RETAIL BANKING MARKET INVESTIGATION

Summary of hearing with Barclays Bank plc on 9 June 2015

Introduction

1. Barclays told us that retail banking was changing, along with customer expectations and this was partly driven by technology. Some customers only wanted to interact digitally; for others a physical presence remained critical. Barclays wanted to meet these needs, from the [✂]% of its customers who used a branch every week to the [✂]% who used a branch less than twice a year.

2. Barclays said that competition came from a range of sources, not just from the established banks but also newer banking entrants, tech companies and monoline payment providers such as PayPal, iZettle, Amazon and Apple. Barclays wanted customers to make an informed and positive choice to bank with it. Switching relied on differentiation and this was increasing all the time as innovation increased. Barclays had introduced mobile cheque depositing, biometric identification [✂].

3. Transparency was key to helping customers make informed decisions. Barclays had simplified its business current account (BCA) tariffs to make it easier to understand along with its personal current account (PCA) overdraft structure, accompanied by customer notifications so that customers could avoid incurring fees.

4. Barclays told us dynamism was occurring in the sector, yet masked from the ‘main bank’ switching rate, due to the rising proposition of multi-banking and sourcing. It had seen multi-sourcing in small and medium-sized enterprises (SME) banking rise from 40 to 50% in the past two to three years. This rising trend acted as a competitive impetus by posing as a credible motive to switch provider.

5. Barclays was currently going through a period of significant change, having brought the personal, corporate and wealth businesses together in May 2014 to form Barclays Personal and Corporate Bank division. An important change was bringing together what was known as Barclays Business Bank (which generally served clients with turnover of up to £5 million) and Barclays Corporate Bank (which generally served clients with turnover above £5 million).

6. Barclays said that it was difficult to make comparisons across banks because banks tended to segment their business customers in different ways. Barclays now served all of its SME customers through the Corporate Bank and it had become necessary to recombine and understand the customer information from the different historical businesses.

Profitability and financial performance

Revenue and costs

7. With regard to SMEs, Barclays was developing a much more granular understanding of its own cost base and where it could be much more efficient. It did not make decisions based on a moment in time but continued to look at information through the cycle. Regarding revenue, a big part of its SME business revenue came from the liabilities balances associated with BCAs. Barclays had to make assumptions about how long those balances would stay with it, whether those balances could be used in the group elsewhere, and where they would appear in the SME banking book, which would all determine what value it placed on those balances. It had an internal pricing mechanism called funds transfer pricing, which was used to value balances consistently across the group. It should be noted that it was the balance on the account that created revenue – generally speaking, the size of the account balance related to the breadth of the services required which related to revenue.

8. In relation to Barclays' SME business, the other big component of revenue was the fees associated with using the account, including the monthly fees and transactional fees. [✂]

9. The value that Barclays received from PCA credit balances had dropped in recent years in part due to the base rate environment. Usage, particularly in terms of PCA overdrafts, had changed. Historically, PCA overdraft income had come from the use of the authorised overdraft, and from charges and fees for exceeding the overdraft limit. As part of its continued enhancements to its overdraft proposition, Barclays was keen to ensure that its PCA overdraft pricing was sustainable and addressed any inherent concentration risk, ie that overdraft charges were not concentrated towards those customers who could least afford it. Its primary considerations were that customers had transparency and that pricing was simple and straightforward to understand. It wanted to be able to explain how the costs were incurred and that it was an acceptable level of return.

10. When reviewing its PCA overdraft charges, Barclays looked at competitors, how their pricing compared, and for which groups of customers they were

more or less comparatively priced. Through the transparent pricing structure, combined with real-time alerting, it had attempted to put customers in control.

11. Looking at costs, some costs were directly applicable to the product or to the customer, for example, [✄].Other costs were either semi-fixed or totally fixed on the organisational size. [✄]

12. [✄]

13. [✄] Barclays needed a good understanding of the business so that it could make good strategic investment decisions, and work out where it could serve clients differently to make it more convenient for them and more profitable for Barclays.

14. [✄]

15. Barclays managed its businesses through a series of councils, as part of which it reviewed the performance of the individual businesses every month. It looked at performance through the profitability lens, and also through advocacy and complaints. As part of the financial lens it looked at direct costs, indirect costs and impairment as well as income and profit metrics and customer metrics.

16. Barclays also undertook competitor comparisons, for example, on customer pricing levels, where this was possible (and based on publicly available information). Similarly to SMEs, a big cost driver for personal accounts was channel usage – Barclays benchmarked itself against a set of competitors to see how well it was using different channels. Process, price and competitive dynamics all informed its strategy.

17. [✄]

18. In relation to SME banking, business managers were encouraged to conduct bottom-up planning based on the needs of the local businesses in that area. Combined with technological advances, this might mean that the business manager did not need to be in the branch if, for example, a site visit would be more convenient for the customer. Another example of this was placing business managers in tech lofts. It was the same for PCAs. Barclays did not have product-related targets at the branch level. Depending on the local customer base, the local branch team might amend opening hours or make other adjustments to better meet the needs of the local community.

Profitability

19. Barclays told us there were a few big themes that were currently having an impact on BCAs. First was a change in transactional behaviour; customers were using cash and cheques less and less. About £[✂] a year was paid into Barclays SME current accounts, and less than [✂]% of that was in cash and cheques, whereas it was nearer [✂]% ten years ago. That changed the cost base and revenue substantially. It should be noted though that processing a cheque or cash incurred a significant cost, and whether a customer used it or not the cost of maintaining that capability remained and was very expensive.

20. Second, the level of the base rate and how base rates were expected to move had been a big factor, both in margin compression and also in terms of the amount of borrowing in the book against the amount of saving in the book. It was a big unknown as to how customers would respond as rates started to move, for example whether BCA customers would move money into savings, or whether they would become more confident and invest heavily.

21. Barclays was getting much better at understanding capital needs and where it should be allocated, but its capital holding was double what it had been a few years ago. Capital used to be held at the group level but now it was being held more in customers' or business units' profit and loss, and so that was changing the dynamics of managing those businesses.

22. [✂] However, if these businesses were looked at through the cycle, it could be seen that their profitability was much more comparable.

23. Regarding which SME customers were most profitable, larger turnover customers had a much higher propensity to borrow, so on an income/pure profit basis, they made more returns. As a general rule, in business banking, larger clients with more complex needs would need more solutions from Barclays and they would generate more profits. The parts of the book that were less profitable were start-ups, to which Barclays offered six months' free banking, and the charity sector, to which Barclays offered long-term free banking. It considered that it was right to help start-ups as it was good for all participants in the market. Free banking for start-ups was also prevalent in the sector and Barclays needed to offer it in order to be competitive. Those businesses needed to be given a chance to get started – most small businesses that failed in their first two years failed due to cash flow reasons, so they did not need another overhead. Some start-ups went on to be very successful middle-sized businesses. It was also good for the UK economy that it was seen as a good place to start businesses.

24. Barclays said that PCA profitability derived from credit balances, overdraft usage and channel usage. The group that were the most profitable were those customers who held high credit balances and were infrequent users of the branch network. Typically at the other end of the spectrum were customers with a basic bank account. Students were also not that profitable, but Barclays looked at them on a life cycle basis so they were, in effect, subsidised in the short term. Another distinction could be drawn between customers who had their main banking relationship with Barclays rather than a secondary banking relationship. Main banked customers tended to be more profitable than secondary banked.

Customer acquisition

25. Barclays did not distinguish between allocating resources to retaining current SME customers or acquiring new ones. It did however have a dedicated broker channel through which it was looking to win new lending business from a broad spread of customers – [✂].

26. Current accounts were not the only source of customer acquisition for SMEs; they might come to Barclays through Barclaycard, lending, or any other product (for example asset finance, invoice discounting) too. SMEs often multi-banked before they switched BCAs or tried just one product from a different bank.

27. With regard to PCAs, the situation was similar, but Barclays' focus was on main banking relationships, whether acquiring new main banking customers, retaining existing customers or converting secondary banking customers to primary. It deliberately decided not to offer new customers a joining bonus, since it did not want to give existing customers the message that new customers were more valued. As the switching service opened up, it had been concerned that it was a net loser, so the thinking behind Blue Rewards was both to reward and recognise existing customers but also to have a proposition that was compelling for new customers. It considered that Blue Rewards was a compelling customer offer and was absolutely dialling up the resource and marketing in support of it.

28. In relation to Blue Rewards, its customers understood that if they wanted a premium service, there was a cost associated with it. It would continue to offer its free-if-in-credit, standard PCA as some customers would prefer not to pay a fee, even if it would be financially sensible for them to do so. It decided on monthly pound cash rewards for the same reason that it chose daily fee charging on overdrafts – it was easier for customers to understand.

Competition

29. Barclays' competitors today were not necessarily its competitors tomorrow. It was seeing quite a dynamic shift, including increasing competition from technology companies. In the SME market, there were three types of competitors, the first being technology companies such as PayPal, which had grown significantly in the past five years. Today PayPal offered different ways to pay into and out of an account, as well as offering working capital facilities, which were an overdraft in all but name. There were also traditional high street banks. Finally there was a growing number of niche players that were competing on a particular client segment, such as Shawbrook Bank which was aiming at a particular sector.

30. With regards to competition in the PCA market, the categories of competitors were similar to those in the SME market. There were again the more tech-driven challengers such as PayPal and Apple, and challenger banks such as Metro Bank (Metro), Tesco, TSB and Virgin, as well as established banks. Barclays also looked at other non-banking organisations, such as retailers, to see how they were finding new ways to service customers. The range of reference points that it looked at to inform its banking services was far broader than it had been historically.

Innovation

31. Barclays told us there were revolutionary changes happening to the market through technological advances. For example, only [✂]% of money paid into BCAs was now in the form of cash or cheques, which was a huge change from 2002, the last time the market was reviewed. Video banking was another revolutionary change; in relation to SME banking this would fundamentally alter how customers interacted with their business managers. Other examples of revolutionary changes included contactless payments and Pingit. Customers expected services to be much more personalised due to technology and so it needed to ensure that it fully understood the needs of its different cohorts of customers.

32. Barclays benchmarked itself against competitors' products and innovations, including product specialists such as asset finance lenders, invoice discounting lenders, or sector specialists such as Aldermore, Handelsbanken or Shawbrook. It also looked at tech innovators who had entered the market without a full service offering and might not necessarily compete on the basis of cheaper pricing but on speed of access to that finance. It had addressed this by introducing innovations such as pre-assessed limits and instant lending which were available online. There was just as much innovation in the

SME market as the personal banking markets. There was more usage of mobile and online banking. Also there was disruptive technology coming in, such as the Funding Circle – crowdfunding businesses which tended to be looking at the small business market.

33. Barclays had a number of tech accelerator lofts where it sponsored fintech companies through a programme of development, enabling them to access Barclays' data and technology, mentorship and coaching from industry experts to help them understand how their products could work. Barclays may then sponsor a product in the market or use it itself.

34. Barclays had also been looking at other ways of engaging customers such as through personalised debit cards and its Features Store. It wanted to offer compelling propositions through different life stages.

Strategic decision making

35. Barclays' strategic decision making had both external and internal drivers. It sometimes saw competitors doing something that then drove its strategies as well as seeing competitors copying its own strategies. For example, a learning from payday lenders was that consumers valued ease and simplicity of getting access to money, so Barclays had improved the ease with which it could fulfil its customers' desire to borrow. Conversely, it had led the market on image-based cheque clearing.

36. Barclays was focusing on three things in its strategy: first, providing customer choice, through transparency, simplicity and ease. It was looking at how it could automate processes to make things easier for the customer. Second, it was looking at how it could use customer information it already held for the benefit of those customers, through new products or services. Third, it was looking to build on its position as a trusted source of transactions, by thinking about what else it could do for the customer. The general direction was towards using technology to bring prices down, rather than coming up with a new proposition and premium pricing it.

37. When making strategic decisions Barclays put together a business case, of which financial metrics were a part, but also customer satisfaction generally, including complaints and the net promoter score, and shareholder return. It focused on customer sustainability rather than short-term profits. It was looking at innovations such as Apple Pay and deciding whether to adopt any of these payment methods. Sometimes it trialled an innovation, such as putting Barclays branches in Asda stores.

Theory of harm 1: Comparability/switching

38. From an economic perspective, multi-banking acted as a competitive constraint. It showed that customers were engaged with and had an awareness and knowledge of differing offers in the market, and that customers were confident about being able to bank with more than one provider and to very easily move from one provider to another. In that way, it acted as a very credible threat of switching away from one provider if the competitiveness of the offer reduced.

39. Barclays believed that a low level of switching or engagement was consistent with a competitive market, in that firms were doing their best to keep the customers they had. 90% of customers rated their business banking relationship as fair or better – generally the market was very satisfied. In the context of high customer satisfaction, the prevailing switching rate was consistent with a competitive sector. One difference between SME and PCA banking was the higher rate of churn, ie a greater proportion of the base were either new businesses entering the market, or exiting businesses. Thus switching bank accounts was only relevant to the smaller proportion of remaining SMEs. PayPal had grown by 50% in five years so it was clearly not an inert market. Barclays had also seen an increase in SMEs multi-banking and multi-sourcing from [✀]% to [✀]% in the past two or three years.

40. Regarding comparability of products, Barclays said that customers chose accounts based on differing aspects; it was not just about price or rewards, therefore a basic comparison table was of limited use. Customers also needed to know how easy it was to obtain those rewards. Midata was useful; it enabled customers to understand how they behaved with their account and see what cost and value customers could get with another provider. However, midata was currently limited in that it was only on one comparison website and only had cost and reward (in its narrower sense) and so needed more work to make it more rounded. It was also currently limited in terms of the participating banks. It considered that it would be better if customers could see what other customers thought about the provider, using a TripAdvisor type model. If it was used by all banks and had better participation and promotion, it could become a very useful tool for customers in terms of what they could do.

41. Barclays believed that its personal customers were actually very engaged with their accounts. For example, customers were auto-enrolled for text alerts and when these had not worked for a short period of time, it had realised from customer feedback how many people relied upon the alerts. With regards to the Current Account Switch Service (CASS), customers seemed to really value the guarantee on payments and the process had been working well;

however, levels of awareness, and more specifically confidence could be higher, particularly around how easy the process was and the error-free nature of it. It might also help if the annual eligibility statement had more information on the overall value provided by a PCA. It had been very vocal through the BBA to get the industry to agree to put more funding behind CASS to make sure there was more awareness of it and specifically of features like the payment guarantees. It would also help to have testimonials and customer ratings, to overcome some of the perceptions of difficulties around switching. Consumer groups and other institutions had a role to play in this too.

42. Regarding SMEs, comparability was more complex because there were multiple products (eg term lending versus working capital) and a bigger focus on relationship banking. Barclays had tried to address this by ensuring that all the data was available, including the fees structure, and also giving transparency around the credit assessment. In relation to the BCA, for example, it had gone from 16 different prices down to four to simplify the pricing. It was also contributing to the funding of the Business Banking Insight website where there was a comparison of experience, quality of service etc. [✂]

43. With regards to CASS and SMEs, Barclays considered that the turnover threshold was too low, and were active in supporting raising the turnover limit to £6.5 million. It thought it should be raised still further.

44. There were unique challenges to opening a BCA, not least that the SME might be a limited company and have several directors, which meant there was a lot of effort in getting to know that business and complying with the relevant legislation. It also made it more difficult to do things electronically, for example check identification.

45. Barclays was making it easier for its personal customers to open accounts online and complete identification checks, and was trying to do this for business customers too. It wanted to make it easier for customers to open business accounts with it, and also to find ways for customers to understand what they could borrow without having to go through the process, eg pre-assessed limits. There was developing technology which would enable applications to leave a lighter credit footprint, so that people could shop around without having a full credit history taken.

Overdraft users

46. Barclays did not consider that surveys conducted by the Financial Conduct Authority or the CMA contained any evidence that switching was more difficult

for overdraft users. These surveys might have said that overdraft users were less likely to switch and this was because of a perception that they might not be able to get lending with another bank. If the customer had a poor credit record, they might be less likely to get the same overdraft offer with a new bank, but that reflected their individual circumstances at the time. A bank could not be made to match overdraft offers because if a customer was running up a credit record it meant they could not afford the limit they had got.

47. Without midata, comparability was difficult, because some competitors used interest rates, some had daily fees and some used different models in terms of unauthorised overdrafts. Midata took out all the complexity because it looked at behaviour and told customers the cost of an overdraft for that behaviour.

48. The research Barclays had seen regarding account number portability indicated that this would not lead to a dramatic improvement in switching or a desire to switch. The industry could end up spending a lot of time and money to create that capability for little benefit to society.

Free-if-in-credit banking

49. Barclays did not necessarily think that an end to free-if-in-credit banking would improve competition. But it noted that there were more providers of retail products such as mortgages and savings than there were competitors for the provision of a current account. Only the USA, with credit unions, had a similar model internationally. There was little data however to suggest whether free-if-in-credit banking was good or bad for UK society. To customers, the thought had completely gone that there was a cost to the banking industry of the provision of a current account. Nor was there any thought of how the way they banked might impact on that cost. Technology was removing some of the cost of providing current account services – this may overcome the obstacles of lower income from the free-if-in-credit model and make it more commercially viable. There was more of a choice now with providers offering accounts with no monthly fee and a richer proposition with a monthly fee.

50. Speculating what might happen if there were no free-if-in-credit banking was difficult and depended on hypothetical analysis, since it was current practice in the sector and had been for many years. It was possible that, if there was no price point, it may make it more difficult for customers to judge whether they were getting value. It was also possible that fewer challengers were likely to come in and offer the free-if-in-credit model, unless they were digital in which case they had a much lower cost base. Barclays could not speculate on how any hypothetical departure from free-if-in-credit banking would come about. It did not think it would make a decision to charge a fee across all of its

current accounts, as customers had made it clear they did not want that. In any case, there was regulation that said Barclays must offer a basic bank account without any charges.

51. If it was looked at hypothetically, it would be very difficult for any one competitor that had an existing customer base which enjoyed free-if-in-credit banking, just to stop it, as it would likely lead to a significant exodus of customers. [✂]

52. There was not as much need for a free-if-in-credit model on the BCA side. Customers were investing in a relationship with a bank and they looked for long-term commitment. In addition, the economics were harder to make work in the SME banking sector. It cost at least four times more to serve an SME client as it did a personal client. There was a huge client spectrum from a sole trader who used mainly electronic payments, who did not cost much more than a personal account to serve, to a £20 million turnover manufacturing business with 100 employees which was exporting to other markets.

Access to finance for SMEs

53. At least [✂]% of start-ups never needed anything other than a current account. Some used their PCAs for business purposes. The majority did not borrow and might never need many of the other financial services products. However, if they did need to obtain lending, their experience of that was very important for customers, as it was what was going to help them grow their business. Barclays found that if the lending experience was good for customers then this was a good basis for a broader relationship. SME customers often felt passionately about their business and this reflected on the relationship they had with their bank. The market for lending was very diverse – from credit cards through to asset finance providers and invoice discounting, as well as crowdfunding and peer-to-peer lenders. It was trying to focus on the speed and transparency of access to finance. It now had pre-assessed limits for some customers, with just five checks and the possibility of using an e-signature portal.

54. From a lending-demand perspective, Barclays was seeing that customers were less likely to want to borrow at the moment. There was an industry-wide bank survey by the SME Finance Monitor which surveyed customers about their attitude to access to finance. At the moment, [✂]% of customers were classifying themselves as happy non-seekers. This compared to [✂]% of customers three years ago, so the number was going up. This was reflected in the volumes of applications Barclays received. In 2010/11 applications (including debt applications) were at [✂] a month but had dropped in the last few months to [✂] a month.

Theory of harm 2: Concentration may give rise to market power

55. With regards to market definition, Barclays said it would be appropriate to look at competitive constraints on an aggregate basis. The level of innovation, the introduction of new technologies, anything that affected the breadth of the offer as a whole: all of these are indications that a broader UK-wide approach to define the market was appropriate. It looked at the UK as a market. It did not have a different product offering in different parts of the UK, or have a fundamentally different operating model for different parts of the UK. It did things slightly differently in different geographies, for example, in Scotland they had different ways of moving cash around because the distances were much greater. Equally, many new entrants, such as Apple Pay, had launched UK-wide.

56. Any differences in concentration across the UK were generally due to historical reasons, for example, Barclays had a stronger presence in Cornwall because it bought a small Cornish bank many years ago. Other competitors had chosen to focus more on Northern Ireland and Scotland, relative to Barclays. It did not have a very large branch network in Scotland. It had found that, in some instances, some customers preferred just to deal with a Scottish bank.

57. A bank could have quite a significant market share in a given area, but this did not necessarily imply that that firm was enjoying a more entrenched market position in that area compared to another area where its market share may be smaller. This was because the degree of competitive constraint to which it was exposed was determined by the ability of its own existing customers to switch away, as well as the opportunity for the bank to gain additional customers. There should not be any presumption that there was something to compete away, nor should there be a presumption of a link between the degree of concentration and prices. It was precisely the level of price competition that influenced the number of players and the number of firms that were able to function profitably in a market. There were good reasons to explain why a firm served a large number of customers, and it did not translate to a position of entrenched market power. Concentration in the market was in itself an outcome of the competitive process.

58. Furthermore, being a large participant in a market could be a disadvantage. For example, an online-only challenger did not have the cost of physical infrastructure whereas Barclays funded the cost of the [✄]% of customers who wanted to go into a branch less than twice a year.

59. There was no evidence to suggest that return on equity was impacted by market share. Banks still needed to be competitive on price, whatever their

size. If the cost of a Barclays' small business loan was compared with the cost of a crowdfunding loan, the crowdfunding loan was more expensive, so customers were choosing to pay more elsewhere in the market. There was no evidence that the bigger providers charged a higher price. Crowdfunding firms had been able to deliver a loan more quickly though, and customers were prepared to pay more to have the money more quickly. Customers also liked crowdfunding and peer-to-peer lending as it was a way of testing their business model. Barclays was part of this funding ecosystem and recognised that businesses needed access to whatever was the right source of funds, and that crowdfunding could be a ladder towards bank funding in the future, or could co-exist alongside bank funding.

60. The PCA market had changed significantly in terms of price and value over the last three years. The competitors that were doing most in terms of value (for example, rewards-based current accounts) for customers had been the large established players, rather than the new banks. Barclays had invested heavily in retail banking over the last 12 to 24 months.

61. Barclays had chosen to keep a single Barclays brand but recognised why other firms had different brands, for example due to having different business models. Barclaycard was arguably a slightly separate brand. Lloyds Banking Group and Santander had brought a number of different banks together. Whilst Lloyds had maintained separate brands, Santander had used this as an opportunity to reposition itself as a challenger bank. TSB had positioned itself as a community-focused bank in relation to raising deposits locally and lending those deposits to businesses locally. Different participants and new entrants were choosing to compete in different ways, some around where they operated, some around technology. [✂]

62. Regarding the ring-fencing proposals, Barclays did not yet have a clear view of how it might impact on competition in the BCA and PCA market. At this early stage it was working through proposals and discussing how it might implement them, at a very high level, with the Financial Conduct Authority and the Prudential Regulation Authority.

Theory of harm 3: Barriers to entry and expansion

63. Barclays did not consider that access to payment systems was a significant barrier to entry or expansion as those who had entered had found access to those systems. Equally, from a regulatory authorisations perspective, it noted that there had recently been a number of entrants.

64. In terms of the IT infrastructure and payments systems, Barclays provided access to payment systems on an agency banking basis for a number of

financial institutions including challenger banks. One reason for this was that they had chosen not to invest in a real-time payment system, which meant they needed to go through Barclays to ensure they could support Faster Payments. It was also working alongside others looking at what an aggregator-type solution might be.

65. PayPal had made the choice to go above and beyond what those challenger banks had done and had become more fully integrated into Faster Payments. [✂]

66. Barclays would not use 'bank in a box' solutions for expansion – they had a core system which covered all of the UK and Barclays overlaid that with more contemporary technology, rather than bolting on to core systems. However, if someone were entering the sector in the UK, the bank in a box model could be an easier, quicker, cheaper way.

67. With regards to branches and customer acquisition, a branch network was less important than it once was. [✂]

68. [✂]

69. Having a branch on the high street could be advantageous in terms of brand and recognition, but many customers would open a current account because it was easy to do online, so that had nothing to do with presence on the high street or a branch. [✂] Some banks chose a partnership – some used the Post Office, and Barclays was trialling a partnership with Asda. [✂]

70. Barclays thought very carefully before closing a branch and appreciated that it could be difficult for the local community. [✂] It had tried initiatives such as opening one or two days a week, looking at when customers most often went to a particular branch. Another case was where there were geographic or demographic changes [✂].

71. Ten years ago, [✂]% of the money coming into Barclays' BCAs was cash and cheques. If the customer had a complicated need, for example, applying for an overdraft or making an international payment, they would have to do that in a branch. Only around [✂]% of small businesses would be registered for online banking. Now [✂]% of payments were being made into customers' BCAs electronically. Customers could now apply for an overdraft online, or make an international payment online. [✂]% of SME customers were registered for online banking. [✂] The necessity of a branch had therefore changed drastically over a ten-year time frame. [✂] In addition, Post Offices were present in rural locations, where Barclays might not have branches. The Post Office was an addition to how customers could interact with Barclays and not a substitute.

72. Metro had a branch-based strategy. It believed branches were important and that was the way it was choosing to compete, focusing on specific markets in the Greater London area. Barclays considered it interesting that the person behind Atom was the person who set up Metro – he believed that banks did not need a branch network to compete any more (he stated in an interview with the Financial Times of 9 April 2014 that it would be 'like BT putting telephone kiosks back on the high-street'), and Barclays agreed that the absence of a branch network was no longer a barrier to entry. It noted that PayPal for example did not have a branch network but had 20 million customers; and Nationwide had a huge branch network but had decided not to enter the SME market. There were therefore other reasons why firms competed in, and entered, this market.

73. With regards to costs, there were obvious ones such as capital, and significant costs to compete in the current account sector, even if it was just the operational risk associated with running a payments or an ATM network. The cost of the physical infrastructure could be lowered and made more efficient and more convenient for customers, using technology in the right way, but [✂]. Also, only established banks were required to support financial inclusion customers and therefore that was not a cost required of any challenger banks.

74. Regarding the cost of innovation, Barclays had spent in the realm of hundreds of millions. In part this was a result of the scale of its business, for example it had to create data centres in such a way that if one went down the data was transferred across so that it could still tell a customer's balance and authorise a payment or not. But it felt that this should not be a barrier to entry – Atom did not have funding in the hundreds of millions. It could use 'bank in a box' and a partner for physical infrastructure such as PayPoint. In contrast, Barclays was currently spending £[✂] million over a three-year period on transforming its branches.

75. An interesting example of a challenger bank was Fidor Bank, which was a German start-up that operated a very different model for combining best-in-class services which it had bought from different providers and had therefore been able to build a very broad base of functionality very quickly and at a lower cost than would be possible by integrating into some of the legacy systems at existing banks.

SME/Northern Ireland undertakings

76. Barclays would welcome the SME undertakings and Northern Ireland PCA Order undertakings being looked at in more detail. The SME undertakings were from a specific point in time, back in 2002, and Barclays was operating

in an entirely different market today. In common with the frustration around new entrants not being bound into the financial inclusion programme, the same applied to the behavioural undertakings with respect to bundling on the SME side. In Northern Ireland the requirements of the Order had always felt disproportionate in that Barclays had [✂] customers at nine branches and [✂].Things had moved on, for example the introduction of the Payment Services Directive which had changed the way banks communicated with customers.