



CLYDESDALE BANK PLC

**RETAIL BANKING MARKET INVESTIGATION
RESPONSE TO UPDATED ISSUES STATEMENT**

15 June 2015

1. INTRODUCTION

1.1 Clydesdale Bank Plc (CB) welcomes the opportunity to comment on the Updated Issues Statement issued by the Competition and Markets Authority ("CMA") on 21 May 2015. At this stage, CB wishes to make a relatively small number of observations but may wish to comment further as the CMA elaborates on its thinking through the working papers and subsequently.

1.2 This response comments on four areas:

1.2.1 market definition;

1.2.2 the CMA's approach to assessing profitability;

1.2.3 customer choice and engagement; and

1.2.4 barriers to expansion.

1.3 CB is encouraged that the CMA appreciates the complexities of the analysis it seeks to undertake and in the comparisons that it may wish to draw. This complexity is compounded by the actual and potential impact of the numerous initiatives by legislators and other regulators, as well as of market developments in the sector and underlying macro-economic trends in recent years. We would highlight the following as of particular relevance in considering how the market operates and how it may develop:

1.3.1 The Payment Systems Regulator's (PSR) work in the payments area, including its market study into the supply of indirect access to payment systems, and both the PSR's and the FCA's work on innovation in financial services and the challenges that this may present;

1.3.2 The many initiatives to address perceptions and concerns about both SME and personal customers' ability and incentives to shop around for alternative financial providers and products, including the introduction of the Customer Account Switching System which is one of many initiatives already in train; and

1.3.3 The recent Basel consultation¹ on new capital requirements for standardised banks (see below) which could have profound implications for the competitiveness of smaller financial institutions.

1.4 We also remain firmly of the view that choice, diversity, resilience and opportunities for growth remain paramount objectives. Any intervention should, in the interests of consumers, promote a diversity of product propositions and business models, encouraging innovation and choice. With the multiplicity of interventions already underway and anticipated, careful design is required with respect to any additional measures that the CMA might recommend. Care should also be taken to avoid the imposition of disproportionate costs on the sector and on smaller participants in particular.

¹ <http://www.bis.org/bcbs/publ/d307.htm>

2. MARKET DEFINITION

2.1 We welcome the CMA's willingness to consider the extent to which more recent market changes have suggested a wider geographic market definition. In CB's experience, Scotland does form part of the same market as England and Wales for all the relevant product markets, given:

2.1.1 the way in which customers utilise digital tools (internet and mobile) to engage with and access retail banking services;

2.1.2 as stated by the CMA, that barriers to entry/expansion are UK-wide and not regional in nature; and

2.1.3 we offer the same products and terms and conditions to all of our customers across Great Britain, and believe this is consistent with the approach of our competitors.

2.2 Such a market definition is, in our view, consistent with a relationship-based approach to the provision of banking services. This is built on a multi-channel proposition including branch access in the communities we serve, while our intermediary and digital distribution channels seek to attract customers from a wider base.

2.3 Whatever formal view is taken on the basis of current market characteristics, we would encourage the CMA at least to reflect this broader geographic scope of the markets in considering possible solutions to any potential competition issues identified, thus ensuring that any remedies are well-targeted and proportionate.

3. PROFITABILITY

3.1 CB welcomes the CMA's recognition that it is challenging to carry out any meaningful comparative assessment of profitability. The complexity of aspects of the infrastructure that supports Personal Current Accounts (PCA) and Business Current Accounts (BCA) in terms of payment systems, branches and shared staff renders the allocation of shared costs very difficult in such an exercise.

3.2 We also welcome the CMA's understanding of the differential impacts that capital holding requirements have on smaller banks, an issue which is crucial to fully understand current profitability. We would note, however, that the recent Basel consultation on proposals for standardised banks have the potential to significantly constrain smaller banks and more generally could have a negative impact on the diversity of business models in the market. We would recommend that the CMA considers these potential changes in detail and is pro-active in its contribution to the debate on this crucial issue.

4. CUSTOMER CHOICE AND ENGAGEMENT

4.1 CB notes the acknowledgement, supported by the evidence from the GfK survey, that there appears to be a considerable degree of satisfaction with the services provided by a number of banks and building societies. We look forward to further insight and analysis in the working papers.

4.2 CB would also strongly endorse the CMA's view that quality is an important dimension of competition and that outcomes relating to service quality should form part of the overall assessment of how competition in retail banking markets functions. It is important that products/services can be compared on the basis of quality and not just price and there should be independent indicators for such quality comparisons to be effective.

4.3 More generally, as mentioned in our response to the original Issues Statement, while we would like to see a more level playing field, promoting positive outcomes for our PCA and SME banking customers, a model in which banking services are simply commoditised would, in our view, not achieve that goal. It would undermine the ability of customers to benefit from differentiation, in particular on the part of smaller banks.

4.4 Indeed, any forced over-simplification of products and charges, under the guise of superficially increasing comparability, risks there being fewer differences between offers, thereby having the counter-productive effect of *reduced* switching. In this context, it is interesting to note that prospective entrants generally believe that customer inertia can in large part be attributed to a lack of differentiation in the existing offerings.²

5. **BARRIERS TO EXPANSION**

5.1 Whilst recognising some of the barriers to expansion that are discussed, we would agree with the CMA that many of the more traditional barriers to market entry are decreasing materially. We also welcome the CMA's acknowledgement that assessing whether certain factors give rise to an adverse effect on competition is far from straightforward. We look forward to considering the more detailed initial assessment of these issues in forthcoming working papers and we will supplement our response on this issue as necessary in due course.

5.2 At this stage, we would simply reinforce our response to the initial Issues Statement noting that the demands placed on our business from a regulatory perspective are likely to increase and, in the context of this broad topic of barriers to expansion, we are concerned about the relative impact of some of these developments on smaller market participants. We would ask the CMA to consider this carefully and in particular, the extent to which certain measures have had the unintended consequence of reinforcing the status quo or acting in the favour of larger incumbents.

² See CMA Working Paper: "*Prospective entrants*", para. 3(a), 5 June 2015.