

RETAIL BANKING MARKET INVESTIGATION

Summary of roundtable discussion in Wales¹ on 29 June 2015

Representatives from the following organisations attended the Wales roundtable discussion:

Business Wales
Finance Wales
Federation of Small Businesses
KTS Owens Thomas
South Wales Chambers of Commerce
Welsh government
Wales, ICAEW
Welsh Language Commission

Introduction

1. The Inquiry Chair (the Chair) provided the meeting with an overview of the retail banking inquiry, highlighting the updated issues statement and working papers. He said that provisional findings were scheduled for late September 2015. A number of submissions had been considered in respect of Wales, including the Access to Finance and Development Bank for Wales reports.
2. The Chair noted that while this roundtable discussion would focus on small and medium-sized enterprises (SMEs), evidence on the personal current accounts (PCA) market would be welcome.

Market definition

3. The Chair explained that the current working assumption was that Wales was not a separate and distinct market from England. However, no final decision had been made and further evidence on why and to what extent Wales was a separate geographical market would be welcome. The Chair also noted that there were a number of similar characteristics in the retail banking market in England and Wales including:

¹ For technical reasons it was not possible to have this roundtable recorded and transcribed so the summary is from notes made at the roundtable.

- the regulatory environment;
 - the retail banks operating;
 - the products and prices on offer; and
 - potential barriers to entry.
4. The Welsh government representative welcomed the Competition and Markets Authority's engagement on the issue and set out reasons why it was essential to consider market data and analysis from a Welsh perspective, stressing the importance of the Access to Finance report and Development Bank for Wales. The Welsh government summarised its position as follows:
- Understanding the banking sector in Wales is an important element in determining the Welsh Government's future economic development strategy. It is essential that the Market Investigation should include separate data and analysis from a Welsh perspective to properly understand the issues facing businesses here. There is a concern, for example, that Wales is a location, which is seen as remote from many of the centralised decision-making panels who determine which businesses get supported.
5. Other issues raised by attendees in considering how retail banking operated in Wales and the issues they faced were:
- the rurality of Wales;
 - features specific to Wales such as the Welsh language;
 - a possible disconnect between local staff and distant decision makers;
 - blurred boundaries between business and personal banking; and
 - while Wales was a relatively small part of both the UK and Europe it was still an important element in the equation.

Customer engagement

6. Some attendees indicated that there was little, if any, competition between banks and that risk appetite on lending did not vary between banks. In addition many SMEs retained the view that banking was free on the basis of their PCA experience and the initial free banking periods banks offered to start-ups, therefore, choices were not made on the basis of price or quality.

7. SMEs were seeking 24/7 banks that understood their businesses and their needs. It was suggested that the British Banking Index did not provide the type of information on quality that SMEs needed to inform switching decisions. At present SMEs generally placed far greater weight on the views of their peers than other sources.
8. Innovations by challenger banks such as Santander and alternative sources of funding (for example crowd funding) were seen as increasingly important but the latter in particular would only suit certain types of SMEs.

Switching

9. Attendees generally agreed that a major impediment to switching was that SMEs feared losing their history and working relationship with a longstanding business current account provider. Moreover, SMEs had the perception that all banks were the same and offered little by way of differentiation of products and services. While there was some appetite among some SMEs to switch elements of their banking requirements (for example use of crowd funding) there was more resistance to switching banks for all requirements and in particular business current accounts.
10. Most of the attendees at the roundtable were unfamiliar with the Current Account Switching Service for SMEs.

Lending

11. There was general agreement that most SME lending commenced with overdrafts and credit cards. Existing PCAs were often used for initial borrowing requirements especially for start-ups. Low inflation was having an impact on long-term planning and lending rates remained relatively high in Wales as in the rest of the UK. Attendees commented that there appeared to be a disconnect between the low interest rate environment and lending rates which had not decreased following the financial crisis even for small low risk secured lending. In addition notwithstanding high interest rates banks generally required all lending to be secured and overdrafts remained difficult to access.
12. Some attendees also expressed the view that the key issue for Wales was not so much access to finance but more access to relevant skills. It was questioned whether the perceived £500 million funding gap identified by the access to finance review was accurate.
13. A major barrier to accessing finance was the requirement for personal guarantees. Finance Wales did not usually require such guarantees, which

was one of its key strengths. However it was recognised that Finance Wales was providing finance to much riskier SMEs which the banks, for legitimate commercial reasons, could not provide. It had high default rates compared to banks and at the micro end the costs of managing the loans meant that it was loss making.

14. SMEs would significantly benefit from business advice and lending decisions being brought together so that borrowing decisions were made in the light of all the available information. It was agreed that intermediaries could play a greater role in educating SMEs and dispel some of the complexities around finance.
15. There were general issues raised around the proposed Development Bank for Wales and the role it would play, including the products it would provide and the additional role it would play over and above that played by Finance Wales. It was generally agreed that the Development Bank concept would need further consideration and there was some scepticism as to the added value it would have over Finance Wales.
16. Non-banking products such as crowd funding were increasing in popularity although still somewhat niche. For example, SMEs in hospitality and leisure had far greater success in crowd funding than other sectors. Attendees thought that credit unions could play a greater role in developing alternative funding sources. However, as for all forms of lending, the quality of the business case was critical to securing funding from any source.

Branches

17. Online banking had made a branch network less important than in the past but cash handling (eg cash deposits) remained a need for many, especially small SMEs. Mobile banking was not therefore an alternative to a branch network.
18. Relationship managers were seen as important: phone contact, site attendance and a good understanding of the business were valued. An ability to react swiftly and come up with workable solutions was key. One key concern was that banks were increasingly centralising their lending decisions such that local managers may approve loans in principle only for the customer to find that their loan was subsequently declined as it was escalated centrally. It was also agreed that the requirements that an SME had to satisfy for lending were very onerous and for less financially sophisticated SMEs there were no real alternatives to bank funding.

19. The fear was expressed that with further branch closures, the risk of financial exclusion may increase. The Welsh government was aware of this. UK government initiatives were being put in place to alleviate the problems, such as 'the last branch in town' and banking services being undertaken by Post Offices.