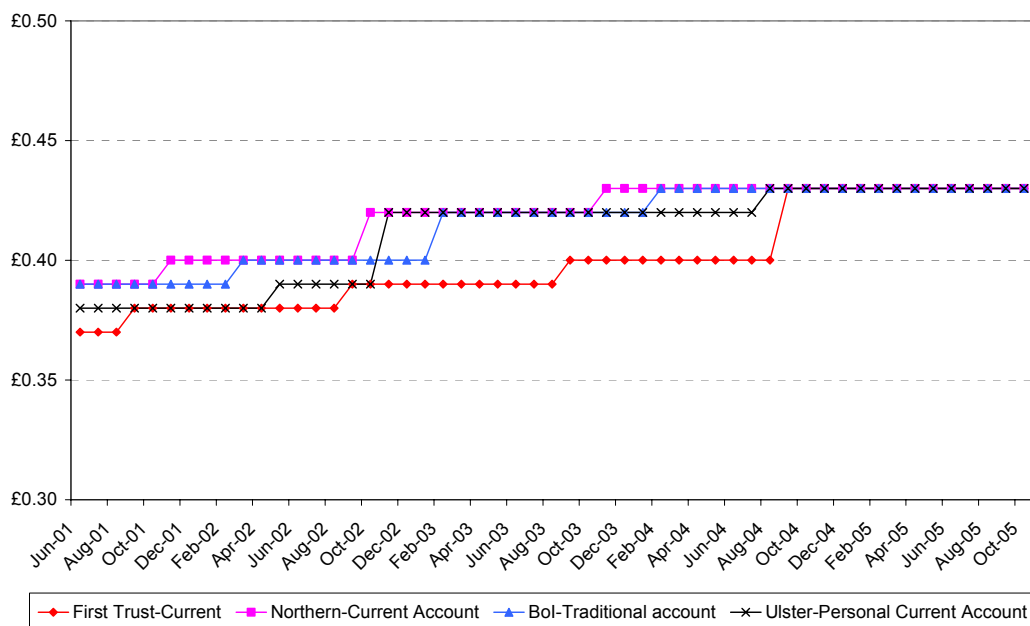
1. This appendix compares credit interest rates, some transaction charges and some ancillary charges over time for PCAs offered by the clearers and by three non-clearers.
2. Overdrafts are not covered, because on traditional PCAs rates have often been negotiated with customers. We compare the traditional PCAs as these accounted for the majority of Northern Irish PCA customers in the period considered (although we recognize that clearers have offered some accounts with different charging structures). We also look at some traditional, packaged and fee-free accounts which have recently been introduced.

Transaction charges

3. The clearers levy transaction charges on traditional PCAs when the account is overdrawn. In addition to transaction charges, the clearers apply a quarterly account maintenance charge to operate overdrawn accounts. These charges apply even for authorized overdrafts except for where a buffer operates (eg BoI's Clear accounts have some buffer facilities).
4. Northern launched Current Account Plus in February 2005 which removed these transaction charges (but most of its customers remained on the traditional PCA). Ulster eliminated these charges on all its PCAs in November 2005.
5. Transaction charges in recent years have been split into two categories: automated transactions (eg switch payments, Internet instructions, ATM withdrawals); and manual transactions (eg cheques). During the period examined, the only deviation was for Ulster, which varied the level it charged for Switch debit card transactions from other automated transactions. We compared transaction charges over the period of time from June 2001 to October 2005, using the data provided by the banks in response to our market questionnaire. None of the non-clearers applied any transaction charges or authorized overdraft charges.
6. Figure 1 compares automated debit transaction charges. The clearers maintained similar prices throughout the period (from June 2001 to October 2005). Northern raised its prices on three occasions. After each price rise, BoI appears to have matched Northern's within a four months lag. Ulster increased its price after Northern's price rise, but until the end of 2002 maintained a 1p differential. However, Ulster closed the gap with Northern after the second and third price rise. First Trust priced slightly lower than the other three banks until September 2004, but the price difference was no greater than 3p. From September 2004 to the end of the period considered (October 2005) all the clearers have been charging equally.

FIGURE 1

Automated transaction charges

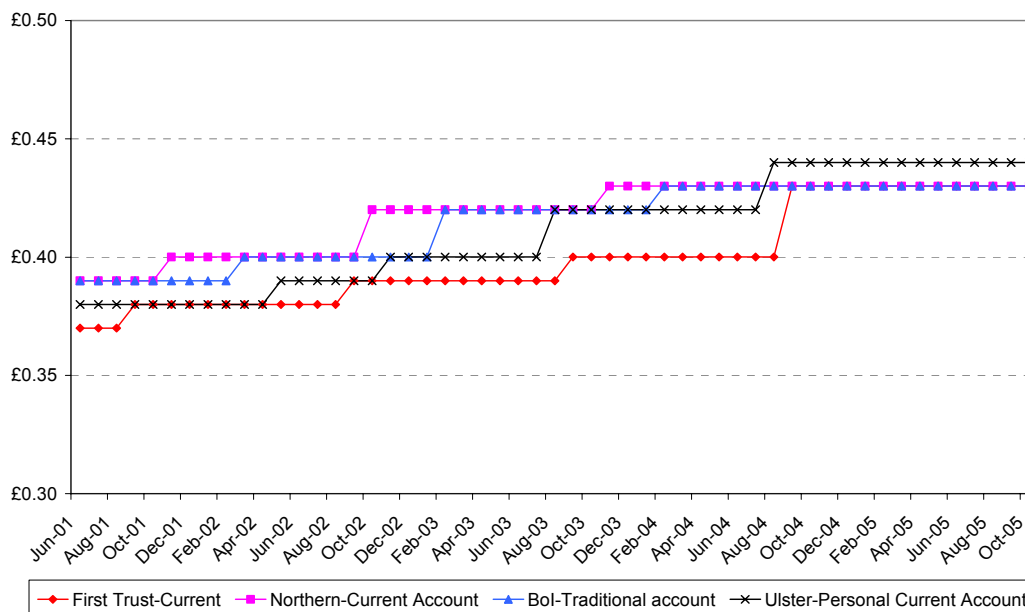


Source: CC analysis of bank data.

- Figure 2 compares debit card transaction charges, as Ulster's Switch charges differ from those for other automated transactions. Again the banks' charges appear to move in parallel with one another and do not diverge by more than 3p. Unlike the automated transaction charges, Ulster maintained a lower switch price in late 2002 and into 2003 before it followed Northern's and Bol's charges. In August 2004, it increased its prices but rather than following the level set by Northern and Bol, it set a price 1p higher and maintained this until it scrapped all transaction charges.

FIGURE 2

Debit card transaction charges

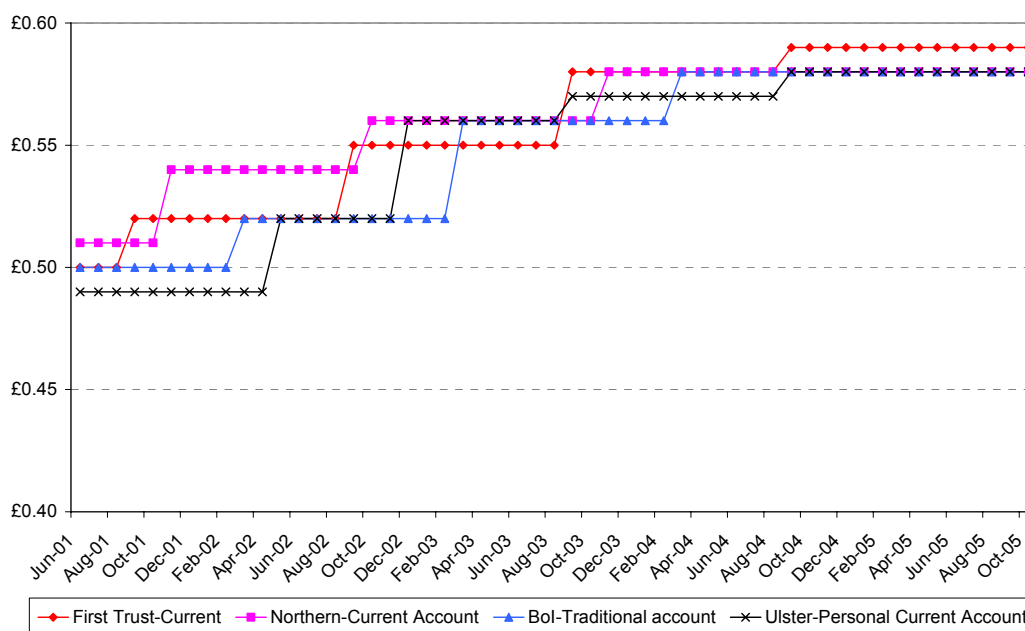


Source: CC analysis of bank data.

- Figure 3 compares manual transaction charges. Again there are similarities in the level of charges and the timing of price increases, although there has been a slightly wider dispersion of prices at times (up to 5p). In this case, each increase seems to have been initiated by First Trust rather than Northern, although Northern followed the increases one to two months later. Ulster responded after another time lag and BoI later still. Prices have not all converged on exactly the same level, although after each step they are very closely grouped.

FIGURE 3

Manual transaction charges

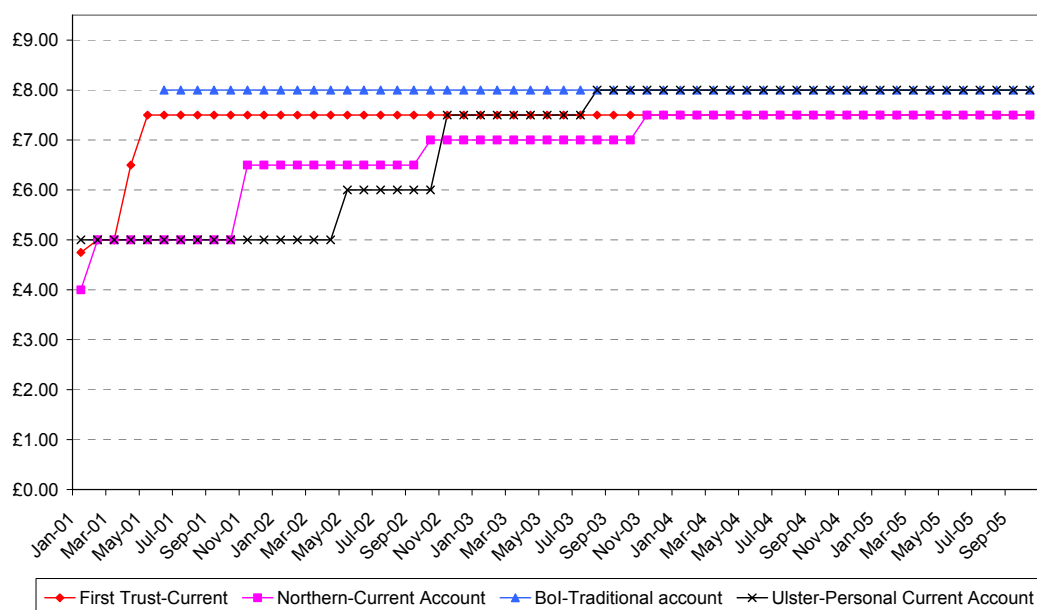


Source: CC analysis of bank data.

- Figure 4 shows account maintenance charges charged quarterly when traditional PCAs are overdrawn. Bol has charged the highest price throughout the period (£8.00). First Trust increased its charge in May 2001, but since then has maintained its price at £7.50, 6 per cent lower than Bol's price throughout the period. Northern increased its price four times, and Ulster three times, from January 2001 to November 2003. Over the last two years, two of the clearers, Bol and Ulster, maintained their prices in line at £8.00 a quarter. The other two clearers have been pricing slightly lower (£7.50). It is not obvious that any particular banks were leading patterns of price increases, but prices have converged on similar levels for all providers since mid- to late-2003, at least until the introduction of fee-free PCAs by Northern and then Ulster.

FIGURE 4

Account maintenance charges



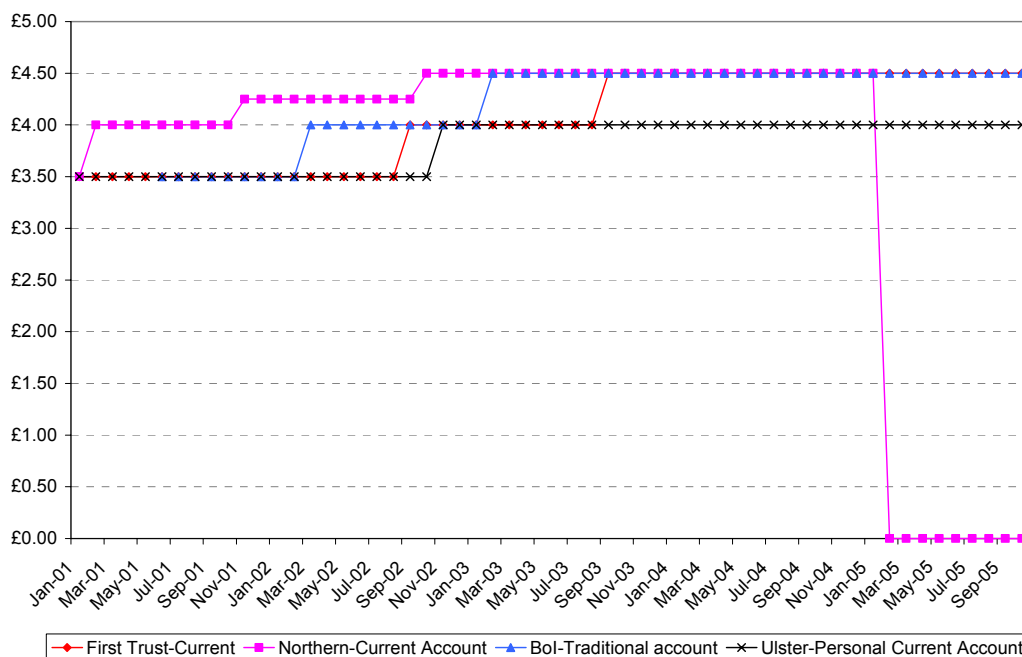
Source: CC analysis of bank data.

Ancillary charges

10. All banks apply a number of ancillary charges to their PCAs regardless of the balance on the account, although the types of charges vary between banks. Our comparison of charges over time focused on three items:
 - direct debit set-up charges;
 - standing orders set-up charges; and
 - card replacement charges.
11. We compared charges for these items charged by the clearers to customers on their traditional accounts. We repeated the same exercise for packaged accounts and accounts that the clearers launched over the last 18 months. None of the non-clearers we examined charged for any of these categories of ancillary charges.
12. Figure 5 shows direct debit set-up charges on traditional PCAs. All the clearers levied this charge in the period from January 2001 to January 2005. Northern again seems to have been the first to change prices over this period, with other banks also revising their prices upwards. Bol increased its price to Northern's level in February 2003 and First Trust did the same in September 2003. The three banks have charged equally from September 2003 to January 2005, when Northern dropped its charge to zero on all its PCAs. Ulster did not adjust its price after either the first or the second price rise, but revised its charge upwards shortly after the third one. Since then it maintained its charge at £4.00, 12 per cent lower than the other clearers' price, until November 2005 when it also eliminated this charge.

FIGURE 5

Direct debit set-up charges



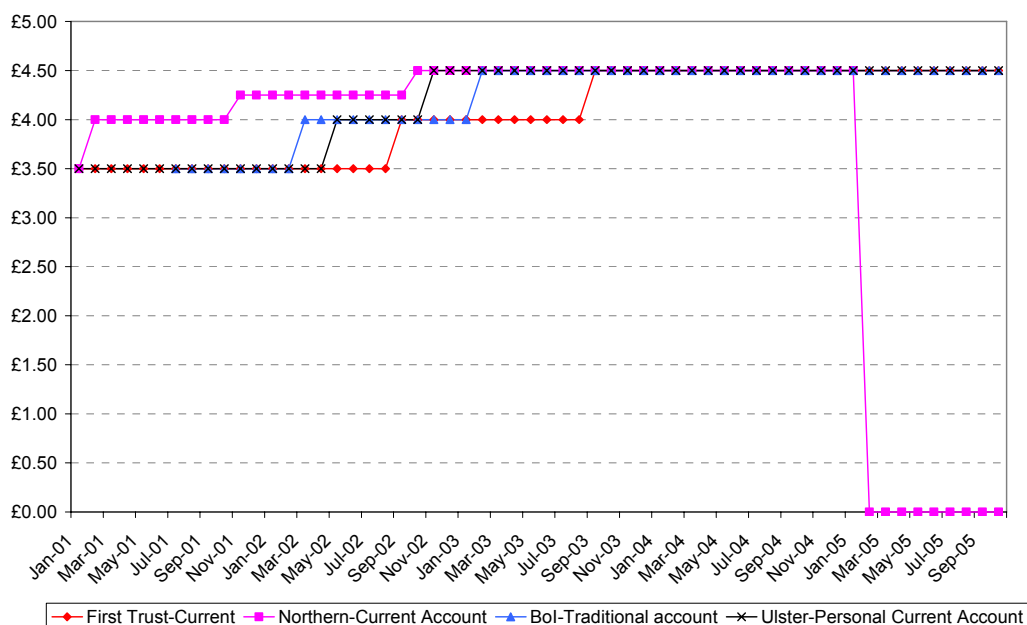
Source: CC analysis of bank data.

13. First Trust do not apply any direct debit set-up charge to customers on their packaged account, while Ulster has charged the same charges (now zero) on U-first and U-Gold as on their standard PCAs; similarly Bol charge the same charge on its new Clear accounts as applied to customers on traditional accounts.

14. Figure 6 shows standing order set up charges for the four clearers' traditional accounts; they all charged for this service in the period from January 2001 to January 2005. Northern again appears to have been the first to increase charges over this period. Other banks also revised their prices upwards after each of three price increases, but with variable time lags. By September 2003 all banks charged at £4.50 and they have maintained that level until January 2005 when Northern stopped charging for setting-up standing orders, followed by Ulster in November 2005.

FIGURE 6

Standing order set-up charges



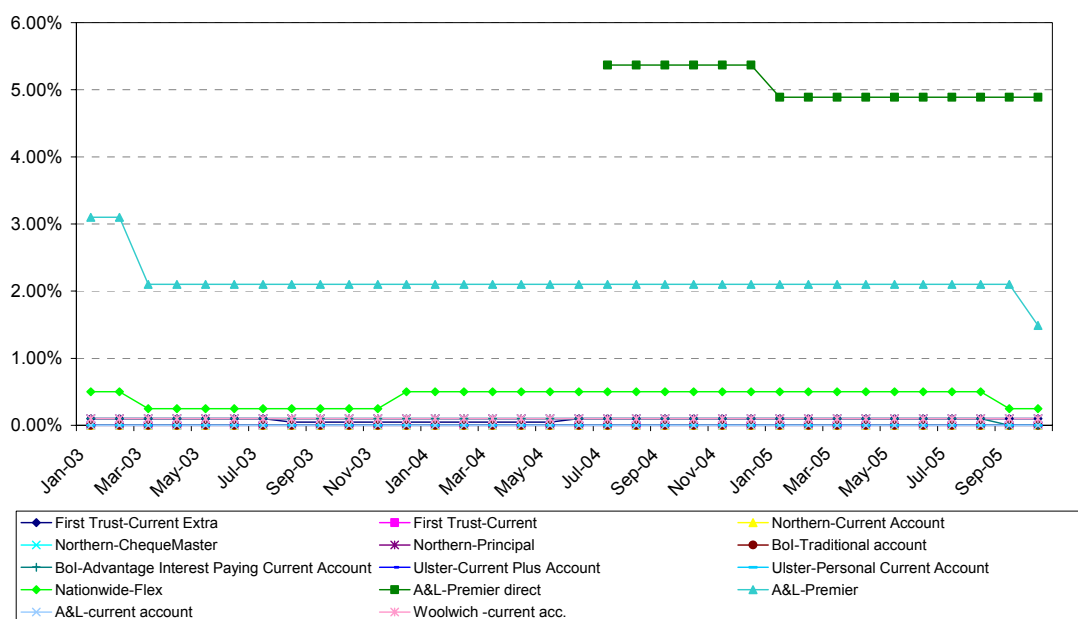
Source: CC analysis of bank data.

15. Considering the recently introduced and packaged accounts, Ulster and Bol charge an identical price (£4.50) to customers on their packaged accounts and Clear accounts respectively, as applies to their standard PCAs. Neither First Trust nor Northern charge their customers, respectively, on their Current plus and packaged account, for setting-up standing orders.

16. Figure 7 shows card replacement charges for the clearers' traditional accounts; all charged for card replacement from January 2001 to July 2004. They charged equally for nearly two years, from September 2001 to August 2003. In September 2003 First Trust increased its charge; Bol also increased charges shortly after, whilst the other two banks did not move. In July 2004, Ulster dropped its charge to zero. Conversely, First Trust revised its price upwards once more in August 2004, but none of the other clearers appeared to react with a price increase.

FIGURE 8

Interest rates paid on credit balances (selected PCAs)



Source: CC analysis of bank data.

Note: The interest rates plotted for A&L Premier direct account correspond to an introductory offer. After a few months the fixed credit interest shown in this chart reverses to Bank of England base rate minus 1 per cent.

TABLE 1 Credit interest rates offered on clearers' traditional accounts in Northern Ireland, October 2005

Provider	Account Name	Interest rate %
First Trust	Current Extra	0.1
	Current	0
Northern	Current Account	0
	ChequeMaster	0.1
Bol	Principal	0.1
	'Traditional' current account	0
	Advantage	0
	Clear Account Level 1 and 2	0
Ulster	Clear Account Level 3	0.1
	Current Plus	0
Ulster	Personal current account	0
	Flex account	0.25-4.25*
A&L	Premier direct	5.0†
	Premier	1.5†
	Current Account	0
Woolwich	Current Account	0.1

Source: CC analysis of bank data.

*Depending on amount paid in.

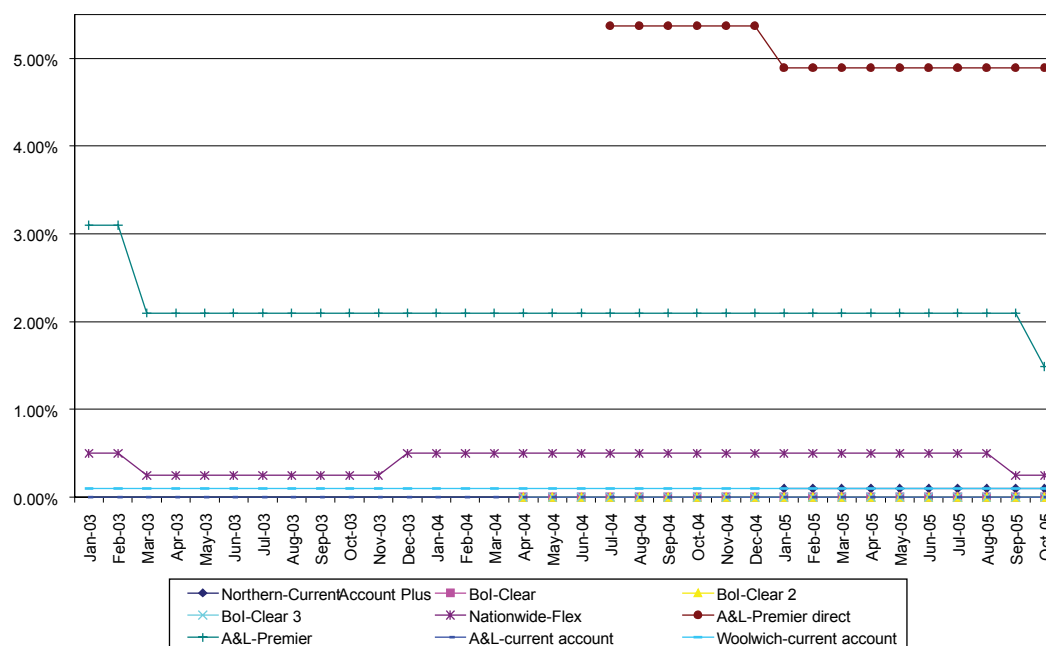
†Minimum funding requirements apply, and rates only available on first £2,500 of credit balance.

- During the period covered by our analysis, new non-packaged accounts launched by the clearers continued to bear either low or no interest rate. Bol launched a range of new accounts called 'Clear Accounts' in spring 2004. Clear Accounts 1, 2 and 3 are designed for high, average and low income customers respectively; only the third of these bears any interest (0.1 per cent). Compared with traditional Bol accounts, the Clear accounts offer lower overdraft rates and a one-year transaction charges free introductory offer. Northern launched its 'Current Account Plus' in February 2005; this

also bears a low interest rate (0.1 per cent), in line with traditional accounts. These are plotted in Figure 9, and compared with the PCA offers of various non-clearers.

FIGURE 9

Interest rates paid on credit balances on new accounts in Northern Ireland



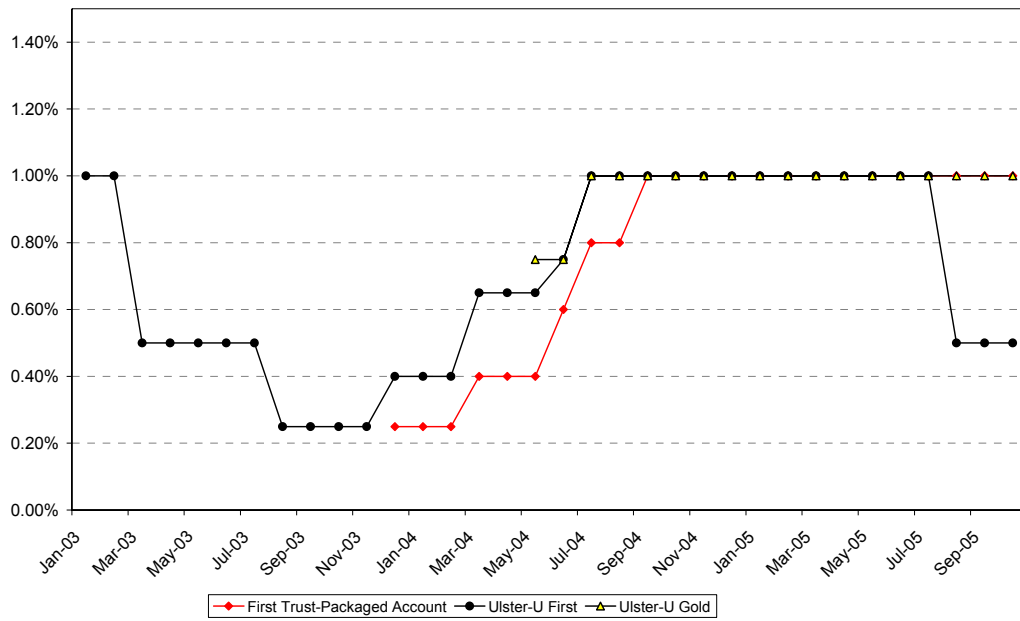
Source: CC analysis of bank data.

Note: The interest rates plotted for A&L Premier direct account correspond to an introductory offer. After a few months the fixed credit interest shown in this chart reverses to Bank of England base rate minus 1 per cent.

- Ulster currently sells two packaged accounts: U-First packaged account, which was launched in June 2001 and U-Gold packaged account launched in May 2004. First Trust launched its packaged account in December 2003. The packaged accounts' price structure is characterized by higher credit interest rates, no transaction charges on an agreed overdraft and a monthly charge. The interest rate for U-First packaged account shows a declining pattern over the two years after its launch in June 2001. First Trust launched its packaged account in December 2003 offering a similar interest rate to U-First's. From December 2003 to September 2004, Ulster revised its credit interest upwards three times (March 2004, June 2004 and July 2004). First Trust increased its rate similarly upwards with a time lag of two to three months. Ulster launched a premium packaged account, U-Gold, in mid-2004, and its interest rate was increased almost immediately after launch to 1 per cent. For a period of 11 months from September 2004 to July 2005, all the packaged accounts were offering the same interest rate of 1 per cent although U First's rate was then halved. The pattern of interest rates appears to be suggesting some competitive interaction between the offers, as Ulster appears to have reacted to the introduction of First Trust's packaged account. Ulster's and First Trust's interest rates on packaged accounts are shown in Figure 10.

FIGURE 10

Interest rates offered by clearers on packaged accounts



Source: CC analysis of bank data.

Note: These accounts have tiered interest rates offering higher rates on higher credit balances.