



# CLYDESDALE BANK PLC

RETAIL BANKING MARKET INVESTIGATION  
RESPONSE TO ISSUES STATEMENT

3 December 2014



## RETAIL BANKING MARKET INVESTIGATION

### Response to Issues Statement

#### 1. SUMMARY

- 1.1 Clydesdale Bank PLC ("Clydesdale") is an established and ambitious challenger bank with over 2.7 million retail and business customers in the United Kingdom. We put customers and our local communities at the heart of our business and aim to deliver choice and a high quality, personal service.
- 1.2 In the past few years, we have been dedicated to re-shaping our core business, making significant improvements to provide customers with greater flexibility and choice. In particular, in response to changes in preferences across our customer base, we are investing in new and more compelling retail and small and medium-sized enterprises ("SME") propositions and enhancing our mobile banking and online services.
- 1.3 We continue to make significant progress in transforming our service delivery. In the last two years we have:
- 1.3.1 undertaken a comprehensive restructuring to re-align our business to the segments in which we believe we can compete most effectively; and
  - 1.3.2 relaunched our brand around the service-led proposition, "We Care About Here", implementing a number of initiatives to demonstrate our commitment to the customers and communities we serve.
- 1.4 With these changes, we aim to deliver sustainable growth in our core retail and SME businesses with the ambition to grow the overall number of customers we serve.
- 1.5 We look forward to playing an active role in this inquiry, helping to put into context the key role that smaller, full-service banks play in the personal current account ("PCA") and SME banking markets. We are also keen to provide insight into the particular challenges that Clydesdale and other smaller banks face in a rapidly changing regulatory environment given the significant impact that ensuring compliance with such requirements has on our operational costs.
- 1.6 We urge the Competition & Markets Authority ("CMA") to take a fresh, forward-looking and holistic approach to assessing whether the market is working well for consumers, thus taking account of the combined impact of different features of the market on the outcomes experienced by customers. Should market intervention ultimately be required, we believe it is important to ensure that this is fully in the interests of consumers and that it promotes and protects a diversity of product propositions, business models and innovations. Any intervention would also need to be carefully targeted in order not to undermine other initiatives to support customers, such as the Payment Accounts Directive and the Mortgage Credit Directive. Care should be taken to avoid the imposition of disproportionate costs on the sector and on smaller participants in particular.



## 2. BACKGROUND

- 2.1 Clydesdale is a full-service UK clearing bank which also operates under the Yorkshire Bank trading name. It offers a range of banking services for both personal and business customers through its combined network of 298 retail branches and 42 Business & Private Banking centres (including 23 sites co-located with Retail branches), as well as its direct banking and broker channels. It is the retail and business banking services provider in the United Kingdom of National Australia Bank Limited ("NAB"), with its immediate parent being National Australia Group Europe Limited ("NAGE").
- 2.2 Clydesdale Bank was established in 1838 in Glasgow and has a proud history of innovation and support for Scottish industry and communities. Yorkshire Bank, which has a strong personal customer base and an extensive business capability in the North of England and the Midlands, was founded in 1859 in Halifax, West Yorkshire.
- 2.3 Although we are an established bank, we face similar competitive challenges as other smaller banks. In particular, the on-going legislative and regulatory changes which continue to transform the competitive environment invariably weigh more heavily on smaller scale banks and drive a significant proportion of our operational costs.

## 3. GENERAL COMMENTS

- 3.1 We fully agree that a competitive retail banking market should deliver positive outcomes for customers in terms of quality and choice, price and innovation and we welcome objective scrutiny that seeks to understand how well the market functions from this perspective.
- 3.2 It is important to note, however, that customers often have very different requirements, and their expectations in terms of the channels they use and seek are equally diverse. We believe the CMA's review should consider carefully and take full account of the important role that smaller banks such as Clydesdale play in meeting these different customer requirements. In particular, it is crucial that we retain our ability to differentiate our product and service propositions through a range of features as part of our wider competitive response, so that we can act as an effective counterweight to the incumbency of the major UK banks.
- 3.3 We do not comment comprehensively on the full range of issues set out in the CMA's Issues Statement, and generally consider that it captures the various themes in a sufficiently comprehensive way. We also agree that these issues are highly complex and inter-related and setting the benchmark for a "well-functioning market" in this context is not straightforward. Therefore, in approaching the question of whether there are features of the market which prevent, restrict or distort competition with a fresh pair of eyes, detailed and robust analysis is required in determining both whether it is appropriate to intervene; and in assessing both the short-term and long-term impacts of any such intervention.
- 3.4 We are fully committed to offering a fair and competitive service to our customers and look forward to participating actively in the CMA's investigation. It is, however, important in order that we are able to contribute effectively for there to be transparency as to the CMA's thinking and the full evidence base at its disposal throughout its investigation. In particular, we urge the CMA to bring forward disclosure



of its economic analysis in sufficient time for it to be comprehensively tested to ensure appropriate conclusions are drawn.

#### 4. CUSTOMERS AT THE HEART OF OUR BUSINESS

4.1 We make every effort to ensure that our customers can both access and assess relevant information on our products and services in a way that is appropriately tailored for them. This has been a key part of the product and service development initiatives we have undertaken in recent years and this process is ongoing. For example we have:

4.1.1 established a new Customer Trust & Confidence team whose objective is to ensure clear accountability and a dedicated focus on fair outcomes for customers;

4.1.2 introduced a new, more effective complaints handling system to ensure issues are resolved more quickly and with a minimum number of customer contacts being required.

4.2 We also recognise our responsibility to our customers to facilitate their engagement with banking services in order to ensure that they are provided with the products and services appropriate to them. This responsibility does not end when a customer first takes a product, but is an inherent part of relationship management across our customer base. For example:

4.2.1 We have been writing pro-actively to customers who have regularly incurred fees related to unplanned borrowing, advising customers of the ways that they can manage their accounts in future to avoid future recurrences.

4.2.2 We have recently introduced a new charging structure with effect from 1 December 2014 designed to reduce the cost of borrowing further, including fee-free 'buffer zones' for both planned and unplanned borrowing. Total charges of this type are also now capped at £100 per month in the new fee structure.

4.2.3 This builds on other initiatives such as using SMS text alerts and our Mobile Banking 'App' to keep customers informed about their finances in an immediate and transparent way.

4.2.4 We have also undertaken a review of our PCA account opening process which has led to a material improvement in the time taken for customers to open an account.

4.3 We have responded pro-actively to legislative and regulatory initiatives designed to improve the industry's responsiveness to customers and to facilitate switching. In particular, we have been very supportive of the introduction of the Current Account Switch Service ("CASS") and believe it is helping us deliver a good service to customers. However, it has only been in operation since mid-September 2013 and it is difficult to draw any firm conclusions about its impact. The major UK banks continue to have a significant advantage in capturing switchers given their scale and scope.



4.4 Customers also place value on having a trusted relationship with us. This is particularly the case for SMEs where we seek to offer relationship management that is tailored to the size of their business and their needs. In our view, success in developing that trust and customer satisfaction is equally indicative of a well-functioning market. Therefore, a holistic approach is required to an assessment of the effectiveness of competition, not focussing on one or only a small number of measures in isolation. For example, a more sophisticated approach to the question of why customers hold and use their accounts, and therefore why and how they switch accounts, is needed to capture the key underlying characteristics of competition and customer service within retail banking markets.

## 5. CONSTRAINTS ON SMALLER COMPETITORS

5.1 We ask the CMA to test the impact of regulatory, capital and (minimum efficient scale) operational costs on smaller banks which in our view lead to an imbalanced playing field. Specifically:

5.1.1 The different capital regime under which Clydesdale and other smaller banks operate and our position as a Standardised bank under Basel II competing with banks on an Advanced Internal Rating Basis impacts on the economics of Clydesdale and our ability to compete effectively.

5.1.2 In addition, the major banks retain a significant advantage in the provision of full-service retail banking by virtue of their greater scale and reach.

5.1.3 Against this background, we are obliged to make decisions on the extent of our participation in certain segments where, as a smaller player, our potential returns are limited. We do not see this position changing in the near future and our ability to innovate and grow is inhibited as a result.

5.2 The demands being placed on our business from a regulatory perspective are likely to increase rather than reduce, for example, as we implement changes required to comply with the Immigration Act, Payment Accounts Directive, the Mortgage Credit Directive, Ring Fenced Bank requirements and the proposed new Regulatory Framework for Individuals. In addition, while we recognise the role that the Payment Systems Regulator will have to play in the future in promoting effective competition and innovation in payment services, it is important that this does not lead to a further layer of regulation which limits the extent to which competition can thrive, and innovation can take place.

## 6. OUTCOMES AND IMPACTS

6.1 In summary, when evaluating the development of competition within the sector, it is important for the CMA to take account of all of the changes in the market in recent years, the fact that their impact has yet to be felt in full and the implications of overlaying a further set of regulatory interventions on the progress that has been made to date.

6.2 Also, while we want and need to see a more level playing field, if this inquiry is going to deliver positive outcomes for our PCA and SME banking customers, it is vital that the CMA considers the kind of measures that will allow competition and choice to flourish. A model in which banking services are simply commoditised would not



achieve that goal and would undermine the ability of customers to benefit from differentiation by smaller challenger banks.

- 6.3 It is also crucial that in considering the scale of any concerns about competition and the appropriateness of any remedies, the CMA undertakes a full cost:benefit analysis of any options under consideration. In particular we note that the impact of regulation on smaller market participants can frequently have the unintended consequence of reinforcing the status quo or act in the favour of larger incumbents, as smaller challengers such as ourselves often face disproportionately higher costs in adapting to regulatory change.
- 6.4 We look forward to contributing to the inquiry and to a constructive and forward-looking assessment of the PCA and SME banking markets.