Competition and Markets Authority

Retail Banking Investigation

By email to retailbanking@cma.gsi.gov.uk

Thursday, 11th June 2015

To whom it may concern,

The New Economics Foundation (NEF) welcomes the opportunity to respond to the CMA's revised Issues Statement. Please find below a brief summary of our comments, which should be read alongside our response to the original Issues Statement.

**Technological innovations and alternative finance (para 14)**

We welcome the analysis commissioned from Deloitte of innovations in alternative finance and their potential implications for competition with reference to international comparators. We hope that, in making these international comparisons, Deloitte have been asked to take account of the overall diversity of provision in the relevant markets, including with respect to ownership diversity – having regard to the distinctive models present in other European countries, and in particular the relatively more developed stakeholder banking sector which exists in most other European countries (compared with the UK's reliance on commercial banks). Further information on this is available in our report on stakeholder banks.

Our recently published Financial System Resilience Index includes an international comparative measure of corporate diversity in banking. The research can be downloaded here; we would be pleased to provide hard copies and/or to discuss the findings with Deloitte.

**Market definition (para 24)**

We welcome the fact that the CMA is "considering including alternative finance products (for example, peer to peer lending and invoice financing" as part of its consideration of the SME retail banking product market in relation to general purpose business loans. As outlined in our previous submission, in our view genuine competition requires a diversity of providers, and it is therefore essential that the CMA considers the choice of business models beyond traditional commercial banks which is available to consumers, and not just the raw number of choices between these banks.

However, we also note the CMA's observation that alternative finance remains a very small part of the SME lending market in the UK. Some figures on the relative size of the alternative finance

**New Economics Foundation**
10 Salamanca Place
London SE1 7HB
United Kingdom

Telephone: +44 (0)20 7820 6300
Facsimile: +44 (0)20 7820 6301
E-mail: info@neweconomics.org
Website: www.neweconomics.org

market as compared with the balance sheet of a single commercial bank – RBS – are presented in our recent report on RBS, available here. On this basis, we conclude that reform or break-up of the UK's biggest banks – in particular RBS, which is still taxpayer-owned – must be on the menu of policy solutions to promote effective competition. Organic growth, either of challenger banks or of alternative finance providers, cannot by itself overcome the huge advantages of scale and incumbency enjoyed by the dominant market players. On this basis, we suggest that the government should commit to awaiting the conclusions of the CMA's investigation before commencing any sale of the government's stake in RBS.

We welcome the CMA's recognition of the importance of local dimensions of competition, such as branch coverage and regional imbalances in SME lending, and we are reassured that these will form part of the CMA's analysis.

However, we question whether England, Scotland and Wales can be seen as a single geographical market, particularly for SME lending where evidence suggests that knowledge of local market conditions is an important part of gathering information on credit quality.

Therefore the degree of decentralisation of decision-making, local presence of staff and corporate commitment to serving defined sub-national regions within the UK are all relevant factors to determining whether customers in all geographical areas of the UK are well served. We recommend that the CMA make use of the detailed disclosure of lending and deposit by postcode area that are now collected by the BBA.

Some of these issues are also addressed in our recent report on RBS; again, we would be very pleased to provide hard copies or to discuss the findings with officials.

**Theory of harm 2: effects of market concentration on competition (para 100)**

We are concerned that the CMA does not appear to be considering the implicit subsidy enjoyed by incumbent banks who are 'too big to fail' and therefore enjoy lower borrowing costs on the capital markets. There is considerable evidence that this substantial benefit to scale represents a barrier to effective competition in the UK's highly concentrated retail banking market. We suggest that could be considered either under Theory of harm 2, as part of the list of potential mechanisms through which market concentration may inhibit competition (para 100), or under Theory of harm 3, as among the potential barriers to entry related to incumbency advantages (para 113).

We would welcome the opportunity to meet with you to discuss the investigation further. If this might be possible please contact Christine Berry (christine.berry@neweconomics.org) who will be pleased to arrange a suitable time.

Yours sincerely,

Associate Director, Economy and Finance

New Economics Foundation