

## COMPETITION AND MARKETS AUTHORITY

### RETAIL BANKING INVESTIGATION

#### ADDENDUM TO CCBS SUBMISSION OF AUGUST 2014

The Campaign for Community Banking Services (CCBS) submitted a comprehensive response on 1 September to the CMA's report of 18 July 2014 and the content remains very apposite for consideration within the full investigation.

Whilst CCBS's main concern is the escalating rate of bank branch closures (463 in 2014), especially where 'last bank in town (121 in 2014), we also have **concerns in respect of branch dependent bank customers (small businesses; 'third sector'; vulnerable individuals)**, specifically:

- Absence of choice of banking provider as branch closures reduce multi-banked communities to just one (900) or two outlets (400).
- The traditional banks' continued failure to improve the operation, price acceptability and awareness of Inter Bank Agency Agreements (IBAAs) for business users to facilitate competition between the established banks and to open up the networks to 'challengers' and 'new entrants' having vastly inferior geographical footprints. *Further submission to HMT for PSR designation made 4-11-14.*
- The failure of the established banks to provide acceptable and sustainable physical alternatives to branches (such as neutral shared use branches, known as banking centres or community banks) as more, and larger, communities become banking voids.

Against this background, and our response to the 18 July Report, CCBS has the following observations on the CMA's Statement of Issues.

#### MARKET DEFINITION (22)

- There is no effective substitute for a BCA, nor indeed for a PCA, and because the overdraft is a unique method of funding working capital needs on a day to day basis it is very popular with small businesses. Accordingly it is important that the relationship bank of choice provides a local pay-in facility, with no extra delays above the industry norm in obtaining 'available funds' status. The presence of a post office outlet is not a substitute for bank branch presence for SMEs for the reasons given in our August submission.
- Because of brand and ownership differences, with no instant interchange of customer data, and legal differences, Scotland and Northern Ireland should continue to be regarded as separate geographical markets for retail banking services. However, for SMEs especially there is a case for further division within England and Wales to deal with the absence, or considerably reduced choice, of banking provider in some local markets for branch dependent customers unless access is opened up through the use of improved IBAs and neutral shared use branches as set out in our earlier submission.
- In continental Europe banking competition at local market level is preserved by regulatory/competition authority actions mandating sell-off of branches to third parties in cases where a merger of banks would result in loss or reduction of choice.

#### THEORY OF HARM 2 Concentration & Market Power (42; 43)

- Where branch closures are concerned CCBS has monitored almost identical strategies from the Big 4 dominant brands (Barclays; HSBC; Lloyds; NatWest) over many years - timing varies but the results are the same ie loss of local transactional access and diminution/elimination of competitive choice of banking provider for branch dependent consumers and small businesses. Loss of locally based lending, investment and general financial advice has generally occurred many years before but is less important as the customer need is much less frequent than transactional need.
- That branch based competition between established banks at local market level is low or non-existent, following the separation and relocation of relationship management from the branch,

and is evidenced by the endemic 'get out first' philosophy. To avoid the public opprobrium associated with closing the 'last bank in town,' rather than increase the offering to attract business when a local competitor bank closes, the remaining banks are quick to follow suit. If anything this practice increased during the currency of 'last bank in town' keep open pledges by certain banks. Examples:

- TANKERTON, Kent  
All 3 banks closed within 8 months in this 5,000 population community in 2012  
See case study at [www.communitybanking.org.uk/reports.htm](http://www.communitybanking.org.uk/reports.htm)
  - NEWHAVEN, East Sussex  
3 remaining banks closed in this 12,000 population port of entry town 2010, 2012, 2014 with significant new commercial and housing development planned and taking place.
  - SEDBERGH Cumbria  
Only 3000 population, the town is a tourist hub for retail and services being 10 miles from alternatives. HSBC closed in 2012, NatWest closes January 2015; Barclays to close Feb. 2015.
  - BRIGHTLINGSEA, Essex  
9000 population cinque port with many tourist attractions and significant number of retirees. NatWest closed July 2014; Barclays Sept. 2014 leaving only Lloyds.
- In 16 years of monitoring 'last bank in town' CCBS has identified only 3 cases where a competitor bank has moved in to replace the last bank to close. When in 2012 HSBC closed the last of 3 banks (Barclays, Lloyds and HSBC) in the thriving resort town of Woodhall Spa, Lincs. (famous for Dambusters, golf and executive housing) approaches were made by CCBS to NatWest, Co-operative and Santander inviting them to explore the business opportunities experienced by incoming retailers but none had any appetite even to visit.
  - Historic regional dominance of individual banks continues to have an effect, although declining, and the closure decisions of one bank can have a marked impact. For example in 2003 HSBC was the sole bank in 27 of the 42 rural communities in Wales having just one bank; because of an aggressive and sustained closure policy by HSBC only 8 remain today and no competitor bank has shown interest in filling the voids. CCBS published research in 2012 revealed Barclays to have 52% of the 78 sole bank communities in the East of England.
  - The only new entrant providing full service bank branches is Metro and its business model makes it unlikely to be a significant competitor of the established banks except, possibly, in the immediate catchment areas of its small (currently 27) branch network, all in the London region. It is understood that beyond those confines Barclays branches are used by Metro business customers under an IBAA which is considered to be expensive. The very selective Handelsbanken UK (168 relationship centres but no cash and cheque handling) uses HSBC and NatWest branches under IBAs but the terms are not known.
  - TSB and Williams & Glyn, created by EU mandated branch sell-offs, lack the scale and comprehensive and regionally balanced branch coverage considered necessary to become significant 'challengers' to the established Big 4 in an age when customers, personal and business, expect to be able to use any branch as if it was the one where their account is domiciled. This is important for businesses which move location or add/acquire outlets or to individuals who move house or change jobs: banks no longer transfer accounts branch to branch on these events.  
*For geographic analysis of the TSB network see [www.communitybanking.org.uk/reports.htm](http://www.communitybanking.org.uk/reports.htm)  
Analysis of Lloyds Banking Group Branch Sale 13-12-11.  
52% of the proposed W & G network is in the North (40% in North West) and only 6 in Scotland.  
Halifax (part of LBG) and Santander (mainly ex Abbey) are 'town centre' banks, non- active or weak in small business markets but with better coverage and sites in their chosen markets than TSB or W & G.*

### **THEORY OF HARM 3 Barriers to entry and expansion (49b & 50)**

- In relatively small markets, like England & Wales, Scotland, Northern Ireland, same brand coverage is considered important by mass market holders of PCAs and BCAs who expect to be able to use any branch of their chosen bank for routine transactions and enquiries.
- In the absence of such comprehensive coverage 'challenger' bank customers would need entitlement to use branches of the traditional banks for routine transactions such as withdrawals and pay-in on "fair, reasonable and non –discriminatory terms" and with comparable value dating for funds.

*When significant regional banks last existed in UK, for example District, Martins, Williams Deacons, such arrangements under credits opened were commonplace for business and personal customers and we see similar arrangements for credit union banking customers in the USA empowered to use over 5000 'high street' branded branches and neutral banking centres nationwide under a national branch sharing scheme. The neutral banking centres use cash machine technology, very similar to the LINK technology in use in the UK, to interface with the account holding institutions and the same technology could be used here to underpin neutral shared use branches.*

Campaign for Community Banking Services

[www.communitybanking.org.uk](http://www.communitybanking.org.uk)

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