Retail banking market investigation: provisional findings report

Appendix 6

Small and medium-sized enterprise banking market shares

Overview

1. This appendix sets out the provisional evidence on market structure and concentration for SME banking products.

2. We provide estimates of market structure for each of the following product markets identified under our market definition:[1]

   - BCAs.
   - Business loans, including general purpose business loans (GPBL), asset finance, invoice finance and credit cards.
   - Business deposit accounts.

3. Where possible, we have calculated concentration estimates separately for each of the geographic markets of GB and NI. However, in some cases data limitations mean we have used UK-wide data.

4. The market shares presented in this section have been calculated primarily using data submitted by the banks in response to our information requests.[2] In some cases data is not available for all banks in all years. While we have sought to cross-check our findings against those obtained from the Charterhouse BBS, we recognise that particular caution should be exercised in interpreting market shares where data on (a) market participant(s) is not available.

Business current accounts

5. Using data submitted by the banks, we estimate that the total size of the BCA market has remained broadly constant since 2012, at around 5.5 million accounts (see Table 1). Approximately 88% of these accounts were active in 2014.[3]

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[1] See Section 4 of our provisional findings.
[2] An information request was sent to the following banking groups: AIB; Aldermore; Barclays; BoI; Clydesdale; Co-op; Danske; Handelsbanken; HSBCG; LBG; Metro; Santander; Shawbrook; TSB; and RBSG. In the case of Aldermore, Co-op, Handelsbanken, Metro and Shawbrook, a shorter version of the information request was submitted to reflect the relative size of these banking groups' operations and the disproportionate resource impact that a full information request may have created.
[3] Defined as an account that has had at least one customer-generated payment or transfer (including SO and DD, but excluding charges and interest on the account) coming into, or leaving, the account in the last 12 months.

Table 1: Summary of GB BCA market

	2012	*2013*	*2014*
Total accounts (000s)	5,517	5,511	5,459
Active accounts (%)	86%	87%	88%
Accounts opened (000s)	733	699	642
Accounts closed (000s)	748	780	652
Net account opening (%)	0%	–1%	0%

Source: CMA calculations based on data submitted by the banks.

6. Figure 1 and Figure 2, respectively, set out the volume of total accounts in GB by banking group, at an aggregate level and segmented by size of SME. SMEs with annual turnover below £2 million account for the majority of active BCAs (over 90% in 2014), reflecting the size distribution of SMEs in the UK economy.[4]

Figure 1: GB BCA volumes – all SMEs

[✂]

Source: CMA analysis based on banks' response to data request.

Figure 2: GB BCA volumes – by size of SME

[✂]

Source: CMA analysis based on banks' response to data request.

7. As shown in Figure 3 below, shares in the GB market for BCAs have remained broadly stable since 2012, when measured by either the number of active accounts or the number of unique BCA customers. The combined market share of the four largest banking groups in 2014 (RBSG, LBG, Barclays and HSBCG) was around 83%, and the corresponding HHIs in 2012 and 2014 were 1824 and 1779 respectively.

Figure 3: GB BCA market shares

[✂]

[4] For example, the latest Business Population Estimates (produced by the Department for Business, Innovation & Skills) show that SMEs with fewer than ten employees accounted for approximately 96% of the total SME population at the start of 2014.

GB – All SMEs: Active BCAs at year end

%

Banking group	*2011*	*2012*	*2013*	*2014*
RBSG	[20–30]	[20–30]	[20–30]	[20–30]
LBG	[20–30]	[20–30]	[20–30]	[20–30]
Barclays	[20–30]	[10–20]	[10–20]	[10–20]
HSBCG	[20–30]	[20–30]	[10–20]	[10–20]
Santander	N/A	[5–10]	[5–10]	[5–10]
Clydesdale	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]	[0–5]
TSB	N/A	N/A	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]

GB – All SMEs: Unique BCA customers at year end

%

Banking group	*2011*	*2012*	*2013*	*2014*
RBSG	[20–30]	[20–30]	[20–30]	[20–30]
LBG	[20–30]	[20–30]	[20–30]	[20–30]
Barclays	[20–30]	[20–30]	[20–30]	[[20–30]
HSBCG	[20–30]	[20–30]	[10–20]	[10–20]
Santander	N/A	[5–10]	[5–10]	[10–20]
Clydesdale	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]	[0–5]
TSB	N/A	N/A	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]

Source: CMA analysis based on banks' response to data request.
Note: Data not available for Santander in 2011.

8. To test the sensitivity of these concentration estimates to the definition of market share, we have also calculated the shares of each banking group using total revenue from interest and charges shown (see Figure 4 below). Although revenue data is not available on a GB basis, the concentration indicators arising from shares of UK revenue are very similar to those calculated from shares of UK active accounts.

9. For example, in 2014 the HHI arising from UK revenue from interest and charges was 1736, and the HHI arising from UK active accounts was 1760. Under both definitions of market share, the combined share of the four largest banking groups was approximately 80%. We therefore consider the number of active accounts to be a representative basis for estimating concentration indices for the UK BCA market. Similarly, we find no reason to suppose that this would not be the case for GB and NI separately.

Figure 4: Comparison of UK BCA market shares by revenue and active accounts

[✄]

UK – All SMEs: BCA revenue from interest and charges

Banking group	*2012*	*2013*	*2014*
			%
RBSG	[20–30]	[20–30]	[20–30]
LBG	[20–30]	[20–30]	[20–30]
Barclays	[20–30]	[10–20]	[10–20]
HSBCG	[20–30]	[20–30]	[20–30]
Santander	N/A	[0–5]	[0–5]
Clydesdale	[10–20]	[10–20]	[10–20]
TSB	N/A	[0–5]	[0–5]
Danske	N/A	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]

UK – All SMEs: Active BCAs at year end

Banking group	*2012*	*2013*	*2014*
			%
RBSG	[20–30]	[20–30]	[20–30]
LBG	[20–30]	[20–30]	[20–30]
Barclays	[10–20]	[10–20]	[10–20]
HSBCG	[20–30]	[10–20]	[10–20]
Santander	[5–10]	[5–10]	[5–10]
Clydesdale	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]
TSB	N/A	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]
Danske	N/A	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]

Source: CMA analysis of data submitted by banks.
Notes:
1. Revenues data not available for Co-op, Handelsbanken and Metro.
2. Santander revenue data not available until 2013.
3. Danske data not available until 2013.

10.

11. Figure 5 plots the market shares of GB active BCAs, segmented by size of SME. Account volumes segmented by SME size are not available for all banks, and therefore the market shares cannot be used as an absolute measure of concentration in each sub-segment. A comparison of the corresponding HHIs between the two segments, however, suggests a similar level of concentration in the provision of BCAs to both small and larger SMEs.

Figure 5: GB BCA market share of active accounts in 2014 – by size of SME

[✂]

GB BCA market share of active accounts in 2014 – by size of SME

Banking group	*SMEs < £2m*	*SMES ≥ £2m*
		%
RBSG	[20–30]	[20–30]
LBG	[20–30]	[10–20]
Barclays	[20–30]	[10–20]
HSBCG	[10–20]	[20–30]
Santander	[10–20]	[0–5]
Clydesdale	[0–5]	[5–10]
Co-op	[0–5]	[5–10]
TSB	[0–5]	[0–5]
Metro	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]

Source: CMA calculations using data provided by banks.
Note: Data segmented by SME size not available for Metro and TSB.

12. We observe slightly lower levels of concertation in the flow of new BCAs (see Figure 6 below). For example, the HHI of the share of new BCAs was 1772 in 2014, compared to 1824 for active BCAs. Smaller providers such as [✂] and [✂] also received among the greatest volume of net account openings in 2014 (see Figure 7). In contrast, two of the four largest banking groups experienced a net outflow of accounts in 2014.

13. Nevertheless, the four largest banking groups continued to enjoy a combined share of around 75% of BCA flow in 2014 and the high rates of net account opening enjoyed by the smaller banks have not translated into a significant change in their shares of the stock of BCAs.

Figure 6: GB shares of BCA flow

[✂]

GB – All SMES: new BCAs opened in year

Banking group	*2011*	*2012*	*2013*	*2014*
				%
RBSG	[20–30]	[10–20]	[10–20]	[20–30]
LBG	[20–30]	[20–30]	[20–30]	[10–20]
Barclays	[20–30]	[20–30]	[20–30]	[20–30]
HSBCG	[20–30]	[20–30]	[10–20]	[10–20]
Santander	N/A	[5–10]	[5–10]	[10–20]
Clydesdale	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]	[0–5]
TSB	N/A	N/A	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]

Source: CMA analysis based on banks’ response to data request.
Note: Data not available for Santander in 2011.

Figure 7: GB BCA net account opening in 2014

[✂]

Source: CMA calculations using data submitted by banks.

14. A summary of the total BCA market in NI is presented in Table 2. There were approximately 190,000 BCA accounts in 2014, of which around 85% were

active. The total size of the market has remained unchanged since 2012 with account opening (including both switchers and start-ups) and closing occurring at a broadly similar rate of around 8 to 9% each year. This is slightly lower than the corresponding rate of churn in the GB market (12%).

Table 2: Summary of NI BCA market

	2012	*2013*	*2014*
Total accounts (000s)	189	190	190
Active accounts (%)	n/a	86%	85%
Accounts opened (000s)	16	17	16
Accounts closed (000s)	17	16	17
Net account opening (%)	0%	1%	0%

Source: CMA calculations based on data submitted by the banks.
Note: Active accounts data not available for Danske in 2012.

15. Figure 8 and Figure 9, respectively, set out the volume of total accounts in NI by banking group, at an aggregate level and segmented by size of SME. The proportion of total active BCAs accounted for by SMEs with annual turnover below £2 million (around 85%) is slightly lower than observed in the rest of GB (93%).

Figure 8: NI BCA volumes – all SMEs

[✂]

Source: CMA analysis based on banks' response to data request.

Figure 9: NI BCA volumes – by size of SME

[✂]

Source: CMA analysis based on banks' response to data request.

16. As shown in Figure 10 below, shares in the NI market for BCAs have remained broadly stable since 2012, when measured by the total number of accounts, the number of active accounts or the number of unique BCA customers. The combined market share of the four largest banking groups in 2014 (RBSG, Danske, BoI and AIB) was around 86%, a reduction of two percentage points since 2012, and the corresponding HHIs were 2126 in 2012 and 2044 in 2014.

Figure 10: NI BCA market shares

[✂]

NI – All SMES: BCAs at year end

Banking group	*2011*	*2012*	*2013*	*2014*
				%
RBSG	[30-40]	[30–40]	[20–30]	[20–30]
Danske	[20–30]	[20–30]	[20–30]	[20–30]
BoI	[10–20]	[10–20]	[10–20]	[10–20]
AIBG	[10–20]	[10–20]	[10–20]	[10–20]
Santander	N/A	[5–10]	[5–10]	[5–10]
HSBCG	[0–5]	[0–5]	[0–5]	[0–5]
Barclays	[0–5]	[0–5]	[0–5]	[0–5]
LBG	[0–5]	[0–5]	[0–5]	[0–5]

NI – All SMES: Active BCAs at year end

Banking group	*2011*	*2012*	*2013*	*2014*
				%
RBSG	[40–50]	[40–50]	[20–30]	[20–30]
Danske	N/A	N/A	[20–30]	[20–30]
BoI	[20–30]	[20–30]	[10–20]	[10–20]
AIBG	[20–30]	[20–30]	[10–20]	[10–20]
Santander	N/A	[10–20]	[5–10]	[10–20]
HSBCG	[0–5]	[0–5]	[0–5]	[0–5]
Barclays	[0–5]	[0–5]	[0–5]	[0–5]
LBG	[0–5]	[0–5]	[0–5]	[0–5]

NI – All SMES: Unique BCA customers at year end

Banking group	*2011*	*2012*	*2013*	*2014*
				%
RBSG	[30–40]	[20–30]	[20–30]	[20–30]
Danske	[20–30]	[20–30]	[20–30]	[20–30]
BoI	[10–20]	[10–20]	[10–20]	[10–20]
AIBG	[20–30]	[10–20]	[10–20]	[10–20]
Santander	N/A	[5–10]	[10–20]	[10–20]
HSBCG	[0–5]	[0–5]	[0–5]	[0–5]
Barclays	[0–5]	[0–5]	[0–5]	[0–5]
LBG	[0–5]	[0–5]	[0–5]	[0–5]

Source: CMA analysis based on banks' response to data request
Notes:
1. Data not available for Santander in 2011.
2. Active accounts data not available for Danske before 2013.

17. We observe lower levels of concentration in the flow of new BCAs in NI (see Figure 11 below). For example, the HHI of the share of new BCAs was 1834 in 2014, compared to over 2000 for the total stock of BCAs. Smaller providers such as [✂] and [✂], also received amongst the greatest volume of net account openings in 2014 Figure 12. In contrast three of the four largest banking groups ([✂]) experienced a net outflow of accounts in 2014.

Figure 11: NI shares of BCA flow

[✂]

NI – All SMES: new BCAs opened in year

%

Banking group	*2012*	*2013*	*2014*
RBSG	[20–30]	[10–20]	[10–20]
Danske	[10–20]	[10–20]	[10–20]
BoI	[20–30]	[20–30]	[20–30]
AIBG	[10–20]	[10–20]	[10–20]
Santander	[10–20]	[10–20]	[10–20]
HSBCG	[5–10]	[0–5]	[0–5]
Barclays	[0–5]	[0–5]	[0–5]
LBG	[0–5]	[0–5]	[0–5]
Other	[0–5]	[0–5]	[0–5]

Source: CMA calculations based on data submitted by the banks.

18. Nevertheless, the four largest banking groups continued to enjoy a combined share of nearly 75% of BCA flow in 2014 and the high rates of net account opening enjoyed by the smaller banks have not translated into a significant change in their shares of the stock of BCAs.

Figure 12: NI BCA net account opening in 2013

[✂]

Source: CMA calculations using data submitted by banks.

SME lending products

19. SME lending products include GPBL and commercial mortgages, credit cards, asset finance, invoice finance and alternative lending platforms. As discussed in Sections 4 and 9, certain types of business loan are offered by a wider range of providers than others. We only have full data from the largest banks and certain smaller banks, and we consider separately the different SME lending products, commenting as appropriate on the presence of other providers.[5]

General purpose business loans (including commercial mortgages)

20. Using data submitted by the banks we estimate that the total stock of outstanding GPBL in the UK was over £90 billion in 2014, consisting of approximately 580,000 loans (see Table 3).

21. A total of £25 billion worth of GPBL (including commercial mortgages, but excluding residential property loans)[6] were granted in the UK in 2014, with

[5] Data for these products (except for credit cards) is not available separately for the GB and NI geographic markets, and we have therefore estimated market structure indicators at a UK level.
[6] Residential property loans are loans to SME customers for the purposes of residential buy-to-let, residential property development or investment in finished residential properties. Due to differences between banks in how these loans are reported, and in particular how they are classified as either personal or SME lending, we have

an average loan value of £300,000.[7] The total stock of outstanding balances at year end stood at approximately £90 billion. While the number of new loans granted per year has fallen since 2011 by approximately 20%, the value of loans granted has returned to its 2011 level of around £25 billion a year, following a reduction in 2012 and 2013.

Table 3: Summary of UK GPBL market

	2011	*2012*	*2013*	*2014*
No. of loans at year end	647,975	631,394	610,061	579,785
Value of loans at year end (£m)	99,339	93,793	94,636	92,333
No. of loans granted in year	104,724	93,420	85,750	82,643
of which % to SMEs <£2m	83%	83%	81%	77%
Value of loans granted in year (£m)	23,655	20,603	20,596	25,321
of which % to SMEs <£2m	49%	51%	51%	46%
Average value of loan granted (£k)	226	221	240	306

Source: CMA calculations using data submitted by banks.
Notes:
1. Figures include commercial mortgage lending and exclude residential property lending.
2. Data not available for Santander until 2012.
3. Loan data excluding residential property lending not available for LBG and AIB. Lending volumes for these banking groups have been calculated by applying the industry average proportion of residential property lending (in total lending) to the total lending data submitted by these banks.

22. Smaller SMEs (ie with annual turnover less than £2 million) accounted for around three-quarters of the number of new loans granted in the UK in 2014, but less than half the value of these loans. The share of smaller SMEs in both new numbers and new loan values has decreased slightly since 2011.

23. Figure 13 sets out the shares of each banking group in the number and value of outstanding UK GPBL. We find that the level of concentration differs depending on whether shares are measured by the volume or value of outstanding loans. Whereas the combined share in 2014 of the four largest banks in the number of outstanding loans was nearly 90%, the equivalent figure using the value of outstanding loans was around 80%. A similar pattern is observed when comparing the HHIs calculated using the share of loan volume (approximately 2,200) and the share of loan value (approximately 1,800). We have focused on market shares by value since a very small loan is not of equal importance to a very large loan.

Figure 13: UK GPBL markets shares of stock

[✂]

asked all banks to exclude such loans from the submitted business lending accounts and value data. On the basis of the data provided by the banks, we estimate such loans to account for approximately 3% of business loan volumes and 8% of business loan values.
[7] CMA analysis of data submitted by the banks.

UK – All SMEs: no. of loans at year end

				%
Banking group	*2011*	*2012*	*2013*	*2014*
RBSG	[30–40]	[30–40]	[30–40]	[30–40]
LBG	[20–30]	[20–30]	[20–30]	[20–30]
Barclays	[10–20]	[10–20]	[10–20]	[10–20]
HSBCG	[10–20]	[10–20]	[10–20]	[10–20]
Clydesdale	[5–10]	[0–5]	[0–5]	[0–5]
Santander	N/A	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]	[0–5]
Danske	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]
TSB	N/A	N/A	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Aldermore	[0–5]	[0–5]	[0–5]	[0–5]

UK – All SMEs: value of loans at year end

				%
Banking group	*2011*	*2012*	*2013*	*2014*
RBSG	[30–40]	[30–40]	[20–30]	[20–30]
LBG	[10–20]	[10–20]	[10–20]	[20–30]
Barclays	[20–30]	[20–30]	[20–30]	[20–30]
HSBCG	[5–10]	[5–10]	[5–10]	[5–10]
Clydesdale	[5–10]	[5–10]	[5–10]	[5–10]
Santander	N/A	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]	[0–5]
Danske	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]
TSB	[0–5]	[0–5]	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[5–10]	[5–10]	[5–10]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Aldermore	[0–5]	[0–5]	[0–5]	[0–5]

Source: CMA calculations using data submitted by banks.
Notes:
1. Figures include commercial mortgage lending and exclude residential property lending.
2. Data not available for Santander until 2012.
3. Loan data excluding residential property lending not available for LBG and AIB. Shares for these banking groups have been calculated by applying the industry average proportion of residential property lending (in total lending) to the total lending data submitted by these banks.

24. Lending data segmented by size of SME is not available for all providers, and therefore it is not possible to draw inferences on the absolute levels of concentration in each segment. We can, however, make comparisons of concentration between each. Such comparisons show that the market for business loans to SMEs with turnover less than £2 million is more concentrated than that of business loans for SMEs with annual turnover of greater than or equal to £2 million (see Figure 14).[8]

Figure 14: UK GPBL market shares by size of SME in 2014

[✀]

Notes:

[8] The HHI for the value of lending to SMEs with annual turnover of less than £2 million is around 2,700, compared to 1,680 for SMEs with turnover of greater than £2 million.

Annual average turnover not available for Danske SME customers. Segmentation by size of SME has been carried out using customer type as a proxy.

UK GPBL market shares by size of SME in 2014

%

Banking group	*SMES<£2m*	*SMEs ≥ £2m*
RBSG	[30–40]	[20–30]
LBG	[30–40]	[10–20]
Barclays	[10–20]	[20–30]
HSBCG	[0–5]	[10–20]
Clydesdale	[0–5]	[10–20]
Santander	[0–5]	[0–5]
Danske	[0–5]	[0–5]
Handelsbanken	[5–10]	[0–5]
Co-op	[0–5]	[5–10]

Source: CMA calculations using data submitted by banks
Notes:
1. Figures include commercial mortgage lending and exclude residential property lending.
2. Loan data excluding residential property lending not available for LBG and Clydesdale. Shares for these banking groups have been calculated by applying the industry average proportion of residential property lending (in total lending) to the total lending data submitted by these banks.
3. Lending data by size of SME not available for AIB, Aldermore, BoI, Metro and TSB.

25. Figure 15 sets out the share of each banking group in the flow of UK GPBL. We find that the combined share of flow of the four largest lenders is similar whether calculated using either the number or value of new loans granted and has remained stable at around 80% since 2012 (excluding the impact of the TSB divestment). While smaller banks such as [✂][9] have experienced very high rates of growth in their share of new loans granted, the absolute changes in share remain very low.

26. While these figures do not include peer-to-peer lending, which is another source of GPBLs, figures from NESTA indicate that the total value of such lending in 2014 was about £1 billion,[10] around 1% of the outstanding GPBLs to SMEs from banks. We acknowledge, however, that peer-to-peer lending is growing rapidly and accounts for a larger share of the flow of new GPBLs (about 3%).

Figure 15: UK GPBL market shares of flow

[✂]

[9] [✂]
[10] This is based on the estimated total advanced over 2012-14 (the amount advanced before 2012 was very small). The great majority of peer-to-peer lending is to SMEs.

UK – All SMEs: number of new loans granted

Banking group	2011	2012	2013	2014
				%
RBSG	[5–10]	[5–10]	[5–10]	[10–20
LBG	[30–40]	[30–40]	[30–40]	[30–40]
Barclays	[20–30]	[20–30]	[20–30]	[20–30]
HSBCG	[10–20]	[20–30]	[10–20]	[10–20]
Clydesdale	[5–10]	[0–5]	[0–5]	[0–5]
Santander	N/A	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]	[0–5]
Danske	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[0–5]	[0–5]
TSB	N/A	N/A	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[0–5]	[0–5]	[0–5]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Aldermore	[0–5]	[0–5]	[0–5]	[0–5]

UK – All SMEs: value of new loans granted

Banking group	2011	2012	2013	2014
				%
RBSG	[20–30]	[20–30]	[20–30]	[20–30]
LBG	[10–20]	[10–20]	[20–30]	[10–20]
Barclays	[20–30]	[20–30]	[20–30]	[30–40]
HSBCG	[0–5]	[5–10]	[5–10]	[5–10]
Clydesdale	[10–20]	[10–20]	[5–10]	[5–10]
Santander	N/A	[0–5]	[0–5]	[0–5]
BoI	[0–5]	[0–5]	[0–5]	[0–5]
Danske	[0–5]	[0–5]	[0–5]	[0–5]
Handelsbanken	[0–5]	[0–5]	[5–10]	[5–10]
TSB	N/A	N/A	[0–5]	[0–5]
AIBG	[0–5]	[0–5]	[0–5]	[0–5]
Co-op	[10–20]	[5–10]	[5–10]	[0–5]
Metro	[0–5]	[0–5]	[0–5]	[0–5]
Aldermore	[0–5]	[0–5]	[0–5]	[0–5]

Source: CMA calculations using data submitted by banks
Notes:
1. Figures include commercial mortgage lending and exclude residential property lending.
2. Data not available for Santander until 2012.
3. Loan data excluding residential property lending not available for LBG, Clydesdale, AIB and Bank of Ireland. Shares for these banking groups have been calculated by applying the industry average proportion of residential property lending (in total lending) to the total lending data submitted by these banks.

Invoice finance

27. Data from the Asset Based Finance Association (ABFA) show that there were approximately 42,000 SMEs with invoice finance agreements in place at the end of the first quarter of 2015, with total outstanding balances of around £9 billion.[11] Data from the same source shows that larger SMEs account for the majority of invoice finance lending. More specifically, SMEs with annual turnover less than £1 million accounted for around 50% of SME invoice finance customers at the end of Q1 2015, but less than 15% of outstanding balances. This is consistent with accounts and lending data submitted by banks which show that SMEs with annual turnover less than

[11] These figures may include a limited number of SMEs holding import and/or export factoring, stock finance and asset-based lending facilities.

£2 million accounted for around 45% of SME asset finance customers at the end of 2014, but only 15% of the value of outstanding balances.

28. Figure 16 sets out the market shares of UK invoice finance loan values based on the data submitted by the banks. We estimate similar levels of concentration in invoice finance to those observed for GPBL. The combined share of UK outstanding balances of the four largest providers was approximately 80% at the end of 2014 and the corresponding HHI was around 2,000.

29. We are aware, however, of invoice finance providers that are not captured in the data used to estimate these concentration measures. The ABFA membership list includes over 30 providers for which customer and balance volumes were not available to the CMA.[12] We therefore consider the resultant estimates to provide upper-bound estimates of the level of concentration in the invoice finance market.

30. Furthermore, the ABFA figures do not include invoice trading on alternative finance platforms. Figures from NESTA indicate that the total value of invoice trading in 2014 was about £0.4 billion,[13] around 5% of the value of conventional invoice finance. Like other types of alternative finance, invoice trading is growing rapidly.

Figure 16: UK invoice finance market shares in 2014

[✂]

UK – All SMES

Banking group	*%*
RBSG	[30–40]
LBG	[20–30]
HSBCG	[10–20]
Barclays	[10–20]
Aldermore	[0–5]
Clydesdale	[0–5]
Danske	[0–5]
Shawbrook	[0–5]
Santander	[0–5]
Skipton	[0–5]
Hitachi	[0–5]
BoI	[0–5]
AIBG	[0–5]
Handelsbanken	[0–5]
Close Brothers	[0–5]

Source: CMA calculations using data submitted by banks
Notes:
1. Proxy data (loan book values) for Investec, Hitachi and Skipton sourced from respective company accounts and proxy value supplied by Close Brothers. Figures may include loans to SMEs with turnover >£25m.
2. Data not available for Metro.

[12] For example, see the membership list on the ABFA website.
[13] This is based on the estimated total advanced over 2012 to 2014 (the amount advanced before 2012 was very small). The great majority of invoice trading is in relation to SMEs.

Asset finance

31. Figures from the Finance & Leasing Association show that over £25 billion worth of new asset finance loans (excluding high value items)[14] were granted in the 12 months to June 2015. These figures represent annual growth in asset finance lending of around 15%. This is consistent with data on the value new asset finance lending submitted by the BCA providers, which shows a similar rate of growth for 2014.

32. On the basis of the data submitted by the banks, we calculate that the majority of asset finance lending by BCA providers is to larger SMEs, and SMEs with annual turnover below £2 million account for less than 15% of the value of new loans in 2014.

33. Figure 17 sets out our estimates of the shares in the value of asset financing at the end of 2014. We find evidence that the provision of asset finance lending is less concentrated than that of GPBL. For example, the four largest asset finance providers had a combined share of around 65% of outstanding balances at the end of 2014 and the HHI was 1,550 (compared to around 1,800 for general purpose business lending).

Figure 17: UK asset finance market shares in 2014

[✂]

UK – All SMES

Banking group	*%*
RBSG	[30–40]
LBG	[10–20]
HSBCG	[5–10]
Barclays	[10–20]
Aldermore	[10–20]
Clydesdale	[0–5]
Danske	[0–5]
Shawbrook	[5–10]
Santander	[0–5]
Hitachi	[5–10]
BoI	[0–5]
AIBG	[0–5]
Investec	[5–10]

Source: CMA calculations using data submitted by banks
Notes:
1. Proxy data (loan book values) used for Investec and Hitachi sourced from respective company accounts and proxy value supplied by Close Brothers. Figures may include loans to SMEs with turnover >£25m.
2. Data not available for Metro.

[14] Data on the value of lending specifically to SMEs is not available. We have therefore sought to proxy this using asset finance lending excluding high value items.

Business credit cards

34. Data from the Charterhouse BS, shows that there were over 1.7 million business credit card or charge card accounts held by SMEs in GB in in 2014. Smaller SMEs account for the majority of these customers with over 90% of such accounts held by SMEs with an annual turnover of less than £2 million.

35. Figure 18 sets out the share of each provider in the number of GB business credit and charge card accounts in 2014. Using data from earlier Charterhouse BBS surveys we find that estimated levels of concentration have remained constant since 2011 with HHIs of around 2,000 and the combined market share of the four largest providers equal to 87%.

Figure 18: GB business credit card market shares in 2014

[✄]

GB – All SMEs

Banking group	*%*
RBSG	[20–30]
LBG	[10–20]
HSBCG	[20–30]
Barclays	[20–30]
Santander	[0–5]
Co-op	[0–5]
TSB	[0–5]
Clydesdale	[0–5]
Handelsbanken	[0–5]
Other	[5–10]

Source: CMA calculations using Charterhouse BBS.

Figure 19: NI business credit market shares in 2015

[✄]

NI – All SMEs

Banking group	*%*
Danske	[20–30]
RBSG	[20–30]
AIBG	[10–20]
BoI	[10–20]
Santander	[5–10]
HSBCG	[0–5]
Barclays	[0–5]
Co-op	[0–5]
LBG	[0–5]
Other	[5–10]

Source: CMA calculations using Charterhouse NI BBS.

36. Data from the Charterhouse NI BBS shows that there were approximately 44,000 business credit or charge card accounts held by NI SMEs in 2015. Smaller SMEs account for the majority of these customers, and data submitted by the banks shows that over 95% of credit card accounts in 2014 were held by SMEs with annual turnover less than £2 million.

37. Figure 19 plots the shares of each provider in the number of credit card accounts held by NI SMEs in 2015, using the Charterhouse Northern BBS. This data suggests lower levels of concentration than observed in the provision credit cards to GB SME customers. The combined market share of the four largest banking groups was around 75% in 2015, and the HHI was around 1,700.

Business deposit accounts

38. Data on deposit accounts and values submitted by banks, shows that approximately 1.7 million bank business deposit accounts were held with UK BCA providers at the end of 2014. These accounts contained a total of £82 billion worth of deposits. The total number of accounts held by BCA providers has remained broadly constant since 2012, the value of deposits has risen by around 15%. Smaller SMEs account for nearly 90% of these accounts but only 50% of the value of funds deposited.[15]

39. We note, however, that there are a number of participants in the business deposit account market that are not also BCA providers. Accounts and deposit values held with such providers will not be captured in our market share estimates.

40. Figure 20 set out our estimates of market share for the sub-set of business deposit accounts held with BCA providers. We find that the combined share of the four largest providers of the value of UK deposits was approximately 85% in 2014, with a corresponding HHI of around 2,100. However, given the exclusion of a number of providers, we recognise that actual concentration figures would be lower.

Figure 20: UK business deposit account market shares in 2014

[✂]

[15] Equivalent data on a GB and NI basis is not available.

UK – All SMEs

Banking group	*%*
Barclays	[30–40]
RBSG	[20–30]
LBG	[10–20]
HSBCG	[10–20]
Santander	[5–10]
Clydesdale	[0–5]
Danske	[0–5]
Aldermore	[0–5]
Co-op	[0–5]
Metro	[0–5]
BoI	[0–5]
AIBG	[0–5]
Handelsbanken	[0–5]
TSB	[0–5]

Source: CMA calculations using data submitted by banks.

Small and medium-sized enterprise revenues

Overview

1. This appendix sets out the results of our provisional analysis of net revenues earned from SME banking products, including:

   - An analysis of aggregate net revenue per active BCA, segmented by size of SME customer (including comparisons across banking groups).
   - Comparisons of net revenue per active BCA across account types.
   - An analysis of aggregate revenue as a proportion of balances for SME lending products (including comparisons across banking groups).
   - An analysis of net revenue proportion of balances for business deposit accounts (including comparisons across banking groups).

2. In undertaking this analysis we have sought to gain an understanding of the primary sources of net revenue from SME banking products (and how these have evolved over time). We have also undertaken comparisons between banking groups of net revenue per customer to assess the degree of variability between banking groups.

3. The analysis in the appendix relates to banks' UK revenue, and includes results from banks operating across the UK (eg RBSG and Santander) as well as from banks whose UK operations are primarily in GB (eg Barclays, HSBCG and LBG), and banks whose UK operations are primarily in NI (AIB, BoI and Danske). As such we consider the results are broadly applicable to both of the geographic markets we identified (GB and NI).

Analysis of BCA revenue

Summary of approach

4. Using data submitted by the banks in response to our data request[1] we have calculated net revenue from BCAs as:

[1] A data request was sent to Barclays, Clydesdale, HSBC, LBG, Santander, TSB, RBS (RBS and NatWest branded accounts), Ulster (RBSG submitted a separate return for Ulster), AIB, BoI and Danske. As part of our targeted and proportionate approach to evidence gathering, smaller banks were sent a LITE version of the market questionnaire, which did not include revenue data.

(a) receipts from fees and interest charged on overdrafts;

(b) plus receipts from other charges and sources of BCA revenue including interchange fees;

(c) less any interest paid to customers on credit balances together with any other payments made to customers (eg cashback);

(d) plus the value that banks obtain from net credit balances (ie the value of funds from credit balances less the cost of funding overdrafts).

5. We have normalised net revenue by the number of active BCAs held so as to obtain net revenue numbers that are comparable between banks and overtime (as all else being equal, a bank with many customers will have greater revenue than one with few customers). We use active accounts as the basic unit of analysis.[2]

6. To assign a meaningful interpretation to the net revenue comparisons across banks we require that differences in net revenue per account are reflective of price rather than cost differences. This will be the case if differences between banks in average customer characteristics per account do not impact materially on operating costs.

7. We believe that net revenue per account is more likely to be reflective of price (rather than cost differences) for PCAs than BCAs. In particular, because the cost per account is more likely to be affected by factors such as the amount of advice received (eg type of relationship manager) and whether SMEs make use of overdrafts.

8. We have attempted to mitigate these points by making separate comparisons of BCA net revenue for SMEs with turnover above and below £2 million, and by making separate comparisons for transactional net revenue per account and overdraft net revenue as a percentage of debit balances.

Aggregate revenue per active BCA

9. Table 1 shows a breakdown of revenue aggregated across the banks for which we have collected revenue and balance data. These results reflect a weighted average across BCAs. Trends over time will therefore reflect both

[2] Defined as an account that has had at least one customer-generated payment or transfer (including SO and DD, but excluding charges and interest on the account) coming into, or leaving, the account in the last 12 months.

general trends affecting all accounts as well as changes in the composition of accounts.

Table 1: Analysis of revenue (£ per active account*, 2014 prices)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*2014 %*	*Decomposition of ∆ net revenue since 2012 % †*
Transaction charges	138	143	124	112	15	27
Arranged overdraft	194	219	171	156	21	57
Unarranged overdraft & unpaid item fees	48	54	42	36	5	17
Interchange fees (debit card)	0	4	5	5	1	0
Monthly account fees	26	30	28	32	4	0
Other receipts (net) ‡	46	83	75	67	9	15
Total receipts from charges & interest	453	535	444	408	55	115
Interest payments to customers	–22	–23	–24	–25	–3	2
Other payments to customers	0	0	0	–3	0	3
Net value of funds §	434	334	398	356	48	–19
Net revenue	865	845	818	736	100	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
*Aggregate revenue is divided by average of number of active accounts at start and end of year (except for Danske data in 2013, when only number of accounts at end of year is available).
†Decomposition of change over time calculated relative to 2012, due to sensitivity of results to absence of Clydesdale from sample in 2011.
‡Other receipts consists of revenue from charges for failing to meet account criteria, revenue from occasional charges relating to cheques, revenue from occasional charges relating to payments, revenue from account management charges, other revenue from account holders and other revenue which is not from account holders.
§Banks' own assessment of value of funds from BCA credit balances less cost of funding BCA debit balances (except for Danske, where the weighted average for the other banks has been used).
Note: Excludes AIB, HSBCG and RBSG, for which a full revenue breakdown is not available. Data is not available for Clydesdale and LBG in 2011, and for Danske and Santander for 2011 and 2012.

10. Inspection of the results shows that aggregate net revenue has declined over time and the main factors behind this are:

- a decline in revenue associated with the arrangement, renewal, extension and day-to-day use of arranged overdrafts and buffers (revenue from unarranged overdraft fees has also declined but to a lesser extent);
- decline in revenue from transactions charges;
- decline in revenue from other receipts (primarily as a result of a reduction in revenue from occasional charges relating to payments); and
- decline in net value of funds on credit balances.

11. The most important sources of BCA revenue in 2014 were arranged overdraft fees (accounting for around a fifth of net revenue), transaction charges (around 15%) and the value of funds from net credit balances (accounting for about half of net revenue, or 45% if interest paid to customers is subtracted).

12. We recognise, however, that there are a number of potential issues in interpreting the data in Table 1:

(a) The net value of funds is an important source of BCA revenue but different banks have different transfer prices. This point is discussed further below (see paragraphs 13 to 15).

(b) There may be differences between banks in how they have defined revenue and how/when they recognise revenue. We have also noted the overall quality of response differs between banks.

(c) We are unable to control for the volume of transactions carried out which may impact the interpretation of changes in revenues from transaction charges over time (for example if trends over time are partly driven by an overall reduction/increase in SME activity).

(d) Limited data is available for 2011 and 2012 (see notes to Table 1).

Value of BCA funds

13. We asked the banks to provide data on annual average credit balances and the value of funds from these balances, together with data on debit balances and the cost of funding these balances. We used this data to estimate the average transfer price for credit and debit balances, and the net value of BCA funds (ie the value of funds from credit balances less the cost of funding debit balances divided by the aggregate net credit balance).

14. Table 2 summarises this data. It also shows the average net balance per main account which is also a driver of the net value of funds in Table 1.

15. The average net balance per account varied widely between banks ranging from approximately £5,000 to £24,000 in 2014. The relative size of this range, in comparison to average net balance per PCA account (see Appendix 5.2) is likely, in part, to be reflective of greater heterogeneity between BCAs versus PCAs as the basic unit of analysis. For this reason it is difficult to draw strong inference from the difference in average net balance between banks, particularly where we suspect high or low values result from problems with the underlying data. However, at an aggregate level we find that average net balance per account has increased over time. This is accompanied by a small increase in interest payments to customers per account.

Table 2: Value and cost of funds applied to credit and debit balances of BCAs

By bank for 2014	*Value of funds (credit) %*	*Cost of funds (debit) %*	*Net value of funds %*	*Average net balance per active account, £*	*Number of active accounts*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
*By year**					
2011†			3.74		
2012‡			2.50		
2013			2.73	12,509	3,665,556
2014			2.16	14,795	3,648,750

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
*Weighted average for all banks except Danske, 2014 prices.
†Data not available for Clydesdale and Santander.
‡Data not available for Santander.
Note: The net value of funds is the absolute difference between the value and cost of funds as a percentage of net balances. So, the net value of funds is (vB–cD)/(B–D) where v is value of credit funds (%), B is average credit balance over the year, c is cost of debit funds (%) and D is average debit balance over the year.

Comparisons across banking groups

16. In order to make comparisons between banking groups, we have used a standardised percentage net value of funds for each banking group. This is the weighted average across banks, ie the value shown in the lower panel of Table 2 (eg 2.16% for 2014).[3]

17. Table 3 shows the comparison for 2014 across banking groups:

[3] HSBC said that the adoption of standardised value of funds had serious limitations since it did not reflect the true economic costs of banks – the value of funds would differ by bank depending on the: institution's capital strength; balance sheet strategy; and perspectives on the stability of funding. However, we consider differences may also simply reflect different approaches to fund valuation and, even if they do to some extent reflect underlying economic costs, it is not clear that these should be included in a comparison of net revenue.

Table 3: Analysis of net revenue per active account using standardised net value of funds, 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

18. Table 3 shows that average net revenue for the four largest banks is around £[✂] per active account.[4] [✂] and [✂] have the lowest net revenue per active account at £[✂] and £[✂], respectively. [✂] have substantially higher average net revenue, though this may reflect data issues with the comparability of the underlying data.

19. In addition to the points raised in paragraph 12, there are further potential issues in making comparisons in net revenue between the banks:

(a) The analysis presented implicitly assumes a common cost per account across banks (such that differences in net revenue per account can be interpreted as pricing differences). However, in practice the quality of the relationship management service offered is expected to differ both across banks and between different types of accounts within a given bank. Where a higher quality relationship management service is offered, differences in net revenue per account may reflect cost rather than pricing differences.

(b) It is not possible to directly control for differences in costs due to losses associated with defaults on overdraft debt. This may be problematic where the average characteristics of SMEs, with respect to overdraft debt and creditworthiness differ between banks (and over time).

20. To account for point (b) above, Table 4 contains net revenue from (i) charges and interest on overdrafts, and (ii) all other receipts normalised separately, as a percentage of average debit balances and by number of active BCAs. In doing so, the intention is to control for differences in the profile of SMEs between banks in terms of the size of debit balances held (and therefore also the losses associated with defaults on overdraft debt).

Table 4: Comparison of normalised revenues by source, 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Breakdown of total revenue from charges and interest not available for AIB and average debit balance data not available for RBS.

21. As plotted in Figure 1 below, banks do not appear to consistently earn higher (or lower) net revenues across both sources of income. For example, whilst [✂] and [✂] received the lowest net revenue per active BCA from total receipts excluding those associated with overdrafts, they also earned the

[4] Including Ulster but excluding RBS and NatWest branded accounts for which value of funds net average account balance data is not available.

highest revenues on charges and interest from overdrafts (as a percentage of average debit balances).

Figure 1: Comparison of normalised revenues by source, 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

Net revenue by size of SME

22. In addressing point (a) in paragraph 19 we first consider aggregate net revenue (across all banks) split by SMEs with annual turnover less than and greater than £2 million. As shown in Table 5, there are differences in the composition of net revenue per account which may, in part, reflect differences in the characteristics of SMEs in each group.

23. For example, whereas unarranged overdraft and monthly account fees account for a comparatively larger proportion of net revenue from BCAs held by SMEs with turnover below £2 million (as compared to SMEs with annual turnover above £2 million), other receipts and interest payments to customers account for a higher proportion of net revenue from SMEs with turnover above £2 million.

Table 5: Comparison of net revenue (excluding value of funds) by size of SME, 2014

	SMEs with annual turnover <£2m		*SMEs with annual turnover >£2m*	
Bank	*£ per active account*	*% of net revenue per account*	*£ per active account*	*% of net revenue per account*
Transaction charges	98	35%	726	35%
Arranged overdraft	93	33%	832	41%
Unarranged overdraft & unpaid item fees	35	13%	83	4%
Interchange fees (debit card)	4	1%	3	0%
Monthly account fees	37	13%	49	2%
Other receipts (net)	22	8%	599	29%
Total receipts from charges & interest	290	102%	2,292	112%
Interest payments to customers	–7	–2%	–243	–12%
Other payments to customers	–2	–1%	–9	0%
Net revenue excluding value of funds	283	100%	2,049	100%
(% average annual turnover)	0.16%	-	0.03%	-

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Notes: Excludes HSBC for which a full revenue breakdown is not available. Breakdown by SME size not available for AIB, Danske and TSB.

24. Total net revenue per account is substantially greater for BCAs held by SMEs with turnover above £2 million. This may reflect, among other things:

- the more complex needs of larger SMEs, including the costs of providing a greater depth of relationship management service to these account holders (which are likely to be reflected in fees and charges);

- the greater volume of transactions carried out by larger SMEs; and

- the higher credit and debit balances held per account by larger SMEs.

25. To account for differences across banks in the size profile of SMEs served (and the consequent impact on cost and revenue per account), Table 6 and Table 7 contain a comparison of normalised net revenue between banks for SMEs with annual turnover less than, and greater than, £2 million respectively.[5]

26. For BCAs held by SMEs with annual turnover less than £2 million, net revenue per account is around £[✂], with the exception of [✂] at £[✂] and [✂] at £[✂]. However, when considering total net receipts from interest and charges (ie abstracting from the value of funds), [✂] earns the lowest amount per account (£[✂]), compared to around £[✂] for largest four banking groups. [✂] and [✂] for which we have data appear to earn higher total net receipts from interest and charges (over £[✂] per active account) than the other banks for which we have data.

27. Net revenue per active account appears much more variable across banks for SMEs with annual turnover above £2 million (see Table 7), and this may reflect differences in customer characteristics associated with the comparatively smaller number of accounts over which average revenue is being calculated.

28. The total net receipts from interest and charges component of revenue (ie excluding the net value of funds) shows less variation across banks than net revenue, with the largest four banking groups earning the lowest amount per account (around £[✂] to £[✂], see Table 7). Total net receipts from interest and charges per account is slightly larger for [✂] (around £[✂]) driven by relatively higher revenue earned from transaction charges. Total net receipts per account for [✂] appears to be substantially higher and may definitional differences in the underlying data.

[5] We note however that because some banks were unable to provide a breakdown by SME size (AIB, Danske and TSB) the sample upon which to make comparisons is smaller.

Table 6: SMEs with annual turnover <£2m – analysis of net revenue per active account using standardised net value of funds, 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

Table 7: SMEs with annual turnover >£2m – analysis of net revenue per active account using standardised net value of funds, 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

SME lending products

29. In this section we present the provisional results of our analysis of revenue from other SME lending products. A number of issues arise in interpreting this analysis which, due to the nature of products involved, are likely to pose more serious limitations than for the equivalent analyses of PCA and BCA revenues.

General purpose business loans (including commercial mortgages)

30. Table 8 shows a breakdown of revenue aggregated across the banks. We have considered net revenue as comprising the following sources:

- interest received from SMEs;
- arrangement fee revenue; and
- any other fee revenue received from SMEs.

Table 8: Analysis of GPBL revenue (% average loan balance)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*%* *2014*
Interest received from SMEs	2.25	2.48	2.82	2.86	91
Arrangement fee revenue received from SMEs	0.09	0.10	0.10	0.11	4
Other revenue (including fee received from SMEs)	0.09	0.09	0.15	0.17	5
Total revenue from interest and charges	2.43	2.67	3.08	3.14	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Revenue data for Santander not available in 2011 and 2012.

31. We find that revenue from interest and charges as a percentage of average loan balance has increased over time. The main factors behind this are:

- an increase in interest received from SMEs; and
- an increase in other fee revenue received from SMEs.

32. Interest from SMEs remains the most important source of revenue in 2014 (accounting for just over 90% of net revenue), although the share of revenue accounted for by arrangement and other fees has increased slightly since 2011.

33. We note however that there are potential issues in interpreting the data in Table 8:

- There may be differences between banks in how they have defined revenue and how and/or when they recognise revenue. We have also noted differences in the overall quality of the data submitted by banks.

- We are unable to account for loan impairments and changes in the quality of banks' loan books over time, which may impact the interpretation of trends in revenues.

- Limited data is available for 2011 and 2012 (see notes to Table 8).

Comparison of normalised GPBL revenue across banking groups

34. Table 9 displays the comparison of GPBL revenue from interest and charges (as a percentage of annual average loan balance) for 2014 across banking groups.

Table 9: Analysis of revenue for GPBL (% annual average loan balance) in 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Data for Clydesdale not included due to problems with the underlying data.

35. The data in Table 9 suggests significant variation between banks in net revenue as a percentage of annual average loan balance, which ranges from 1.46% to 4.39%.

36. There does not appear to be a consistent pattern between market share and normalised revenue, with the largest revenues being earned by a mixture of both large and small banks.[6]

37. However, as noted in paragraph [33], it is not possible to control for differences in the quality of loan books between banks or directly account for the costs of loan defaults. Differences in GPBL revenue between banks may therefore reflect differences in the risk profile of loan customers and any subsequent impairments.

Other SME lending products

38. Table 10 and Table 11 show a breakdown of revenue aggregated across the banks for asset and invoice finance products, respectively. We have considered revenue as comprising the following:

    - Interest received from SMEs.

[6] For example the five highest revenues are earned by [✂], respectively.

- Arrangement fee revenue.

- Any other fee revenue received from SMEs.

39. As with our analysis of GPBL revenue, we have not been able to subtract the cost of funds from the revenues earned from interest and other fees.

Table 10: Analysis of asset finance revenue (% average loan balance)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*%* *2014*
Interest received from SMEs	3.46	4.08	4.37	4.53	89
Arrangement fee revenue received from SMEs	0.22	0.24	0.22	0.20	4
Other revenue (including fee received from SMEs)	0.69	0.52	0.40	0.34	7
Total revenue from interest and charges	4.38	4.84	4.99	5.07	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Revenue data not available for Santander in 2011 and 2012, and Lloyds for 2011 to 2014. Revenues for Clydesdale and Ulster not included due to problems with the underlying data.

Table 11: Analysis of invoice finance revenue (% average loan balance)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*%* *2014*
Interest received from SMEs	2.98	2.92	2.89	2.77	30
Arrangement fee revenue received from SMEs	0.21	0.19	0.17	0.17	2
Other revenue (including fee received from SMEs)	6.90	6.62	6.48	6.40	68
Total revenue from interest and charges	10.09	9.74	9.55	9.34	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Revenue data not available for Santander in 2011 and 2012.

40. The results in Table 10 and Table 11 reflect a weighted average across loans. Trends over time will reflect both general trends affecting all loans as well as changes in the composition of banks' loan books.

41. For asset finance loans, the following points emerge from the table:

- Revenue as a percentage of average loan balance has increased over time. The main factor behind this is an increase in interest received from SMEs.

- Interest from SMEs remains the most important source of revenue in 2014 (accounting for just under 90% of revenue). The share of revenue accounted for by arrangement and other fees has decreased from around 20% in 2011 to around 10% in 2014.

42. For invoice finance products the following points emerge from the table:

- Revenue as a percentage of average loan balance has decreased over time. The main factors behind this are a decline in other fee revenue and a decline in interest received from SMEs.

- Non-interest revenue remains the most important source of invoice revenue in 2014 (accounting for around 70%).

43. The same potential issues in interpreting the GPBL net revenue data (as referred to in paragraph 33 also hold for the asset finance analysis.

Comparison of normalised asset and invoice finance revenue across banking groups

44. Table 12 and Table 13 show the comparison of revenue in 2014 across banking groups, for asset and invoice finance loans, respectively.

45. Similar to GPBLs there is significant variation in revenue between banks (ranging from 2.98%to 7.81% of annual average balances for asset finance and 2.4% to 14.5% for invoice finance).

46. There appears to be little evidence of a relationship between market share and revenue, with smaller banks being represented in both the highest and lowest revenue earners within the sample for both types of finance.[7]

47. However, as with GPBL, there are limits to the interpretation of this analysis due to possible differences in the risk profile of customers and impairment costs between banks. In the context of asset and invoice finance, this may be more serious a limitation than for GPBLs due to:

    - the specialisation of banks in certain types of asset (for example plant and construction machinery, marine, catering equipment etc); and

    - differences in the cost of recovering accounts receivables for invoice factoring loans (both in terms of the administrative costs of managing the accounts, and the credit risk of the accounts).[8]

48. To the extent that it is not possible to control for systematic differences in the characteristics of loans and cost of providing these services between banks, caution should be exercised in interpreting differences in revenue as pricing differences.

Table 12: Analysis of revenue for asset finance (% annual average loan balance) in 2014

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Revenues for Clydesdale and Ulster not included due to problems with the underlying data. Data not available for LBG.

[7] While [✂] earned the highest net revenue as a % annual average balances for asset and invoice finance ([✂]% and [✂]%, respectively), [✂] earned the second lowest ([✂]% and [✂]%, respectively).
[8] For example an accounts receivable with only one creditor may be less costly to manage than one with a number of creditors. Conversely, a less diversified accounts receivable may increase the overall credit risk of the loan.

Table 13: Analysis of revenue for invoice finance (% annual average loan balance) in 2014

[✄]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

Business deposit accounts

49. Table 14 shows a breakdown of business deposit account revenue aggregated across the banks. We have considered net revenue as comprising the following:

- fee revenue received from SMEs;
- the value of funds deposited;
- **less** interest paid to SMEs.

50. The results in Table 14 reflect a weighted average across business deposit accounts. As a proxy to the value of funds held in business deposit accounts we have applied the standardised percentage value of funds for BCA credit balances to the average value of deposit account balances. Trends over time will reflect both general trends affecting all deposit accounts as well as changes in the composition of accounts over time.

Table 14: Analysis of business deposit account revenue (£ per account, 2014 prices)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*% in 2014*
Fee revenue received	1	1	1	1	0%
Interest paid to SMEs	–226	–272	–301	–197	–26%
Net revenue from interest and charges	–226	–271	–300	–196	–26%
Standardised value of funds	1,417	944	1,112	942	126%
Net revenue*	1,191	673	812	746	100%

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
*Calculated by applying standardised % value of funds for BCA credit balances to the annual average business deposit account balance of each bank. Data for Danske excluded from calculation of standardised % cost of funding. BCA credit balances data not available for RBS, Co-op, Metro and Handelsbanken.

51. Despite a reduction in interest paid to SMEs since 2011, net revenue per business deposit account in 2014 was approximately two-thirds of its 2011 value. This decline was driven primarily by a decrease in the value of funds. Nevertheless net revenue per account remains positive at around £740.

52. Table 15 shows the comparison of normalised business deposit account revenue for 2014 across banking groups. Revenue per account ranges from £280 ([✄]) to £2,827 ([✄]) and is likely to reflect differences in the average size of SME customers served (and therefore average size of deposit) as well as any differences in interest rates paid to SMEs.

53. To control for these differences, Table 16, provides a comparison between banks of net revenue from interest and charges expressed as a percentage of the average deposit balance. On this basis, interest paid to SMEs varied from 0.07% (for [✂]) to 2.23% (for [✂]). Around half of the banks made interest payments at a rate in excess of the short-term interest rate in 2014 (which was approximately 0.5%). We do not, however, find evidence of a relationship between the rates of interest paid and market share.

Table 15: Analysis of business deposit account net revenue in 2014 (£ per account, 2014 prices)

Source: CMA calculations using data submitted by the banks.

Table 16: Comparison of net business deposit account revenue from charges and interest in 2014 (% average balances)

[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.

Profitability of small and medium-sized enterprise banking customers and products

Overview

1. In this appendix, we consider the profitability of SME banking across different customers and products, and seek to address the following questions:

   (a) Are BCAs profitable when considered separately from the banks'[1] wider SME banking offerings?

   (b) Does the profitability of BCAs vary by customer usage (eg propensity to use overdraft facility) or customer type (eg the size of the business), and if so, how much do different customer groups contribute to the profitability of BCAs?

   (c) Are the other SME banking products offered by the banks profitable when considered separately from the banks' wider SME banking offerings, and if so, how much do they contribute to the profitability of the banks' wider SME banking offerings?

2. The purpose of this appendix is to understand how and to what extent the banks assess the profitability of SME banking customers and products, and not to conduct a detailed financial analysis of SME banking customer and product profitability. Therefore, our assessment is based on financial data provided by the banks and generally reflects accounting (and not economic) profits.

Are BCAs profitable when considered separately from SME banking?

3. We do not have a comprehensive view of the profitability of BCAs across all of the banks, as they take different approaches in assessing the performance of BCAs, and they do not all assess the profitability of BCAs in the normal course of business:

   (a) Barclays told us that it did not measure the profitability of BCAs in the regular course of business due to the difficulty in allocating fixed costs to multiple products[2] and instead, it considered the four major sources of

[1] We focus our analysis on the SME banking activities of the five largest banks in the UK (ie Barclays; HSBCG; LBG; RBSG and Santander), as together they had a combined market share (by number of active BCAs) of over [✂]% in 2014. Please see Section 6, Table 6.3 for further information.
[2] This is more challenging for BCAs than for PCAs, because Barclays manages PCAs through a distinct business unit, whereas it provides BCAs alongside a wider product set.

income associated with BCAs (ie monthly fees; transactional fees; credit balances; and debit balances) and BCA-related impairment.

(b) HSBCG told us that it did not manage its SME banking business by reference to product profitability and instead, performance of product areas was assessed by reference to the contribution that those products made to common costs, as this approach reflected the fact that it competed in the SME banking market through a relationship banking approach that involved meeting customer needs by providing a range of products.

(c) LBG told us that SME banking product performance, including BCAs, was primarily assessed by reviewing revenue performance and not overall profitability, because business units in its Commercial Banking division were structured by reference to client size (as a relationship manager managed their customers' entire relationship) and therefore, financial performance was assessed and managed at total rather than product level.

(d) RBSG told us that it did not [✄].[3]

(e) Santander told us that [✄].

4. The banks' assessments of the profitability of their BCA propositions in recent years (and in future years where available) is presented in Annex A. The information provided by the banks in Annex A suggests that, through the economic cycle, for [✄] and [✄], BCAs are profitable, and for [✄] and [✄], SME banking, including the provision of BCAs, is profitable.

5. In addition to the information provided by the banks in Annex A, the following evidence supports the view that BCAs are profitable:

(a) In 2012, Barclays outlined a proposal to develop a best in class BCA proposition that intended to increase BCA profitability from £[✄] per customer to £[✄] per customer by 2014.

(b) In 2013, Barclays outlined a BCA proposition to sustainably grow current account profitability by £[✄] per annum from £[✄] in 2012 to £[✄] in 2014. Barclays told us that this represented an increase in profitability of £[✄] per customer per annum and much of the increase in profitability

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[3] [✄]

was a function of reduced costs and impairments rather than customers paying more for their BCA services.[4]

(c) In 2013, HSBCG stated that its Business Banking Mass proposition [✂].

Does the profitability of BCAs vary by customer usage or customer type, and if so, how much do different customer groups contribute to the profitability of BCAs?

6. We do not have a comprehensive view of the profitability of different BCA customers across all of the banks, as they take different approaches in assessing the performance of customers, and they do not all assess the profitability of BCA customers in the normal course of business:

   (a) Barclays told us that historically, it had not measured SME customer profitability, as it could not accurately link the behaviour of customers to its cost base, but it intended to complete the development of a customer level profitability model in 2016.

   (b) HSBCG told us that [✂].

   (c) LBG told us that it undertook profitability assessments at key strategic decision points, but it did not fully allocate costs across its SME banking business at a customer level due to the difficulties associated with cost allocation, capital allocation and the valuation of fixed and intangible assets.

   (d) RBSG told us that it did not [✂].

   (e) Santander told us that [✂].

Customer usage

7. There are a number of ways in which the manner in which a customer uses their BCA impacts upon the returns that they generate for their bank:

   (a) The level of credit balances held in BCAs are an important source of funding for the banks and a driver of net interest income.

[4] Current account profitability of £[✂] was calculated by multiplying total current account income (including authorised and unauthorised overdrafts) of £[✂] by the same revenue to profit before tax (PBT) ratio as seen for the wider business banking business (ie [✂]%). The £[✂] increase in profitability was divided by the number of business banking customers at the time (ie [✂]) to give an increase in profitability per customer of £[✂] per annum.

(b) The volume and type of transactional activity undertaken by the customer relates directly to the income generated by that customer for their bank. This is particularly the case for BCA customers, as the banks typically charge transactional fees (in addition to a monthly fee for usage of the account). The income generated by a customer for their bank is determined by their channel usage, and electronic payments tend to incur a higher fee for SMEs than cash and manual payments, although the banks incur higher processing costs in serving customers in branches). For example, Barclays told us that it made a loss on serving charities, clubs, associations and societies, because these customers were typically provided core banking services (eg BCAs and key payment services) free of charge, and had a relatively high cost to serve, as they were particularly likely to use cheques and frequently required change in mandates.

(c) The income generated for the banks from overdraft fees and interest is a driver of the profitability of BCAs. With the exception of [✂],[5] the income generated by the banks from BCA overdraft fees and interest appears to have declined in recent years. It is unclear as to the extent that this has been driven by a decline in overdraft usage and the changes made by a number of the banks to their overdraft propositions to increase the transparency of their charging structures.

8. We present the evidence provided by the banks to demonstrate how these features impact upon BCA profitability in Annex B.

Customer type

9. The following characteristics of BCAs customers impact upon the profits that they generate for their bank:

(a) The size of the SME.[6] Larger SMEs tend to hold larger credit balances in their BCAs, thus driving greater net interest income for their bank. Further, larger SMEs typically have higher transaction volumes; greater and more complex financial needs (eg greater borrowing requirements); and the need for a broader range of other SME banking products and services.

(b) The life stage of the SME. Start-ups or new BCA customers often receive free core banking services for a limited period (typically 12 to 18 months) and therefore generate less income in the early stages of their operation. LBG told us that BCAs provided to start-ups or switchers, which were

[5] [✂]
[6] We consider that the annual turnover of an SME is an appropriate proxy for the size of the business.

introductory products, were not expected to cover their incremental costs in the short term, but it expected these customers to make a contribution in excess of incremental costs over the lifetime of their relationship with LBG. Therefore, the provision of free banking for a limited period is effectively a cost of customer acquisition.

10. We present the evidence provided by the banks to demonstrate how these characteristics impact upon BCA profitability in Annex C.

Are the other SME banking products offered by the banks profitable when considered separately from SME banking, and if so, how much do they contribute to the profitability of SME banking?

11. We do not have a comprehensive view of the profitability of other SME banking products across all of the banks, as they take different approaches in assessing the performance of these products, and they do not all assess the profitability of these products in the normal course of business:

(a) Barclays told us that the profitability of loans and asset finance products was measured in terms of the return on risk weighted assets and return on equity; and the profitability of deposits accounts was measured purely in terms of PBT, because it held little capital against the deposits, and therefore, the use of a return on risk weighted assets or return on equity metric was of little practical value.

(b) HSBCG told us that it did not manage its SME banking business by reference to product profitability and instead, performance of product areas was assessed by reference to the contribution that those products made to common costs, as this approach reflected the fact that it competed in the SME banking market through a relationship banking approach that involved meeting customer needs by providing a range of products.

(c) LBG told us that product performance, including BCA performance, was primarily assessed by reviewing revenue performance and not overall profitability.

(d) RBSG told us that it did not [✂].

(e) Santander told us that [✂].

12. The banks' assessments of the profitability of some of their SME banking products in recent years (and likely profitability in future years where available) is presented in Annex D. The information provided by the banks in Annex D suggests that, through the economic cycle, the SME banking

products (for which we have data) provided by [✂] (mortgages, loans, deposit accounts and credit cards), [✂] (term lending products, asset finance products and deposit accounts) and [✂] (commercial charge cards) are profitable.[7]

[7] The information provided by [✂] and [✂] did not allow us to assess whether their SME banking products are profitable.

Annex A: BCA profitability

1. The differences in the information provided by the banks and presented in this annex reflects both the different information provided by each bank (ie [✂] and [✂] provided stand-alone profit and loss forecasts for their BCA propositions, whereas [✂] and [✂] provided forecasts for their SME banking businesses, which includes the provision of BCAs and other SME banking products), and the different revenue and cost allocation methods utilised by each of the banks.

Barclays

2. Table 1 shows that the provision of [✂] was [✂] from 2012 to 2014, and is [✂] in 2015 and 2016.

Table 1: Barclays [✂] profit and loss, 2012 to 2016

£m

	2012 Actual	*2013 Actual*	*2014 Actual*	*2015 Forecast*	*2016 Forecast*
Current accounts net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Liquidity buffer (allocation)	[✂]	[✂]	[✂]	[✂]	[✂]
Current accounts net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Overdrafts net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Risk related	[✂]	[✂]	[✂]	[✂]	[✂]
Money transmission	[✂]	[✂]	[✂]	[✂]	[✂]
Foreign exchange	[✂]	[✂]	[✂]	[✂]	[✂]
Debit card exchange trade agreement	[✂]	[✂]	[✂]	[✂]	[✂]
Non-interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]	[✂]	[✂]
In business costs	[✂]	[✂]	[✂]	[✂]	[✂]
Functional costs	[✂]	[✂]	[✂]	[✂]	[✂]
Operations and technology	[✂]	[✂]	[✂]	[✂]	[✂]
Head office allocations	[✂]	[✂]	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]	[✂]	[✂]
Total operating costs	[✂]	[✂]	[✂]	[✂]	[✂]
Impairments	[✂]	[✂]	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]	[✂]	[✂]
PBT	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Barclays.
[✂]

HSBCG

3. Table 2 shows that [✂] and is [✂].

Table 2: HSBCG [✂] profit and loss, 2012 to 2016

					£m
	2012 Actual	*2013 Actual*	*2014 Actual*	*2015 Forecast*	*2016 Forecast*
Income	[✂]	[✂]	[✂]	[✂]	[✂]
Impairments	[✂]	[✂]	[✂]	[✂]	[✂]
Costs	[✂]	[✂]	[✂]	[✂]	[✂]
Associates	[✂]	[✂]	[✂]	[✂]	[✂]
PBT	[✂]	[✂]	[✂]	[✂]	[✂]

Source: HSBCG.
Notes:
[✂]

4. HSBCG told us that [✂]:

(a) [✂];

(b) [✂];

(c) [✂]; and

(d) [✂].

LBG

5. Table 3 shows that [✂][8] was [✂] in 2014 and [✂] from 2014 to 2018.

Table 3: LBG [✂] profit and loss, 2014 to 2018

					£m
	2014 Actual	*2015 Forecast*	*2016 Forecast*	*2017 Forecast*	*2018 Forecast*
Net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Other operating income	[✂]	[✂]	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]	[✂]	[✂]
Direct costs	[✂]	[✂]	[✂]	[✂]	[✂]
Indirect costs	[✂]	[✂]	[✂]	[✂]	[✂]
Total costs	[✂]	[✂]	[✂]	[✂]	[✂]
Impairments	[✂]	[✂]	[✂]	[✂]	[✂]
PBT	[✂]	[✂]	[✂]	[✂]	[✂]

Source: LBG.

6. LBG told us that the key drivers of performance during this period were:

(a) annualised customer balance growth over the period of [✂]% for deposits and [✂]% for lending due to customer-led investment and economic growth causing significant increases in the levels of both SME deposits and lending;

[8] [✂]

(b) an increase in net interest income, reflecting the expectation of a medium term rise in the base rate;

(c) lower growth in other operating income (in comparison with net interest income) due to lower growth in BCA and overdraft fee income and expected reductions in interchange fee income;

(d) a gradual increase in direct costs, reflecting increased staff and other operating costs due to expected growth in the business;[9] and

(e) an increase in impairments due to increased lending, partially offset by reduced impairment risk as the economy improved.

7. Table 4 shows that [✂][10] was [✂] from 2011 to 2014.

Table 4: LBG [✂] profit and loss, 2012 to 2014

				£m
	2011	*2012*	*2013*	*2014*
Net interest income	[✂]	[✂]	[✂]	[✂]
Other operating income	[✂]	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]	[✂]
Operating expenses	[✂]	[✂]	[✂]	[✂]
Impairments	[✂]	[✂]	[✂]	[✂]
Fair value unwind	[✂]	[✂]	[✂]	[✂]
PBT	[✂]	[✂]	[✂]	[✂]

Source: LBG.

8. Table 5 shows the income and margins generated and the balances held by LBG's [✂] from 2012 to 2014, and forecasts for 2015 to 2017.

[9] The majority of costs are indirect shared costs, which are allocated to the business using appropriate cost drivers, and do not have a direct relationship with the volume or characteristics of customers.
[10] Commercial Banking includes the provision of BCAs to SMEs with turnover between £1 million and £25 million.

Table 5: LBG [✂] income, margins and balances 2012 to 2017

£m

	2012 Actual	*2013 Actual*	*2014 Actual*	*2015 Forecast*	*2016 Forecast*	*2017 Forecast*
Non-interest bearing current account (NIBCA) net interest income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Interest-bearing current account (IBCA) net interest income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Overdraft income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other operating income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NIBCA margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IBCA margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Overdraft margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NIBCA balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IBCA balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Overdraft balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: LBG.
Notes:
[✂]

9. LBG told us that the key drivers of performance over this period were:

(a) an increase in credit balances due to SMEs investing less in working capital, reflecting the uncertainty caused by the recent economic environment, and an increase in customers (eg [✂]% of the deposit growth in 2014 was due to the recruitment of new customers in the current or previous year);

(b) a fall in overdraft balances due to a reduced demand for overdraft facilities;

(c) a lower growth in net interest income relative to balance growth due to a reduction in deposit and lending margins; and

(d) an increase in other operating income due to customers choosing to transact through lower cost digital channels.

RBSG

10. Table 6 shows that [✂], was [✂]. RBSG told us that [✂] in 2013 was [✂]:

(a) [✂]

(b) [✂]

(c) [✂]

(d) [✂]

Table 6: RBSG [✂] profit and loss, 2013 to 2015

	2013 Actual	2014 Actual	2015 Forecast
			£m
Net interest income	[✂]	[✂]	[✂]
Treasury allocations*	[✂]	[✂]	[✂]
Other income	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]
Staff costs	[✂]	[✂]	[✂]
Other costs	[✂]	[✂]	[✂]
Total direct costs	[✂]	[✂]	[✂]
Services†	[✂]	[✂]	[✂]
Functions‡	[✂]	[✂]	[✂]
Indirect restructuring costs	[✂]	[✂]	[✂]
Total indirect costs§	[✂]	[✂]	[✂]
Total costs	[✂]	[✂]	[✂]
Operating profit before impairments	[✂]	[✂]	[✂]
Impairments	[✂]	[✂]	[✂]
Operating profit	[✂]	[✂]	[✂]

Source: RBSG.
*Treasury allocations represent treasury costs allocated to the business based on appropriate product drivers and funding mechanisms.
†Indirect services costs include allocated costs for bank centre; technology services; payment and cash services; fraud operations; change and transformation; international operations; bankline, Bacs, trade operations; and lending operations.
‡Indirect functions costs include allocated costs for Legal, Group Internal Audit, Risk, Restructuring, Secretariat, Share Based Payments, Compliance, Corporate, Finance, HR, Marketing and Communications, Product and Bank Levy.
§All indirect allocated costs are based on appropriate cost drivers (eg dedicated or semi-dedicated full time equivalents or underlying transaction volumes).
Notes:
[✂]

11. Table 7 shows that [✂], was [✂].

Table 7: RBSG [✂] profit and loss, 2013 to 2017

					£m
	2013 Actual	*2014 Forecast*	*2015 Forecast*	*2016 Forecast*	*2017 Forecast*
Asset net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Deposit net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Net interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Non-interest income	[✂]	[✂]	[✂]	[✂]	[✂]
Total income	[✂]	[✂]	[✂]	[✂]	[✂]
Treasury allocation	[✂]	[✂]	[✂]	[✂]	[✂]
Total income including treasury allocation	[✂]	[✂]	[✂]	[✂]	[✂]
Staff costs	[✂]	[✂]	[✂]	[✂]	[✂]
Other costs	[✂]	[✂]	[✂]	[✂]	[✂]
Total direct costs†	[✂]	[✂]	[✂]	[✂]	[✂]
Indirect costs‡	[✂]	[✂]	[✂]	[✂]	[✂]
Total costs	[✂]	[✂]	[✂]	[✂]	[✂]
Profit before impairment loss	[✂]	[✂]	[✂]	[✂]	[✂]
Impairment loss	[✂]	[✂]	[✂]	[✂]	[✂]
Operating contribution fully allocated	[✂]	[✂]	[✂]	[✂]	[✂]

Source: RBSG.
*Treasury allocations represent treasury costs allocated to the business based on appropriate product drivers and funding mechanisms.
†Direct costs include costs of front business and management teams.
‡Indirect services costs include allocated costs for bank centre; technology services; payment and cash services; fraud operations; change and transformation; international operations; bankline, Bacs, trade operations; and lending operations. Indirect functions costs include allocated costs for Legal, Group Internal Audit, Risk, Restructuring, Secretariat, Share Based Payments, Compliance, Corporate, Finance, HR, Marketing and Communications, Product and Bank Levy. All indirect allocated costs are based on appropriate cost drivers (eg dedicated or semi-dedicated full time equivalents or underlying transaction volumes).
Notes:
[✂]

12. RBSG told us that all costs associated with providing products and services to SME customers were included in this analysis, and that the key drivers of performance were:

(a) [✂]

(b) [✂]

(c) [✂]

(d) [✂]

(e) [✂]

(f) [✂]

Santander

13. Table 8 shows that the provision [✂] was [✂] 2012 and 2013, and is [✂] from 2014 to 2016.

Table 8: Santander BCA profit and loss, 2012 to 2016

£m

	2012 Actual	*2013 Actual*	*2014 Forecast*	*2015 Forecast*	*2016 Forecast*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Santander.
[✂]

14. Santander told us that the main drivers of financial performance of its SME banking business (including BCAs) were:

(a) net interest income, which was driven by the mix and size of balances that were in credit and overdrawn, and the interest paid to the customer;

(b) non-interest income, which was mainly driven by the number of customers using their overdraft facility; the transactions performed by customers (eg ATM and debit card usage); and the use of ancillary services (eg cash handling and payment services such as CHAPS);

(c) provisions and impairments, which were mainly driven by the value of write offs, non-performing loans and fraud costs; and

(d) costs relevant to the provision of the SME banking business (eg employment costs, general and third party costs and depreciation).

Annex B: BCA profitability by customer usage

Transactional activity

1. The income generated by a customer for their bank is determined by their transactional method. For example:

   (a) Barclays told us that the near exclusive use of online payments would give rise to lower income generated from some customers, while the frequent paying-in of cash would give rise to higher income generated from others.

   (b) [✂] told us that retail and leisure businesses tended to be heavier users of cash and manual payments, and these payments drove higher income, but also cost more to process.[11]

Overdraft usage

2. Barclays told us that overdraft usage drove the income generated by an SME for the bank as follows:

   (a) There was an annual fee relative to the size of the overdraft limit on the account (irrespective of the level of usage of the facility) and interest payable when a customer used their authorised overdraft. The varying size of overdraft limits across SMEs reflected the varying requirements for working capital (eg very few charities had overdraft facilities, but they were commonly used among agricultural businesses to manage the frequent fluctuations in cash flow in that industry).

   (b) When a customer used an unauthorised overdraft (ie where the overdraft balance exceeded their agreed or authorised overdraft limit):

      (i) they were charged a higher interest rate than that applied to the use of their authorised overdraft facility;

      (ii) they were charged a paid referral fee of £30 where Barclays elected to process a payment that took the customer more than £30 over their agreed limit (this fee was capped at one per day); and

[11] [✂] told us that income from manual payments had fallen in recent years as customers migrated to automated payment methods (eg SOs, DDs, faster payments and card payments), and that the rate of income decline was faster in the higher turnover businesses, reflecting speed of adoption of the available payment methods and volume.

(iii) they were charged an unpaid fee of £35 where Barclays declined a payment (this fee was capped at one per day).

3. Barclays told us that overdraft income (including risk fees) generated by SMEs had fallen from £[✂] in 2012 to £[✂] in 2014. Barclays also told us that there had been a decline in overdraft balances, as the sharp fall in the base rate to a record low and uncertainty surrounding the strength of the economic recovery had encouraged SMEs to retain additional credit balances in their BCAs.

4. HSBCG told us that overdraft income generated by SMEs had [✂], because:

(a) on average, customer use of overdraft facilities [✂] (eg in 2014, HSBCG provided [✂] overdraft facilities to its circa [✂] SME customers (which represented a product penetration ratio of [✂]%), and the average debit balance was £[✂] (which represented an average overdraft facility utilisation of [✂]%);

(b) there were competitive alternatives to overdraft facilities (eg invoice finance; credit cards; trade credit; alternative finance; and PCA credit balances); and

(c) it had made the following changes to its SME banking unarranged overdraft proposition (all of which came into effect on 1 December 2014):

(i) A reduction in the overdraft interest rate from 29.5% to 19.5%.

(ii) A reduction in the charge for unpaid items from £25 to £15 for cheques, DDs and SOs.

(iii) The creation of a debt balance buffer of £10.

It also intended [✂].

5. Table 1 shows that the income that LBG generated from BCA overdrafts declined from 2012 to 2014, and is forecast to continue to decline from 2015 to 2017, driven by declining overdraft balances and margins.

Table 1: LBG BCA overdraft income, 2012 to 2017

	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast
						£m
Overdraft income	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Overdraft balances	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Overdraft margin (%)*	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: LBG.
*Margin is calculated by dividing net interest income by spot balances.

6. RBSG told us that overdraft usage among SMEs had declined by [✄]% from [✄] to [✄], as demand for working capital facilities had weakened in the economic downturn, resulting in a reduction in overdraft income from £[✄] in [✄] to £[✄] in [✄].

7. Table 2 shows the BCA income generated by Santander from overdraft fees and interest from 2010 to 2014. [✄]

Table 2: Santander BCA overdraft income, 2012 to 2014

[✄]	2010	2011	2012	2013	2014
					£m
[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: Santander.

Annex C: BCA profitability by customer type

Size

1. Barclays told us that larger customers held larger balances in their BCAs and had higher transaction volumes and therefore, paid higher money transmission charges, and as a result, the average BCA income generated from SMEs with turnover above £1 million was more than [✄] the income generated from SMEs with turnover of less than £100,000.

2. Table 1 shows that [✄].[12] HSBCG told us that [✄]. Further, HSBCG told us that [✄].

Table 1: HSBCG [✄] revenue per customer, 2012 to 2014

[✄]

Source: HSBCG .
Note: [✄]

3. Figure 1 shows that high turnover businesses (those businesses with turnover between £500,000 and £1 million) and mid-turnover businesses (turnover between £100,000 and £500,000) generated a disproportionate amount of LBG's [✄] income when compared to the income generated by low turnover businesses (less than £100,000 turnover).[13]

Figure 1: [✄]

[✄]

Source: [✄]

4. LBG told us that SMEs with higher turnover generated greater income for LBG, because those SMEs:

   (a) typically had greater borrowing requirements (both in terms of amount and frequency); higher deposit balances; and a greater volume of transactions;

   (b) benefited from additional products designed specifically to meet the more complex needs of such businesses (eg international services); and

   (c) did not receive free banking services (whereas start-ups received free banking services for a limited period, which temporarily reduced the income that they generated for LBG, but income increased over time as

[12] [✄]
[13] [✄]

the business became more established, increased its turnover and/or started to use a wider range of products.

5. Table 2 shows that [✄].

Table 2: RBSG [✄], 2011 to 2014

				£
	Average income per account			
SME turnover	*2011*	*2012*	*2013*	*2014*
Less than £2 million	[✄]	[✄]	[✄]	[✄]
£2 million to £25 million	[✄]	[✄]	[✄]	[✄]

Source: RBSG.
Note: [✄]

6. Santander told us that larger SME customers with more complex businesses generally generated larger revenues.

Life stage

7. Barclays told us that:

(a) start-ups did not pay standard account fees or money transmission charges (usually for the first twelve months of their relationship with Barclays); and

(b) the average income it generated from a start-up was around [✄] of the average income it generated from all SME customers.

8. LBG told us that BCAs provided to start-ups or switchers, which were introductory products, were not expected to cover their incremental costs in the short term, but it expected these customers to make a contribution in excess of incremental costs over the lifetime of their relationship with LBG.

9. RBSG told us that it offered start-ups a fee-free overdraft of £500 for the first 12 months and no annual fee on commercial credit cards for the first 12 months.

Annex D: Profitability of other SME banking products

Barclays

1. Table 1 shows the net interest income and margins generated and the balances held by Barclay's [✂] in 2013 and 2014 (and equivalent information for the forecast period from 2015 to 2018).

Table 1: Barclays [✂] income, margins and balances, 2013 to 2018

£m

	2013 Actual	*2014 Actual*	*2015 Forecast*	*2016 Forecast*	*2017 Forecast*	*2018 Forecast*
Asset net interest income						
Income						
Overdrafts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Mortgages	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Loans	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average balances						
Overdrafts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Mortgages	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Loans	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Margin						
Overdrafts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Mortgages	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Loans	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Liability net interest income						
Income						
Current accounts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Savings	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average balances						
Current accounts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Savings	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Margin						
Current accounts	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Savings	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Barclays.
Note: [✂]

2. Barclays told us that the key drivers of the profitability of its debt products were borrowing demand, the level of impairment and margins. Barclays told us that in recent years, it had witnessed:

   (a) limited borrowing demand, which had resulted in limited balance growth;

   (b) a significant decrease in the level of impairments due to improved underwriting techniques, improving economic conditions and rising underlying asset prices; and

(c) a downward pressure on margins due its participation in government lending schemes, which had often provided greater benefits for banks with weaker credit scores.

3. Barclays told us that the key drivers of the profitability of its deposits business were the level of balances held and margins. Barclays told us that in recent years it had witnessed:

(a) significant growth in deposit balances due to:

(i) continued economic uncertainty, causing businesses to delay major capital investment projects; and

(ii) a growth in its SME customer base;

(b) margin compression (due to the very low base rate environments), which had significantly reduced the profitability of its deposits business; and

(c) the emergence of liquidity buffer charges as a new cost.

4. Table 2 shows the profitability of Barclaycard's small business segment from 2010 to 2014. Barclays told us that the key drivers of Barclaycard profitability were the number of accounts; customer churn; the level of balances; and the level of interest-earning balances.

Table 2: Barclaycard small business profitability, 2010 to 2014

	£m
	PBT
2010	[✂]
2011	[✂]
2012	[✂]
2013	[✂]
2014	[✂]

Source: Barclays.
Notes:
1. Barclaycard views its small business customers (ie those customers with turnover of up to £5 million) as one book and measures profitability at this level.
2. PBT is calculated as net income (ie net interest plus interchange and other fees) less impairment and costs.

LBG

5. Table 3 shows the net interest income and margins generated and the balances held by LBG's [✂] from 2012 to 2014 (and equivalent information for the forecast period from 2015 to 2017).

Table 3: LBG [✂] income, margins and balances, 2012 to 2017

						£m
	2012 Actual	*2013 Actual*	*2014 Actual*	*2015 Forecast*	*2016 Forecast*	*2017 Forecast*
Term lending*						
Income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Deposit accounts†						
Income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Asset finance‡						
Income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Balances	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: LBG.
*Term lending represents business loans. LBG is unable to accurately distinguish between business loans and commercial mortgages.
†Deposit accounts represents instant access accounts and term deposits.
‡Asset finance represents invoice finance and hire purchase.
Notes:
1. Margin is calculated as net interest income divided by spot balances.
2. Balances are spot balances as at 31 December.

RBSG

6. RBSG told us that the lifetime value for SME commercial charge cards was estimated at £[✂] per customer.[14]

[14] [✂]

Business current account pricing analysis

Overview

1. This appendix sets out the results of our provisional analysis of BCA prices.

2. We compared the monthly cost of BCAs for a number of different customer profiles, using January 2015 published prices.

3. We asked the five largest banks to submit five representative BCA customer profiles together with weightings showing the proportion of their BCAs that these profiles reflected.

4. The following sections cover: BCA pricing, representative customer profiles, our methodology for making comparisons, our results and a discussion of the interpretation of our results.

BCA prices

5. BCAs provide the following services to SMEs: payment transactions, store of value, and borrowing facilities (overdrafts). However, not all BCA customers have an overdraft facility.

6. BCAs often include charges for transactional services and for use of overdraft facilities. Some BCAs pay interest on in-credit balances. Annex A sets out information available on overdraft charges and credit interest rates.

7. Our analysis covers charges for transactional services (including any monthly charges)[1] and focuses on BCAs identified by the banks in response to the market questionnaire. We excluded BCAs aimed at a particular type of enterprise, such as charities, clubs and societies as these account for a relatively small proportion of all BCAs. Our analysis is also limited to current BCA tariffs and excludes legacy tariffs. Many banks offer incentives to new customers, which often differ between start-ups and switchers – details of these incentives are set out in Annex A. Switching incentives are excluded from our analysis.

[1] As can be seen in Appendix 6.2, Table 5, transactional charges and monthly account fees make up just under 50% of the charges on BCAs for businesses with a turnover of less than £2 million. A large proportion of the remaining revenue is from overdraft charges. So the results here should be considered alongside the information on overdraft charges in Annex A.

8. Business banking transactions used in our analysis can be divided into electronic transactions – such as auto credits and DDs – and branch transactions – such as depositing or withdrawing cash over the branch counter. The analysis includes the most important transactions for which pricing data was readily available.

9. We included the following electronic transactions:

   (a) auto credit – an electronic credit paid into the account;

   (b) bill payment – a bill payment which is debited to the account via telephone or internet banking service and credited to a recipient;

   (c) debit card – a debit to the account following a business debit card payment;

   (d) DD – a direct debit payment made from or returned to the account; and

   (e) SO – a standing order payment made from the account.

10. We also included the following branch/other transactions:

   (a) branch paying-in – credits paid in over the branch counter (containing cash and/or cheques);

   (b) branch withdrawal – cash withdrawal over the branch counter (ie when cashing a cheque);

   (c) branch cash-in – a charge in addition to the branch paying-in charge for cash paid in at branch (as a percentage of the value deposited);

   (d) branch cash-out – a charge in addition to the branch withdrawal charge for cash withdrawal over branch counter (as percentage of the value withdrawn);

   (e) ATM cash-out – charge for debit associated with a cash withdrawal from self-service machine (one debit per withdrawal) and an additional charge for cash amount withdrawn from self-service machine (as a percentage of the value withdrawn);

   (f) cheques paid-in – a charge in addition to the branch paying-in charge for cheques paid in at branch; and

   (g) cheques issued – cheques written.

11. We used pricing data published on the Business Moneyfacts website in January 2015.[2]

Customer profiles

12. We asked the five largest banks[3] to submit five transactional profiles[4] which were broadly representative of their SME BCA customers on standard tariffs, together with weightings showing the proportion of BCAs that these profiles reflected.

13. We asked the banks to exclude SMEs with an annual turnover larger than £2 million as these SMEs tend to negotiate their prices and, therefore, published prices are less relevant to this segment.

14. According to one bank ([✄]), approximately [✄]% of all transactions (by volume) were covered by those included in the analysis (see paragraphs 9 and 10 above). The remaining less common transactions include: first party transfers, bank initiated charges, unpaid and paid referral fees, branch bill payments, CHAPS and unallocated transactions. Excluding these transactions is unlikely to have a major effect on the results.

15. We received five transactional profiles from Barclays and four usable transactional profiles from HSBCG, RBSG, and Santander.[5] These can be found at Annex B. LBG did not submit any profiles as it did not believe that meaningful representative customer profiles could be provided given SMEs' diversity in cost to serve, risk, average and range of balances, transaction volumes, channel preference and need for relationship support.[6] One Northern Ireland bank ([✄]) said it believed that we would not be able to draw any reliable conclusions because of limitations in the profiles.

16. Table 1 below shows an illustrative set of transactional profiles.

[2] Business Moneyfacts presents BCA tariffs for around 130 different BCAs. Pricing data for Handelsbanken is not available from the Business Moneyfacts website. We obtained its pricing data separately from Handelsbanken.
[3] Barclays, HSBCG, LBG, RBSG and Santander.
[4] By transactional profile, we mean the number of transactions set out above that a representative customer would make.
[5] Of HSBCG's five profiles, one was simply the aggregate of the other four. In the case of RBSG and Santander, we excluded one profile as it related to SMEs with turnover in excess of £2 million.
[6] LBG considered that we should carry out analysis for BCAs using transactions data, similar to that for PCAs (see Appendix 5.4). However in contrast to PCAs we did not already have transactions data and we considered the costs of obtaining such data would not be proportionate to the potential benefits, given also that we had obtained representative profiles together with weightings from four banks.

Table 1: An illustrative set of transactional profiles

	Weighting	*50%*	*20%*	*15%*	*10%*	*5%*
	Description	*£0–150k*	*£150–500k light branch user*	*£1500–500k heavy branch user*	*£500k–2m light branch user*	*£500k–2m heavy branch user*
Transaction	***Profile***	*Profile 1*	*Profile 2*	*Profile 3*	*Profile 4*	*Profile 5*
Electronic						
Auto credit		1	6	2	15	5
Bill payment		0	0	0	0	0
Debit card		2	7	3	6	4
DD		1	2	1	3	5
SO		0	6	1	15	1
Branch/other						
Branch paying-in		0	0	5	2	8
Branch withdrawal		0	0	0	0	1
Branch cash-in		£20	£70	£1,520	£315	£4,300
Branch cash-out		£20	£30	£275	£50	£470
ATM cash-out		£15	£55	£130	£65	£70
Cheques paid-in		0	1	5	1	11
Cheques issued		1	1	3	2	8

Source: CMA analysis.

Methodology

17. For each profile, we calculated the monthly cost for each relevant tariff of each bank by multiplying the number of transactions by the price per transaction. Where monetary values were submitted, such as on cash deposited and withdrawn, we divided the amount by 100 and rounded it up to the nearest whole number to account for parts of £100 deposited or withdrawn. We then multiplied this number by the fee applied to each £100 deposited/withdrawn.

18. Banks may have more than one relevant tariff, for example one tariff aimed at SMEs with mainly electronic transactions and one aimed at those with more branch transactions. Where this was the case, we took the tariff with the lowest monthly cost overall. This assumes that SMEs choose the cheapest tariff available for their pattern of transactions.[7] While this may not be true in every case, we considered it more plausible than alternative assumptions, for example assuming that SMEs choose at random (ie taking a simple average across relevant tariffs).

19. When banks submitted their transactional profiles, in some cases they specified the SME turnover band to which each profile related.[8] Banks' tariffs also sometimes have a turnover restriction (for example, the January 2015

[7] One bank ([✂]) stated that it 'reviews each customer's price plan on an annual basis. Where it considers that a customer will be better off on a different payments plan, it will notify the customer and move them onto that price plan.'
[8] See Annex B.

TSB tariffs apply to SMEs with a maximum turnover of £0.5 million).[9] We only included tariffs which applied within the turnover band of the profile.[10]

20. Barclays offers discounts on monthly charges according to the length of time its customers have been with Barclays. These discounts range from 5% to 30% and depend on the customer's turnover and on the length of its relationship with Barclays. We calculated the weighted average discount rate for each profile and applied it to Barclays' monthly prices.[11]

21. We then calculated a weighted average monthly BCA price for each bank and banking group by applying the weightings to the profiles.[12]

Results

22. As shown in Table 2, there is significant variation between banks' charges. The variation in monthly charges across banks is illustrated for one set of profiles in Annex C.

Table 2: Variation between highest and lowest monthly cost (highest as % of lowest)

				%
		Profiles provided by:		
Profiles	*Barclays*	*HSBCG*	*RBSG*	*Santander*
GB				
Profile 1	256.8	221.2	273.7	210.0
Profile 2	248.2	358.4	237.3	404.3
Profile 3	267.5	266.2	335.2	189.6
Profile 4	308.3	201.7	251.2	173.2
Profile 5	366.8	n/a	n/a	n/a
NI				
Profile 1	164.2	262.3	215.9	131.8
Profile 2	282.6	329.4	272.9	401.4
Profile 3	308.0	258.7	341.6	166.6
Profile 4	334.6	137.9	149.6	137.8
Profile 5	357.4	n/a	n/a	n/a

Source: CMA analysis.

23. We also estimated for each profile the difference between each bank's charge and the charge of the cheapest bank. We then estimated the weighted average difference using the number of each bank's BCAs as weights. The results for the profiles submitted by each of the four banks are shown in Table 3. Taking a simple average across the four groups of profiles, the average

[9] TSB now opens accounts for businesses with turnovers up to £2 million.
[10] As the TSB tariffs had a maximum turnover of £0.5 million, this meant we could not calculate a TSB price for profiles applying to SMEs with turnover above £0.5 million. As a consequence, TSB was excluded from some results.
[11] We weighted discount rates in each turnover and tenure category by the number of customers in this category.
[12] We calculated a weighted average price for LBG and RBSG using the proportion of these groups' active BCAs in Scotland (from these groups' responses to the market questionnaire) as a proxy for the number of accounts at BoS and RBS respectively. The prices for Clydesdale and Yorkshire Bank were the same, so we did not need to calculate a weighted average for the Clydesdale Group.

difference is about £6 per month, though it is somewhat higher for the NI analysis.

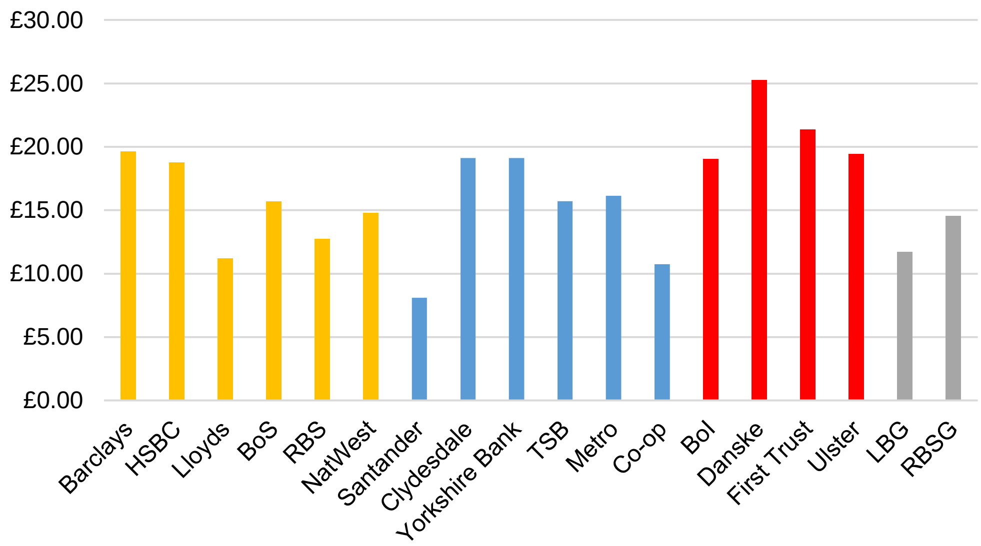
Table 3: Average difference between monthly cost of BCA and cost of cheapest BCA

	Profiles provided by:				
	Barclays	*HSBCG*	*RBSG*	*Santander*	*Average of all profiles*
GB £ per BCA*	£7.66	£5.12	£6.57	£5.27	£6.16
GB %†	93.9%	58.5%	91.6%	70.5%	78.7%
NI £ per BCA*	£11.95	£8.94	£8.81	£10.33	£10.01
NI %†	138.4%	108.6%	125.1%	138.5%	127.7%
UK £ per BCA*	£7.80	£5.25	£6.64	£5.44	£6.28
UK %†	95.4%	60.1%	92.7%	72.7%	80.2%

Source: CMA analysis.
*Weighted average across banks and profiles.
†% of charge for cheapest BCA (weighted average across banks and profiles).

24. Figures 1 to 4 below show each bank's weighted average prices calculated by weighting the individual profiles. Four banks provided profiles; hence, there are four sets of profiles and four sets of results.[13]

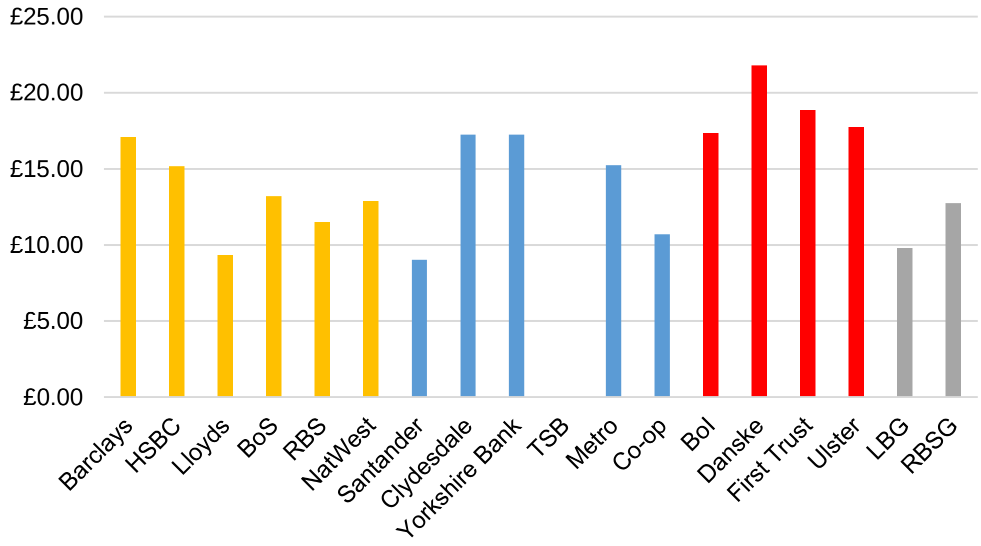
Figure 1: Weighted average prices by bank based on Barclays profiles



Source: CMA analysis.

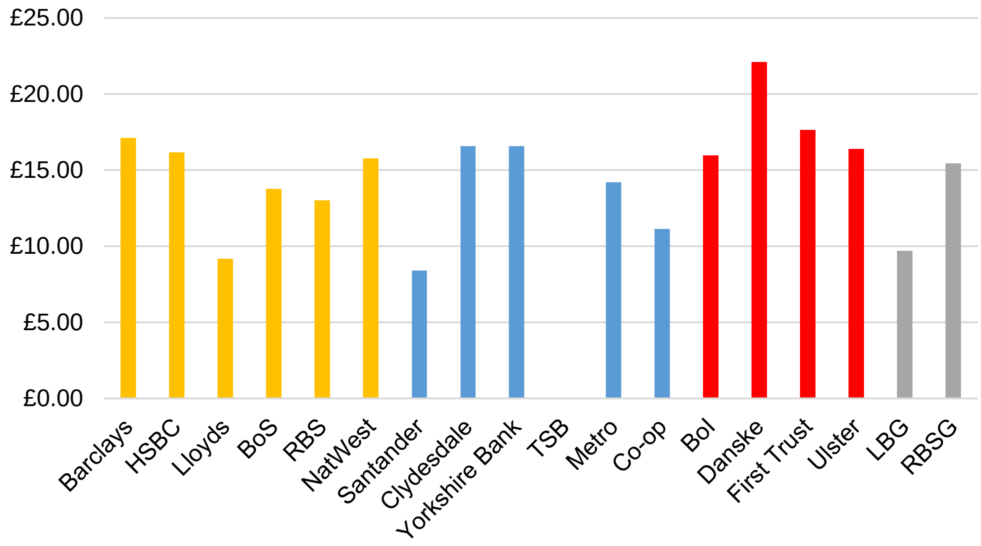
[13] Yellow bars show larger banks, blue bars show smaller banks, red bars show NI banks and grey bars show weighted averages for the two banking groups whose constituent banks have different weighted average prices. TSB is excluded from some results since we were not able to calculate a weighted average price for TSB where at least one profile related to SMEs with turnover in excess of £500,000.

Figure 2: Weighted average prices by bank based on HSBCG profiles



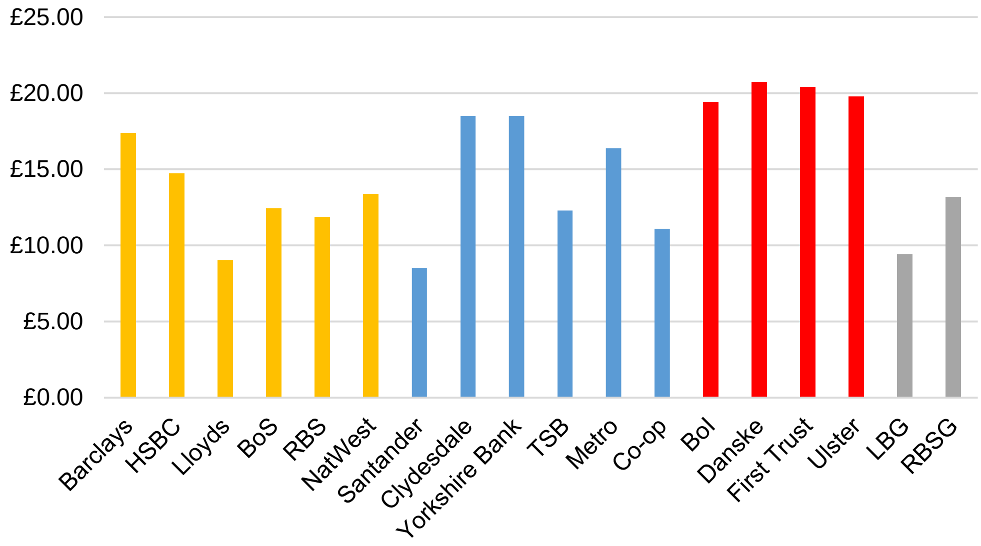
Source: CMA analysis.

Figure 3: Weighted average prices by bank based on RBSG profiles



Source: CMA analysis.

Figure 4: Weighted average prices by bank based on Santander profiles



Source: CMA analysis.

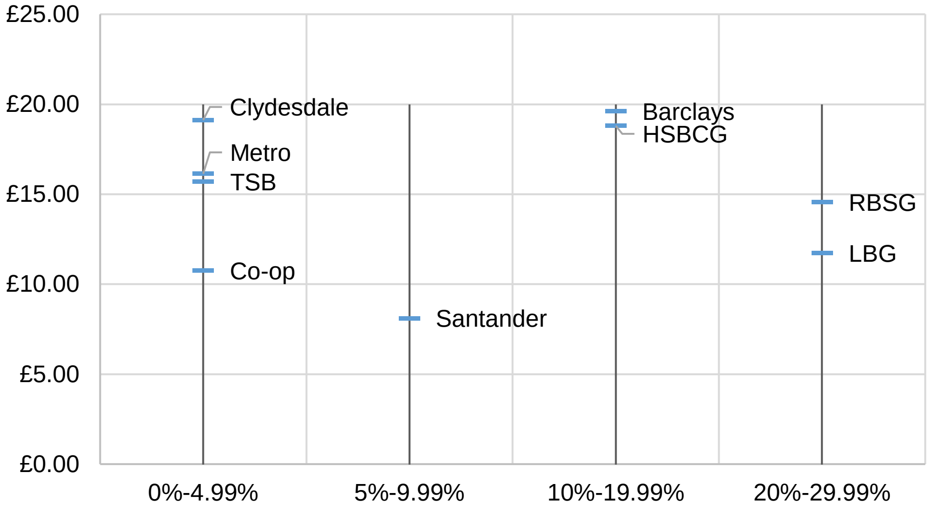
25. We note that the relative prices are broadly similar for all four sets of results.

26. Handelsbanken was not included in the above analysis as its prices are not published. Handelsbanken provided us with its guide prices and we used these to calculate indicative weighted average prices on a similar basis to the other banks. Based on these guide prices, Handelsbanken's prices are above those of the other banks.[14]

27. As set out in the UIS, one of the questions we are addressing with our pricing analysis is whether banks with a higher market share tend to charge higher prices than smaller banks. Figures 5 to 8 below show the weighted average price against market share in GB. These do not show any clear association between price and market share, though Santander's prices are consistently amongst the lowest. Annex D shows weighted average price against market share in NI and these similarly do not show any clear association between price and market share.

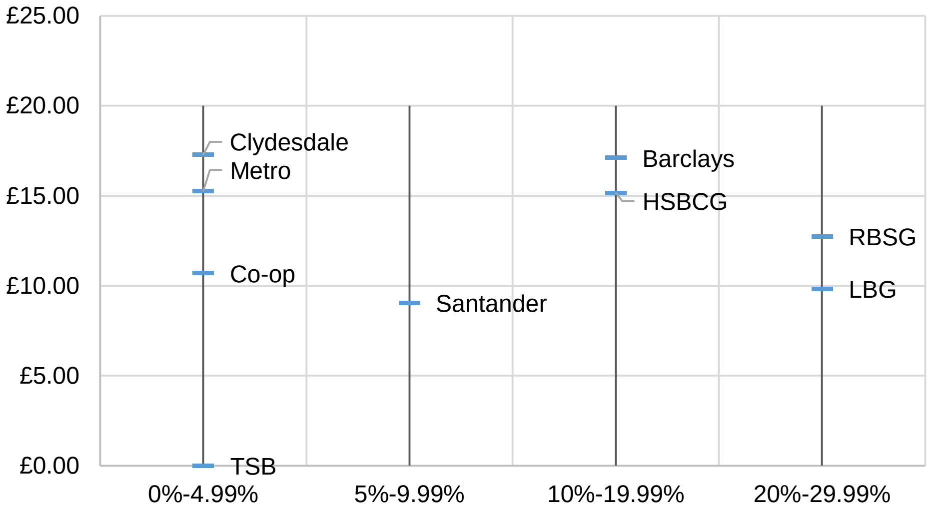
[14] This reflects in particular Handelsbanken's indicative monthly charge of £50, but this is a guide price only and its branch managers can set their own prices for bespoke products and services.

Figure 5: Weighted average monthly BCA price in GB, based on the profiles submitted by Barclays



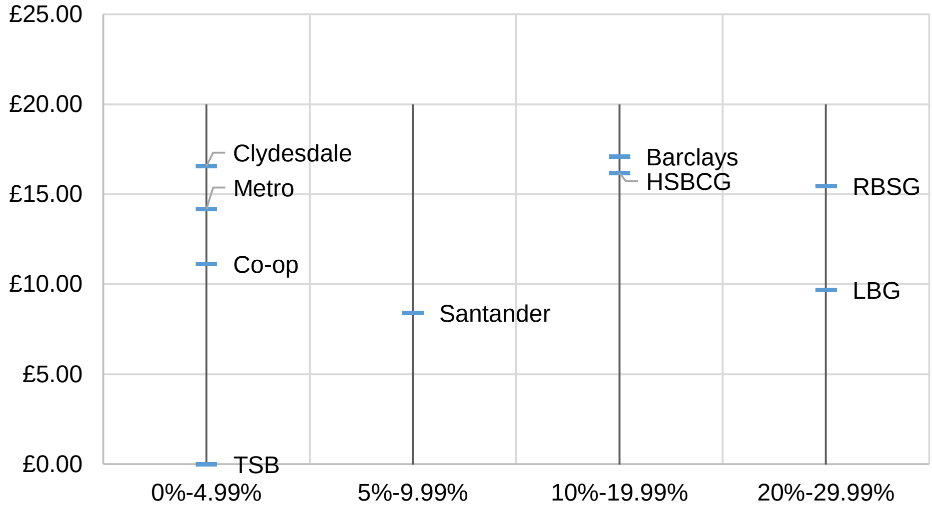
Source: CMA analysis.

Figure 6: Weighted average monthly BCA price in GB, based on the profiles submitted by HSBCG



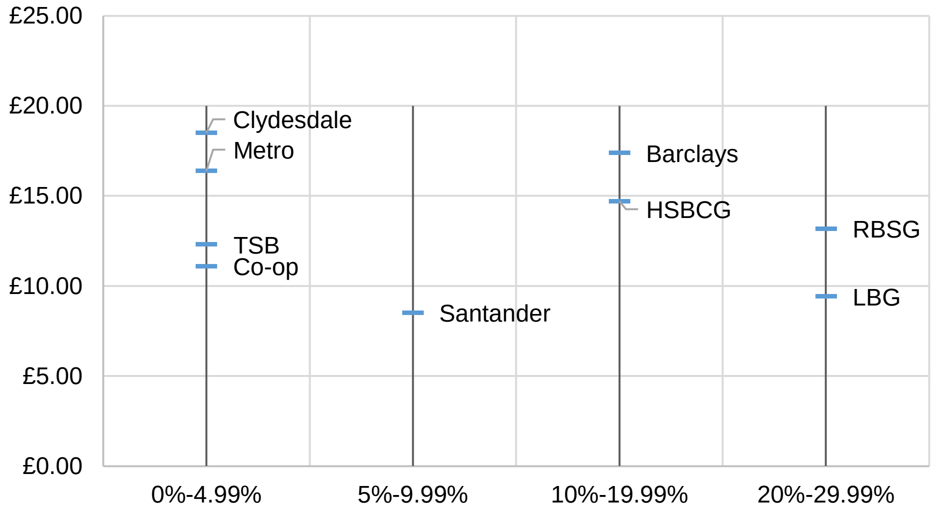
Source: CMA analysis.

Figure 7: Weighted average monthly BCA price in GB, based on the profiles submitted by RBSG



Source: CMA analysis.

Figure 8: Weighted average monthly BCA price in GB, based on the profiles submitted by Santander



Source: CMA analysis.

Interpretation of the analysis

28. Interpretation of the results is subject to limitations:

(a) There are a number of pricing dimensions which are not taken into account such as overdraft charges, interest on credit balances and other incentives (see Annex A).

(b) The analysis is limited to SMEs with annual turnover less than £2 million and even within this segment customer profiles may not be

fully representative of the diversity of SMEs' BCA usage. RBSG said that SMEs were a diverse customer group and designing representative user profiles was a particularly difficult challenge.[15] [✂] all raised concerns about the representativeness of the profiles we had used.[16] Nevertheless, we note the similarity in results (in terms of relative prices) across the range of customer profiles submitted by the banks and have weighted the customer types using the actual proportion of customer accounts in each category. The analysis is also based on the assumption that SMEs are on the lowest priced available tariff (see paragraph 18). It also does not take account of any negotiation of prices (though this is less prevalent for SMEs under £2 million turnover).

(c) Differences in banks' prices may reflect differences in the quality of service provided to SME customers (which we are unable to directly control for in our pricing analysis).[17] RBSG said that the relationship and service components were typically more valued by SME customers and the particular service given to SMEs was tailored to the particular needs of the business, which will be determined by its size, the sector in which it is active and the nature of the SME business.[18] Similarly, Barclays said that any pricing analysis needed to also take into account differences in quality of service.[19] Appendix 6.5 looks at data on quality of service, and differences in quality of service will need to be borne in mind when considering any price differences. We do not consider that the value to consumers of quality of service differences can be calculated with sufficient accuracy to calculate prices adjusted for quality of service. Therefore, the results of pricing and quality of service comparisons will need to be considered together.

29. Any differences in average prices between providers may have a number of explanations, including growth strategy (an expanding bank may have lower prices because it has more active and fewer inactive customers) and balance sheet strategy.

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[15] RBSG response to UIS, section 3.1.3.
[16] Responses to pricing working paper.
[17] See Appendix 6.5.
[18] RBSG response to UIS, section 3.2.2 ii) b).
[19] Barclays response to UIS, paragraph 4.5.4.

Annex A: BCA credit interest rates, overdraft charges and customer incentives

Interest rates on credit balances

1. As noted in paragraph 6 of the main appendix, some banks offer interest on credit balances. Eight out of 32 tariffs used in our analysis offer interest on in-credit balances. The interest rate (AER) for these eight tariffs varied from 0.05% to 0.28%, see Table 1 below. We were not able to include interest on credit balances in our weighted average prices as we did not have average credit balances for the profiles obtained from the four banks.[20] This means that actual prices for interest paying accounts will be slightly lower than shown in this analysis, for SMEs that have credit balances. This is because the interest paid will offset some of the charges they face. Given that credit interest rates are low, this is unlikely to have a major effect on the overall results.

Table 1: Interest rates offered on credit balances

%

Bank	*Tariff*	*Balances <£999*	*Balances £1,000–£4,999*	*Balances £5,000–£9,999*	*Balances £10,000–£24,999*	*Balances £25,000–£99,999*	*Balances £100,000–£249,999*	*Balances >£250,000*
RBS	Business Plus	0.05	0.05	0.05	0.05	0.05	0.05	0.05
RBS	Royalties	0.05	0.05	0.05	0.05	0.05	0.05	0.05
NatWest	Business Plus	0.05	0.05	0.05	0.05	0.05	0.05	0.05
NatWest	Advantage	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Santander	Business Current	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Santander	Corporate Current	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Santander	Corporate Current +	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Co-op*	Business Direct Plus	0	0.12	0.15	0.18	0.21	0.25	0.28

Source: Business Moneyfacts.
*New rates and tiers were introduced in July 2015.

Overdrafts

2. BCAs may include a facility to apply for arranged overdrafts and this is a significant source of revenue for banks.[21] Survey evidence suggests around 43% of SMEs have overdrafts.[22] As with PCAs, banks may allow SMEs to make payments even when this would take them beyond their borrowing limit, but such unauthorised overdrafts are a less important source of revenue for

[20] Metro does not pay interest on credit balances but offers a reduction in fees for accounts with a balance which stays above £5,000 for the whole month. For accounts which meet this condition, the monthly fee is waived and they are entitled to 50 free day to day transactions. As we do not have credit balances, this waiver has been excluded from our calculations.
[21] See Appendix 6.2, Table 5.
[22] Charterhouse BBS 2014.

BCAs than PCAs.[23] Table 2 shows published prices on overdrafts from Business Moneyfacts.

3. We were not able to include overdrafts in our weighted average prices as published prices for arranged overdrafts are in many cases unavailable (see Table 2).

[23] See Appendix 6.2, Table 5.

Table 2: Overdraft charges

	Authorised			*Unauthorised*		
	%pm	*%**	*Arrangement fee*	*%pm*	*%**	*Extra fee*
Barclays	Negotiable	Negotiable	Negotiable	n/a	29.5%	Negotiable
HSBC	Negotiable	Negotiable	Tiered/varies	1.63%	21.34%	£4 per working day debit balance is over existing formally arranged overdraft or £8 per working day account is overdrawn with no formally arranged overdraft limit in place
Lloyds†	0.88%	10.56%	Negotiable	2.20%	26.4%	£15 per day if overdraft increases by £50 or more
RBS/NatWest	Negotiable	Negotiable	Tiered/varies	n/a	29.5% APR‡	£30 per day capped at £120 per month
Santander	n/a	5% ABR§	1% (subject to minimum charge of £50)	n/a	25% ABR§	Nil
Clydesdale	Negotiable	Negotiable	Negotiable	n/a	33.51%	£25 per day
TSB	0.88%	10.56%	1.5% (Min £100)	2.20%	26.4%	£15 per day if overdraft increases by £50 or more
Metro¶	0.80%	10%	1.75% (Min £50)	1.88%	25%	Nil
Co-op#	Negotiable	Negotiable	Negotiable	1.92%	25.6%	£20 per day if overdraft increases or £20 per month if overdraft occurs
BoI	Negotiable	Negotiable	Tiered/varies	Negotiable	Negotiable	Nil
Danske	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	Nil
First Trust	Negotiable	Negotiable	Tiered/varies	1.50% (subject to a minimum charge of £2/month)	Base rate plus 12%	Nil
Ulster	Negotiable	Negotiable	Negotiable	n/a	17%	Nil

Source: Business Moneyfacts.
*Effective annual rate unless otherwise specified.
†Rates are for Tracker overdrafts. Base rate overdrafts are individually negotiated and are typically below the Tracker overdraft rate.
‡Annual percentage rate.
§Above base rate.
¶Rates are for overdraft with a limit of up to £25,000. For amounts over £25,000, a fixed or variable margin over the Metro base rate (currently 0.50%) and an arrangement fee of 1.25% of the limit.
#These are the overdraft terms for the Co-op's standard current account, not those of Co-op's other BCAs such as Business Direct.

Incentives offered to new customers

4. As illustrated in Table 3 below, banks typically offer incentives to new customers. The impact of such incentives on the average price paid by SMEs depends on how long the customer continues to hold the account with the bank concerned. We have not included such incentives in this analysis. We noted that, in principle, this could be done by calculating total cost over different periods of holding a BCA (eg two years, five years, ten years) but we considered it would make the analysis excessively complex. The exclusion of incentives means that our analysis tends to overstate the relative prices of

banks offering the most generous incentives, such as Clydesdale, RBSG and, in respect of FSB members, Co-op. The exclusion of switching and some other incentives means that our assessment of the difference between each bank's price and the cheapest price (see paragraph 23) tends to understate the savings SMEs could make from switching to the cheapest bank.

Table 3: BCA incentives offered by banks to start-ups and switchers, January 2015

	BCA incentives	
Bank	*Start-ups* (period with no monthly/ standard transaction charges)*	*Switchers (period with no monthly/ standard transaction charges or cash payment)*
Barclays	12 months	†
HSBC	18 months‡	6 months§
Lloyds	18 months¶	6 months¶
BoS	18 months	6 months
RBS, NatWest	24 months#	£150–£250~
Santander	12 months★	
Clydesdale	24 months♦	18 months♦
Yorkshire Bank	24 months♦	18 months♦
TSB	18 months	6 months▲
Metro	-	-
Co-op	Special offer to members of FSB✷	
BoI	No transaction charges for 12 months and a 50% discount for a further 12 months⅄	■
Danske	12 months◇	6 months□
First Trust	For those with certain loan types, 12 months free banking	
Ulster	24 months	

Source: Data provided by banks (January 2015), supplemented by bank websites.
*Typically businesses in first year of business, setting up their first BCA.

†[✂]

‡£2 million turnover or below (start-ups with annual turnover above £2 million are offered bespoke terms that are negotiated with their relationship manager and may include a period of free banking).

§Turnover up to £0.5 million (now increased to 12 months). Switchers with turnover of £0.5 million to £2 million may be offered a period of free banking following a discussion with their relationship manager and those with annual turnover above £2 million are offered bespoke terms that are negotiated with their relationship manager and may include a period of free banking.

¶Also offers fee-free overdrafts.

#Up to £1 million turnover. Also offers a fee free overdraft facility of £500 for the first 12 months.

~For customers with turnover of up to £2 million, accounts are credited £150 (or £250 if the customer also switches an overdraft) by the end of the fourth full month after account opening.

★Additional six months if customer has PCA with Santander, or switches to it.

♦Increase to 25 months for start-ups and switchers with effect from 4 May 2015.

▲Changed from 6 to 18 months effective from 15 June 2015.

✷Co-op offers FSB Business Banking Account customers free banking, £25 annual loyalty reward and a fee free overdraft.

⅄Except for cash deposits greater than £10,000 per quarter.

■No free banking offer for switchers, but a three year package for growing businesses.

◇Extended to 24 months if the business owners/directors have/switch to a PCA with Danske.

□Extended to 12 months if the business owners/directors have/switch to a PCA with Danske. Also offers 12 months free Business e-Banking (payments module) and no arrangement fees on certain products during the first 12 months.

Annex B: BCA customer profiles

Table 1: Barclays transactional profiles

[✂]

Source: Barclays.

Table 2: HSBCG transactional profiles

[✂]

Source: HSBCG.

Table 3: RBS/NatWest transactional profiles*

[✂]

Source: RBSG.

Table 4: Santander transactional profiles

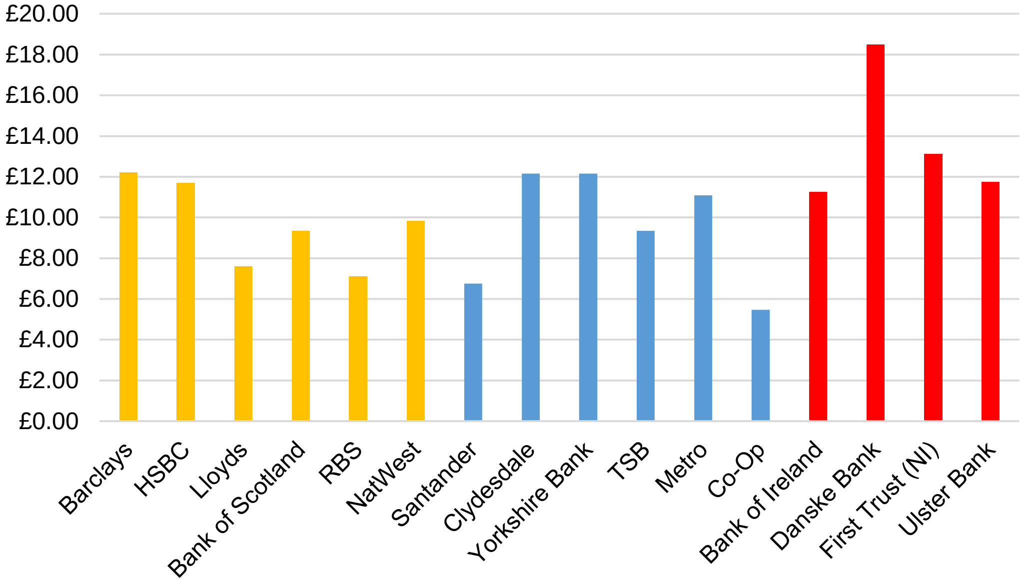
[✂]

Source: Santander.

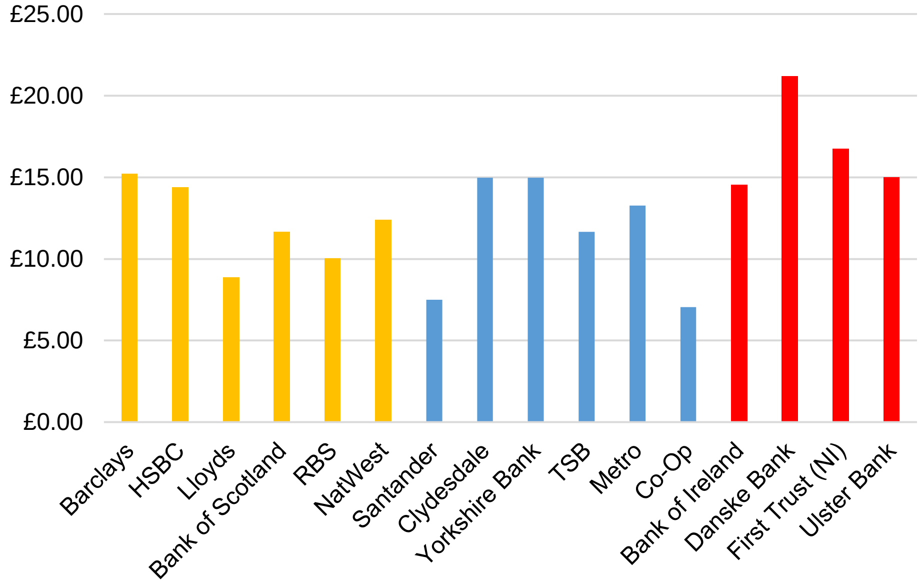
Annex C: Figures by profile for the BCA monthly charge

The figures below are based on the profiles submitted by Barclays.

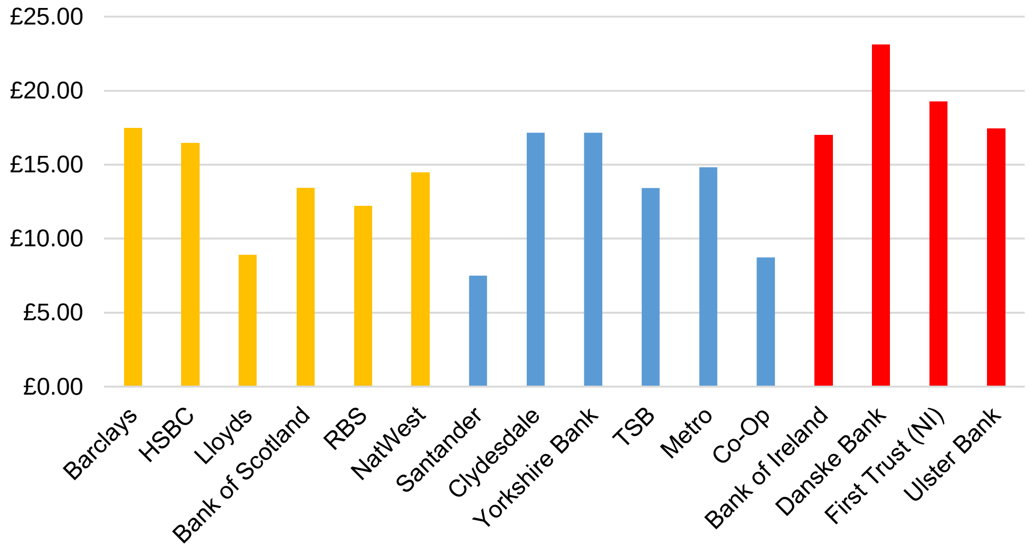
Profile 1



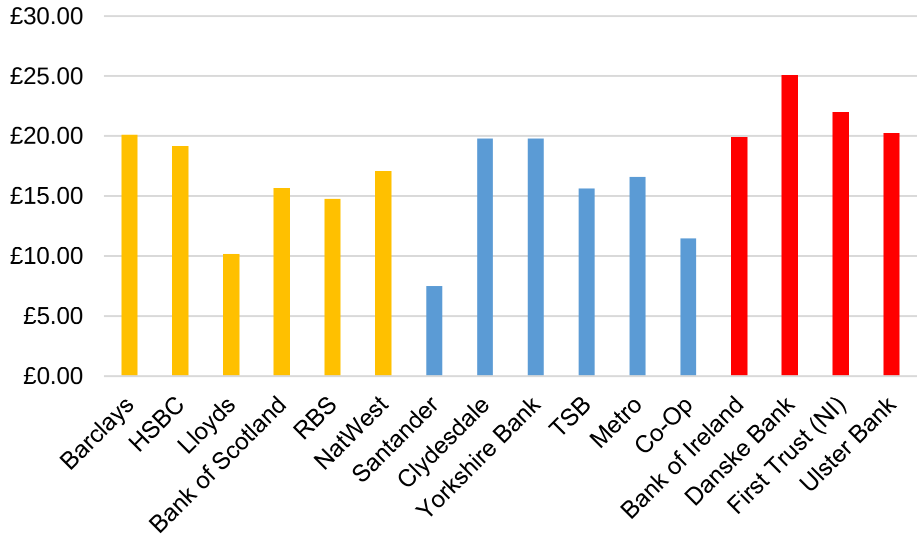
Profile 2



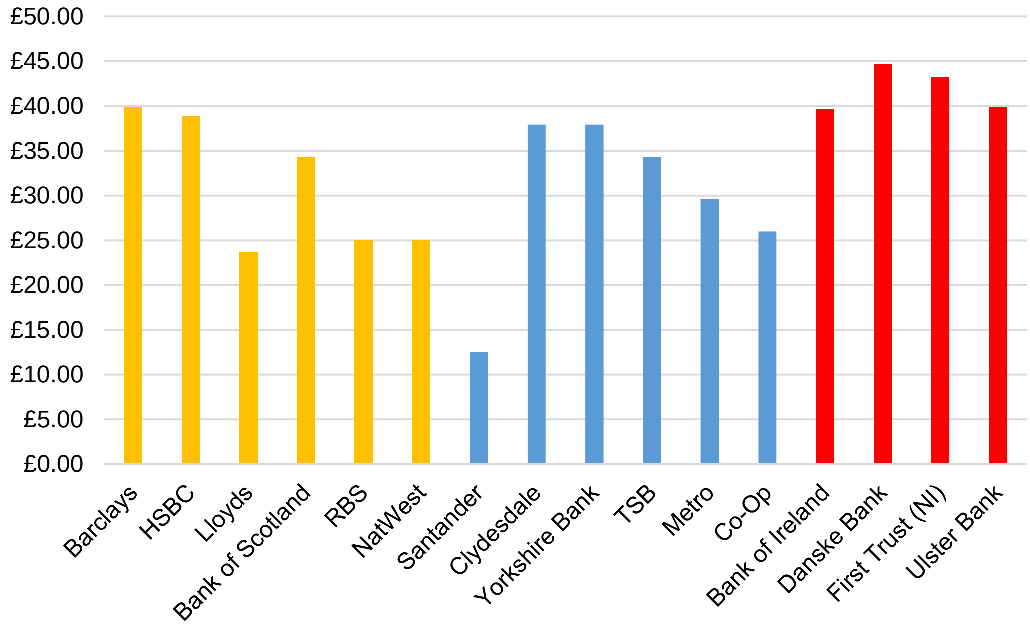
Profile 3



Profile 4



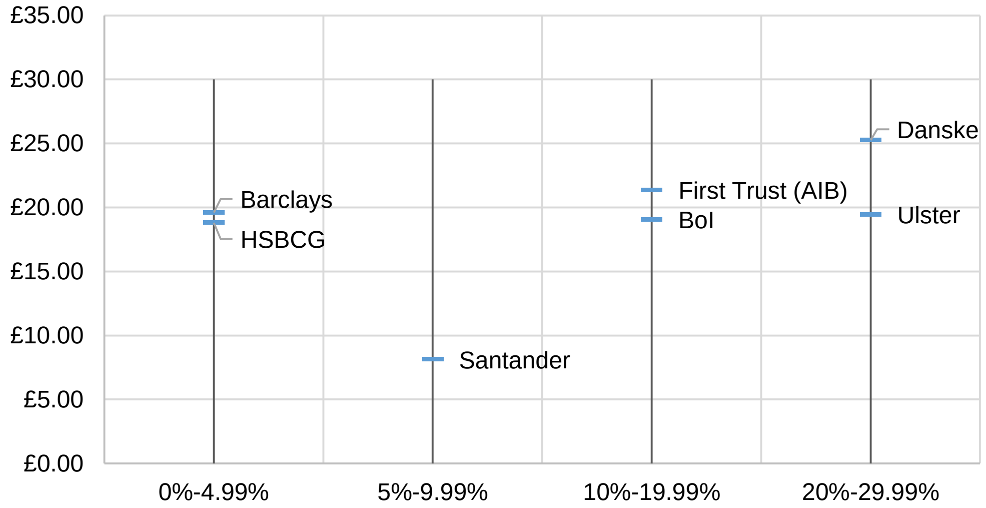
Profile 5



Source: CMA analysis.

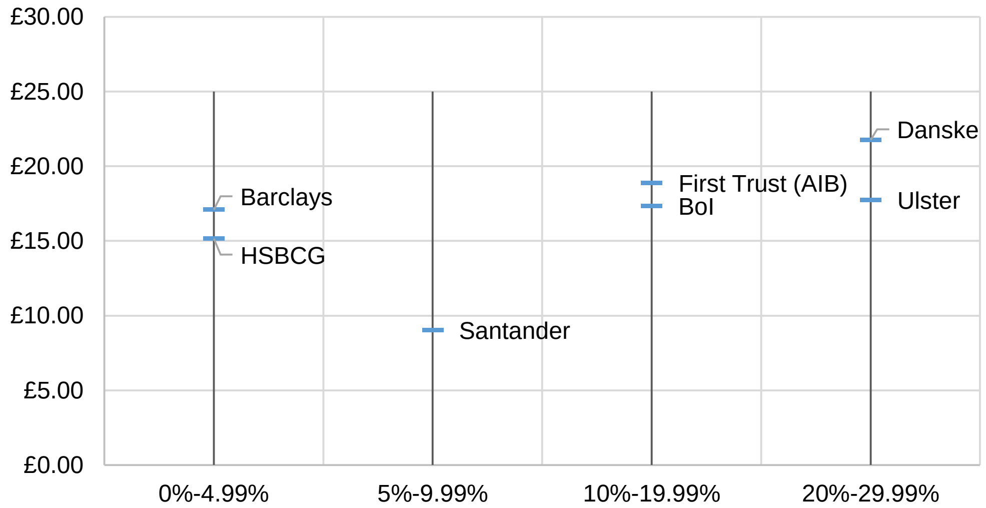
Annex D: Weighted average BCA price in NI

Figure 1: Weighted average monthly BCA price in NI, based on the profiles submitted by Barclays



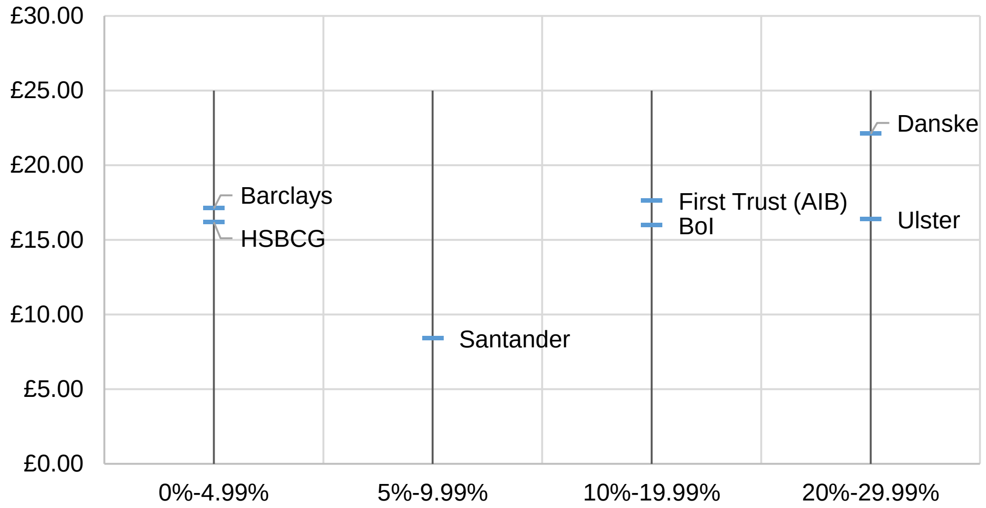
Source: CMA analysis.

Figure 2: Weighted average monthly BCA price in NI, based on the profiles submitted by HSBCG



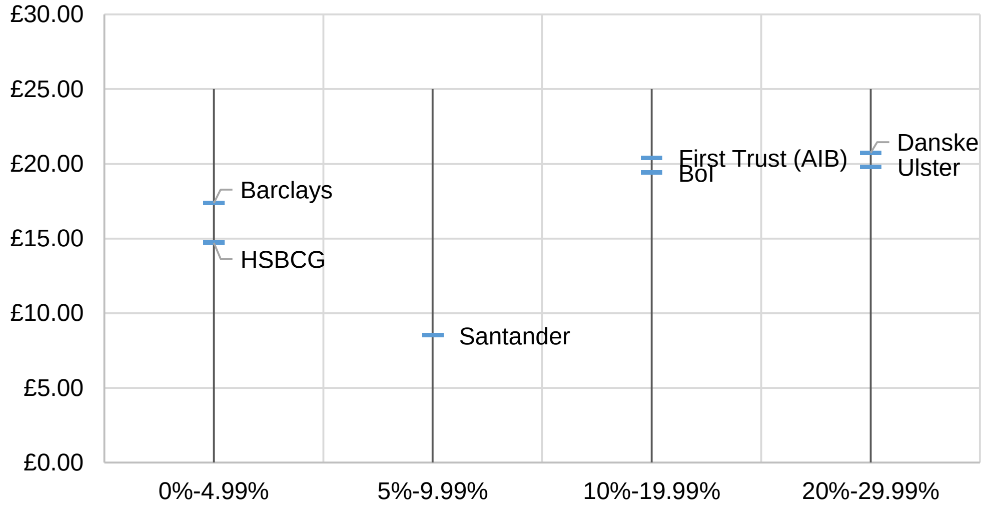
Source: CMA analysis.

Figure 3: Weighted average monthly BCA price in NI, based on the profiles submitted by RBSG



Source: CMA analysis.

Figure 4: Weighted average monthly BCA price in NI, based on the profiles submitted by Santander



Source: CMA analysis.

Small and medium-sized enterprise banking quality

Overview

1. This appendix sets out our provisional analysis of the evidence on SME banking quality outcomes.

2. In undertaking these comparisons we have sought to identify *(a)* whether there is a relationship between market structure and quality outcomes and *(b)* how and to what extent customers have responded to variations in quality outcomes.

3. According to the 2014 Charterhouse BBS, the reason most frequently cited by switchers for selecting their current main banking provider was 'good or better' overall service. The second most frequently cited factor was having access to a convenient/local branch. Similarly, overall poor service and concerns regarding the quality of relationship management were the most frequently cited reasons by switchers for moving away from their previous account.

4. Our approach to assessing the quality of SME banking providers is therefore to use indicators of:

   - overall service quality (such as customer satisfaction and NPS);
   - convenience of branch access (using branch and business centre opening hours); and
   - quality of relationship management (customer satisfaction with relationship managers and proportion of customers with relationship managers).

5. As with the corresponding analysis of PCA service quality (presented in Appendix 5.5), the indicators used here will not act as perfect proxies for the relevant dimensions of quality. Furthermore, the results should be interpreted alongside that of the pricing and revenue work streams, particularly where observed differences in prices reflect differences in quality, and vice versa.

6. A summary of the comparisons by banking group for each indicator is provided in Annex A.

Analysis of overall quality of service

7. Customer experience metrics such as customer satisfaction and advocacy ratings, can be useful indicators of the overall quality of service received by customers.

8. We recognise that there are limitations to the use of these measures as a proxy for quality outcomes, and for this reason the results of such analysis should be interpreted carefully, especially when considering absolute levels of satisfaction. In particular, ratings are likely to reflect customers' expectations of quality, which may be bound by the range of services offered by current market participants. It is also possible that perceived quality does not coincide with the actual quality of the service delivered, for example if the service is not well understood by the customer or due to brand taint effects.[1]

9. However customer experience metrics have the benefit over alternatives indicators (such as operational performance measures) of measuring service outcomes as perceived by customers, as opposed to single inputs or components of the overall quality outcome. In this way they will reflect the implicit weighting attached by customers to the various attributes of service.

10. Customer-reported indicators of service quality are also the most appropriate measures to use in assessing the strength of competitive dynamics in the market, and in particular, how customers responded to perceived variations in service quality between banks.

11. We therefore consider customer satisfaction and advocacy measures to be a primary indicator of service quality outcomes, particularly when making comparisons between banks or across geographic markets.

Customer satisfaction

12. Customer satisfaction data is available from the Charterhouse BBS (for GB only) and the Charterhouse NI BBS, in the form of a rating of the overall quality of service over the past year (on a five point scale from 'poor' to 'excellent'). Satisfaction by size of SME, in terms of the proportion of

---

[1] In particular a customer's reported NPS and satisfaction ratings may be impacted by positive or negative publicity surrounding a bank over issues that are not relevant to the provision of the product. For example in its submission on measuring consumer outcomes in retail banking, RBSG notes the divergence in NPS scores received by its NatWest and RBS brands (despite the similarity of their service offerings). RBSG considers this might be a results of the RBS brand being more readily associated by customers with the negative media coverage received by RBSG during and after the financial crisis.

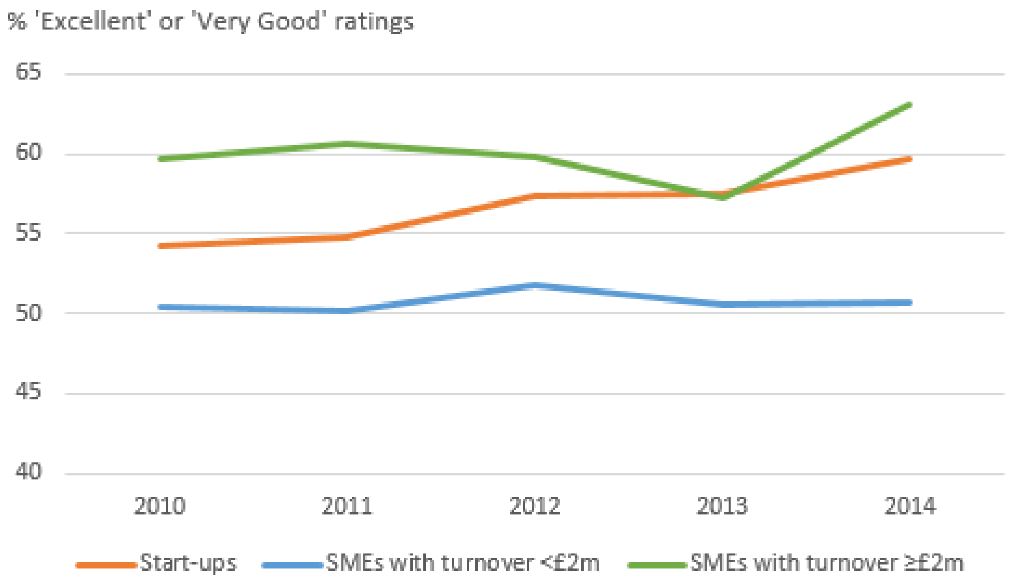
customers reporting ‘excellent’ or ‘very good’ ratings is plotted in Figure 1 below.[2] The following points may be drawn from the chart:

(a) Satisfaction appears to be U-shaped over size of customer, with SMEs with annual turnover below £2 million reporting a lower proportion of positive ratings than larger SMEs and start-ups.

(b) The proportion of positive ratings reported by start-ups over the period has increased by around five percentage points (or 10%) from 2010 to 2014.

(c) In contrast, satisfaction for SMEs with turnover <£2m, has remained broadly constant over the period.

Figure 1: Rating of overall quality of service for main bank, by size of SME



Source: Charterhouse BBS.
Notes:
1. Data not available for NI.
2. Data refer to quality of main banking provider.

13. We have undertaken comparisons across banking groups of various quality indicators to examine the strength of customer response to quality variations, and to determine whether there is evidence of a relationship between quality outcomes and concentration.

[2] Respondents to the Charterhouse BBS were asked to select a rating on a five point scale of ‘excellent’, ‘very good’, ‘good’, ‘fair’ or ‘poor’. The analysis presented in this appendix follows the interpretation adopted in the phase 1 market study which considers a rating of ‘excellent’ or ‘very good’ to indicate that banks are satisfying their SME customers; a rating of ‘fair’ or ‘poor’ as indicating that SMEs are dissatisfied; and a rating of ‘good’ (ie the midpoint on the five point scale) as neutral.

14. Figure 2 plots the proportion of GB customers reporting a positive rating, by banking group in 2014.

Figure 2: Rating of GB overall quality of service of main bank in 2014

[✂]

Source: Charterhouse BBS and CMA calculations using data submitted by banks.
Notes:
[✂]

15. We find that the score of the four largest groups is very similar at about [✂], and [✂], have similar scores to the four largest groups. The other three banks have higher satisfaction scores, in particular [✂].

16. Equivalent data for SME banking customers in NI is presented in Figure 3 below. Due to small sample sizes for some banks it is not possible to calculate a satisfaction rating for all NI market participants. It is also more difficult to interpret the results of the analysis. Notwithstanding these limitations, the relationship between market share and the indicators of overall service quality appears relatively flat.

Figure 3: Rating of NI overall quality of service of main bank in 2015

[✂]

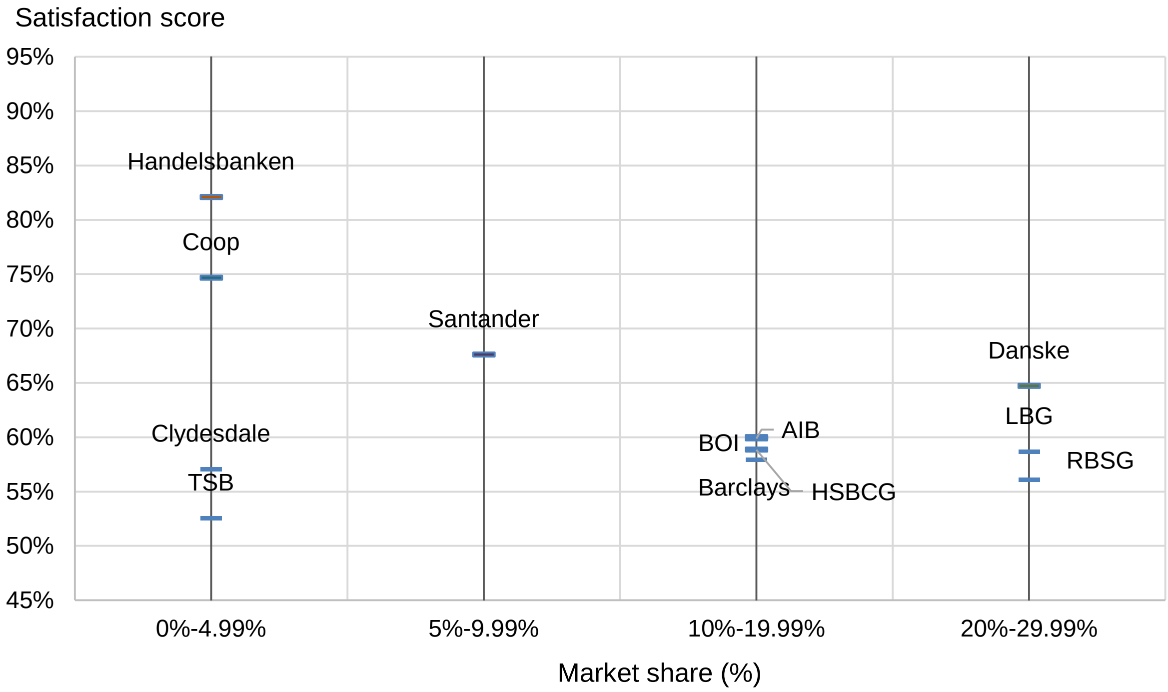
Source: Charterhouse NI BBS and CMA calculations using data submitted by banks.
Notes:
[✂]

17. The Business Banking Insight (BBI) survey provides an alternative indicator of satisfaction. The BBI survey is a biannual telephone survey of BCA-holding SMEs which is sponsored by the FSB and British Chambers of Commerce. Respondents to the survey are asked to state their overall satisfaction with their BCA (on a scale of 1 to 10) and also for specific service attributes.

18. While the survey is still in its infancy, (to date results are only available for 2014 and sample sizes are relatively small), it is expected to be of increasing utility as additional waves are carried out and the number of surveyed SMEs increases.

19. The BCA satisfaction scores for the 2014 BBI are plotted in Figure 4. There is a strong correspondence between the BBI and Charterhouse BBS satisfaction measures (the coefficient of correlation between the two sets of scores is [✂]).

Figure 4: Comparison of satisfaction with BCA provider in 2014



Source: BBI 2014 and CMA calculations using data submitted by banks.
Notes:
1. Data for Metro not displayed as sample < 30 respondents.
2. Market shares relate to NI for AIB, BoI and Danske, and GB for all other banking groups.

Willingness to recommend

20. As discussed in the corresponding analysis of PCA quality (see Appendix 5.5), NPS is a customer loyalty metric widely used by banks as part of their quality monitoring process. The metric provides an indication of customer's willingness to recommend their supplier and, whilst not a direct measure of customer experience, may be useful for making comparisons across firms and products.

21. Figure 5 plots the NPS by banking group using the Charterhouse BBS in 2014. The results are broadly similar to those for satisfaction.

22. In general we find that there is little variation in the performance of the four largest banking groups in GB. Some banking groups such as Handelsbanken and Co-op appear to deliver considerably higher levels of satisfaction than the rest of the banks. While Handelsbanken has experienced an increase in market share, which is consistent with customers responding to this variation in service quality, the rate of gain has been relatively low in absolute terms ([✂] since 2012). Furthermore, Co-op in comparison has experienced a slight reduction in market share over the same period.

23. We do not find evidence of a clear relationship between market share and NPS. While we observe that [✂] and [✂] (banking groups which each have

less than [✂] share of GB active BCAs) receive above average scores, the relationship between satisfaction and market share in the remainder of the sample is relatively flat.

24. The equivalent scores for NI SME banking customers are presented in Figure 6. Due to small sample sizes for some banks it is more difficult to interpret the results of the analysis. Notwithstanding these limitations, the results show that although the largest and smallest banking groups in the sample ([✂] and [✂]) receive the [✂] and [✂] NPS scores, respectively, once the scores for the other banking groups are taken into account, the relationship between market share and NPS appears relatively flat.

Figure 5: Comparison of GB NPS by banking group in 2014

[✂]

Source: Charterhouse BBS and CMA calculations using data submitted by banks.
Notes:
[✂]

Figure 6: Comparison of NI NPS by banking group in 2015

[✂]

Source: Charterhouse NI BBS and CMA calculations using data submitted by banks.
Notes:
[✂]

Convenient access to branches

25. The results of the Charterhouse BBS show that convenient access to branches is one of the primary factors for SME customers in selecting a new BCA provider.[3] We have undertaken comparisons of branch and business centre opening hours and weekend access, as an indicator of this dimension of service quality (see Figure 7 and Figure 8). We recognise that the comparison does not take into account customers' travel time to nearest branch, which is an important additional measure of convenience.

26. With regards to average weekly opening hours, we find that the performance of the four largest banking groups in GB is similar. There is more variation in the performance of banks with smaller market shares. For example, whereas the average opening hours of Metro branches is over 70 per week, the equivalent figures for Clydesdale and Co-op are around 40. We therefore do

[3] When asked about the most important reasons for choosing their current main bank, a convenient/local branch accounted for 15% of all responses from SME switchers. As a factor for selecting a new bank, this made it second only to good/better service in 2014.

not find strong evidence of a clear association between convenience of branch/business centre access and market share.

Figure 7: Comparison of GB average weekly opening hours by banking group in January 2015

[✂]

Source: CMA calculations using data submitted by banks.
Notes:
[✂]

27. To evaluate the strength of customer response to variations in convenience of branch access we have considered whether banks with the best comparative performance have experienced growth in market share at the expense of banks with comparatively worse performance.

28. While Metro and Santander, the two banks with above average performance, experienced growth in market share, the size of these gains relative to the size of the market has been relatively limited ([✂] percentage points in 2014). Furthermore, some of the worst performing banks on this metric (BoI and Barclays) also experienced similar rates of growth ([✂] and [✂] percentage points in 2014).

29. There is more variation in the proportion of branches with weekend opening (see Figure 8). While all of Metro and Co-op branches centres have weekend opening, less than two-thirds of HSBCG and LBG, and less than half of RBSG, Clydesdale and Barclays branches/business centres offer weekend opening

Figure 8: Comparison of GB proportion of branches with weekend opening by banking group in January 2015

[✂]

Source: CMA calculations using data submitted by banks.
Notes:
[✂]

30. An equivalent analysis for NI can be found in Figure 9 and Figure 10. We find that the evidence for an association between market share and convenience of branch access appears mixed. For example, HSBCG and Santander had the highest proportion of branches/business centres with weekend opening (around 100% and 77% respectively). However, Barclays (the smallest banking group in NI) offered weekend opening at only 13% of its branches/business centres. This compares to over [✂]% of branches for the two largest banking groups ([✂] and [✂]). Average weekly opening hours appear to be similar across all banking groups (between 33 and 43 hours per week), regardless of market share.

Figure 9: Comparison of NI average weekly opening hours by banking group in January 2015

[✂]

Source: CMA calculations using data submitted by banks.
Notes:
We have limited our analysis to consider only business centres and branches which offer specific services to SME customers, such as relationship management services or a dedicated business banking counter service.
1. Market share refers to share of NI active BCAs at year end in 2014.
2. Data not available for TSB.
3. Co-op and LBG did not have any business centres or branches offering business banking services in NI in January 2015.

Figure 10: Comparison of NI proportion of branches with weekend opening by banking group in January 2015

[✂]

Source: CMA calculations using data submitted by banks.
Notes:
We have limited our analysis to consider only business centres and branches which offer specific services to SME customers, such as relationship management services or a dedicated business banking counter service.
[✂]

Quality of relationship management

31. The results of the Charterhouse BBS show that concerns with the quality of relationship management service are one of the primary reasons cited by SME switchers for moving away from their previous BCA provider. Measures of the provision of and satisfaction with this service are therefore important indicators of the quality of SME banking provision.

32. Figure 11 and Figure 12 plot a comparison, by size of SME, of relationship management coverage for BCA customers. The following points emerge from these charts:

(a) For SMEs with annual turnover below £2 million, the relationship between relationship management and market share is ambiguous. While [✂] has an above average proportion of relationship managed customers, the opposite is true for [✂],[4] and [✂] does not offer a face-to-face relationship management service to any customers.

(b) The proportion of customers with a relationship manager is close to 100% across all banks for SMEs with an annual turnover of or above £2 million, with the exception of [✂].[5]

33. We recognise the difficulties in interpreting such comparisons as observed differences between banks reflect differences in the customer base of the banks. For example, banks with a higher proportion of smaller SME customers (and therefore with less complex needs) may have lower rates of

[4] [✂]
[5] See footnote above.

relationship management. Differences in the definition of a relationship manager, and the number of customers each relationship manager is assigned, also limit our ability to compare between banks.

Figure 11: Proportion of GB BCA customers (annual turnover below £2 million) with relationship manager

[✄]

Source: CMA calculations using data submitted by banks.
Notes:
[✄]

Figure 12: Proportion of GB BCA customers (annual turnover of or above £2 million) with relationship manager

[✄]

Source: CMA calculations using data submitted by banks.
Notes:
[✄]

34. Figure 13 and Figure 14 plot the corresponding comparisons for NI BCAs. Similar to the GB analysis, the relationship between market share and relationship management coverage is ambiguous for SMEs with turnover below £2 million. The provision of relationship management to larger SMEs is universal for all banking groups except [✄] and [✄].

Figure 13: Proportion of NI BCA customers (annual turnover below £2 million) with relationship manager

[✄]

Source: CMA calculations using data submitted by banks.
Notes:
[✄]

Figure 14: Proportion of NI BCA customers (annual turnover of or above £2 million) with relationship manager

[✄]

Source: CMA calculations using data submitted by banks.
Notes:
[✄]

35. Figure 15 below plots GB customers' reported satisfaction with their relationship manager in the form of a rating on a five point scale from 'excellent' to 'poor'. As with relationship manager coverage, we do not see any clear association between market share and satisfaction with relationship managers.

Figure 15: GB satisfaction with relationship manager in 2014

[✄]

Source: Charterhouse BBS and CMA calculations using data submitted by banks.
Notes:
[✄]

36. An equivalent analysis for NI SME banking customers is presented in Figure 16. Whilst an inverse relationship between the quality of relationship management and size of banking provider is more apparent in the NI ratings, the reduced number of banking groups for which data is available means we must be more cautious in inferring such a result. We also note that even within our sample, [✂] receives higher satisfaction ratings than a simple inverse relationship between market share and satisfaction would suggest.

Figure 16: NI satisfaction with relationship manager in 2015

[✂]

Source: Charterhouse NI BBS and CMA calculations using data submitted by banks.
Notes:
[✂]

Strength of customer response

37. To examine the strength of customer response to variations in quality we have compared customer satisfaction ratings and NPS for each banking group against the respective change in market share (see Figures 17, 18 and 19).

38. On the basis of this analysis it is not clear that SME customers are responding to variations in the quality of service provided. For example we find that a number of banks with below average satisfaction and/or negative NPS scores (such as [✂] and [✂]) have increased their market share. At the same time [✂] has experienced a slight reduction in market share despite achieving positive and above average satisfaction scores.

39. Although there are banks with above average performance that have experienced an increase in market share (ie [✂] and [✂]) the strength of this customer response appears low, with the size of the gains limited to less than [✂] percentage points.

Figure 17: Comparison of NPS and change in market share in 2014

[✂]

Source: Charterhouse BBS, Charterhouse NI BBS, and CMA calculations using data submitted by banks.
Note: Change in market shares refers to change on 2013 in share of active accounts at year end.

Figure 18: Comparison of BBI satisfaction ratings and change in market share in 2014

[✂]

Source: BBI survey and CMA calculations using data submitted by banks.
Note: Change in market shares refers to change on 2013 in share of active accounts at year end.

Figure 19: Comparison of Charterhouse BBS satisfaction ratings and change in market share in 2014

[✂]

Source: Charterhouse BBS, Charterhouse NI BBS, and CMA calculations using data submitted by banks.
Note: Change in market shares refers to change on 2013 in share of active accounts at year end.

Annex A: Comparison of quality indicators by bank

Service attribute	*Overall quality of service*			*Convenience of location and opening times of branches*		*Quality of relationship management*		
Quality indicator	*Positive ratings % Charterhouse BBS*	*Satisfaction % BBI*	*NPS Charterhouse BBS*	*Weekend opening (% business centres & branches offering business services)*	*Opening hours (average per week)*	*Relationship manager coverage (SMEs <£2m)*	*Relationship manager coverage % (SMEs ≥£2m)*	*Positive ratings % Charterhouse BBS*
Handelsbanken	[✂]	82	[✂]	n/a	n/a	[✂]	[✂]	[✂]
Metro	[✂]	n/a	[✂]	100	76	[✂]	[✂]	[✂]
Co-op	[✂]	75	[✂]	100	41	[✂]	[✂]	[✂]
Santander	[✂]	68	[✂]	74	44	[✂]	[✂]	[✂]
Danske	[✂]	65	[✂]	48	37	[✂]	[✂]	[✂]
RBSG	[✂]	56	[✂]	49	42	[✂]	[✂]	[✂]
HSBCG	[✂]	59	[✂]	61	39	[✂]	[✂]	[✂]
LBG	[✂]	59	[✂]	61	40	[✂]	[✂]	[✂]
Barclays	[✂]	58	[✂]	36	36	[✂]	[✂]	[✂]
BoI	[✂]	60	[✂]	0	35	[✂]	[✂]	[✂]
Clydesdale	[✂]	57	[✂]	41	41	[✂]	[✂]	[✂]
AIB	[✂]	60	[✂]	0	34	[✂]	[✂]	[✂]
TSB	[✂]	53	[✂]	n/a	n/a	[✂]	[✂]	[✂]

Source: CMA calculations using (1) Charterhouse BBS/NI BBS, (2) BBI survey 2014, and (3) data submitted by banks.

We have limited our analysis to consider only business centres and branches which offer specific services to SME customers, such as relationship management services or a dedicated business banking counter service.

Innovation in small and medium-sized enterprise banking

Overview

1. In this appendix, we consider the following types of innovation in the SME banking markets in the UK:[1]

   (a) product innovation;

   (b) service innovation (including the use of new or enhanced distribution models, such as mobile banking); and

   (c) new business models.[2,3]

2. We explain how and why the type and scale of innovation is a useful indicator of the level of competition in the market when considering innovation in the PCA market. See Appendix 5.6 for further information. This is also relevant in relation to the SME banking market.

3. We have considered a number of innovations referred to in this appendix when assessing innovation in the PCA market (see Appendix 5.6). Where this is the case, we do not provide a detailed explanation of these innovations here, and instead, focus solely on their impact on the SME banking market.

Product innovation

4. Recent product development in the PCA market has primarily taken the form of rewards accounts. There does not appear to have been a similar level of product innovation in the SME banking market, where recent activity has reflected price competition rather than product innovation. For example:

   (a) All of the largest banks in the UK (ie Barclays, HSBCG, LBG, RBSG and Santander) offer free banking[4] to start-ups for a limited period, and some

[1] To the extent that there are any differences relating to specific innovations in the geographic markets across the UK, we will consider the implications of this when assessing the impact of any such innovations on the retail banking market.
[2] We do not consider directly the extent of any innovation in operational processes, but note that the use of new or enhanced distribution models, particularly where this is based on the increasing digitalisation of banking, is likely to lead to cost efficiencies.
[3] We also consider, where relevant, the implications for the UK market of international innovations in retail banking, with reference to the Deloitte innovation report on the impact of innovation in the UK retail banking market (the Deloitte innovation report).
[4] Free banking typically means that eligible customers are not charged for standard transactions (eg most payments and receipts, as well as automated transactions through telephone and internet banking, cheque transactions, cash handling and paper or online statement services), but charges can apply for non-standard transactions (eg returned/stopped cheques, international payments and duplicate statements).

of the banks also offer switchers free banking for a limited period. They also run short-term campaigns or offers, whereby they extend the period of free banking, in order to attract new customers. For example, HSBCG told us that switchers with annual turnover above £500,000 but no greater than £2 million may be offered a period of free banking following a discussion with their relationship manager, but, for a period of three months between September and November 2014, relationship managers were given greater autonomy and the ability to approve free banking of up to 6 months for switchers.

The prevalence of the free banking offer reflects both the importance that SMEs attach to it when considering their choice of BCA provider (eg the Charterhouse follow-up surveys found that the most important factor for start-ups when choosing their BCA was the offer of free banking);[5] and the high level of customer turnover within SME banking and the need to recruit new customers to maintain account volumes (eg HSBCG told us that [✂] customers in its Business Banking portfolio-managed segment[6] [✂] and the average length of a portfolio-managed relationship was [✂]).

(b) A number of banks have recently introduced BCA tariffs that reflect the increasing use of digital banking channels by SMEs. For example:

(i) HSBCG's Electronic Banking Tariff is available to business customers with a turnover up to £500,000 and is designed for customers with simpler banking needs, who predominantly conduct their banking via remote channels. HSBCG told us that the introduction of the Electronic Banking Tariff was triggered by its monitoring of competitor and new entrant offerings by Santander, Metro Bank and Handelsbanken.

(ii) Barclays' e-Payments Plan is designed for businesses that receive electronic payments and make payments mainly through online banking and debit cards. The e-Payments Plan offers a loyalty reward, where the customer is paid back a percentage of their monthly current account charges based on the length of their relationship with Barclays and level of credit turnover.

5. Innovation in other SME banking product areas tends to take the form of cashback and the waiving of fees. For example:

[5] See Charterhouse follow-up survey, p7.
[6] [✂]

(a) HSBCG currently waives the annual fee of £32 for the first year that a customer holds a commercial credit card.

(b) LBG’s [✄][7] offers to waive switchers' arrangement fees and standard security fees when they acquire invoice financing products. Since December 2014, LBG's [✄][8] has waived switchers’ lending arrangement and security fees associated with new term loans and overdrafts, and for new and existing business customers signing up for new term loans, LBG frequently provides special waived arrangement fee offers, in addition to an interest rate discount for the full term of the loan.

Service innovation

Internet banking

6. Internet banking functionality has been offered by the established banks in the UK for some time. Increasing customer access to broadband and high-speed connections, coupled with an increased uptake in the general use of the internet, has resulted in the development of internet banking into a significant distribution channel.

7. We consider below the impact of the development of internet banking and the wider digitalisation of banking in the context of the increasing adoption of mobile banking.

Mobile banking

8. Mobile banking was first developed in the PCA market and then expanded into SME banking. The channel has grown considerably in recent years. For example:

(a) LBG told us that its SME banking customers who used mobile banking logged in to their mobile banking application around [✄] times per month, compared to [✄] per month by customers logging into internet banking using a desktop.

(b) Santander told us that, for Business Banking customers during 2014, there was a steady adoption of online banking, with [✄]% growth, but there was a more dramatic uplift in its mobile channel, with users

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[7] [✄]
[8] [✄]

increasing [✂] in a year and an increase of more than [✂] in mobile transactions.

9. However, the adoption of mobile banking in the SME banking market has not yet reach the levels observed in the PCA market. For example, LBG launched its mobile banking service for business customers in March 2014, and it currently attracts [✂]% to [✂]% of its SME internet banking base. LBG told us that it expected the service to follow a similar path to personal banking, albeit with the shift to mobile being at a slightly slower pace, reflecting different customer demographics and needs.

10. Table 1 compares the functionality of the BCA banking applications of a selection of UK banks, and suggests that, while providing similar basic services, there is some differentiation in the applications of the main banks. Most banks offer separate applications for PCAs and BCAs, but some (eg Barclays) offer a dual application, which allows users to access both their PCA and their BCA in the same place. Some banks (eg TSB) do not currently offer a mobile banking application for their BCA customers.

Table 1: Functionality of BCA mobile banking applications as at June 2015

	Check balance	*Make payment to new recipient*	*Send money to a mobile number (PAYM)*	*Branch/ATM locator*	*Touch ID support*
Lloyds, Halifax and Bank of Scotland	Yes	Yes	Yes	Yes	No
NatWest/RBS	Yes	No	Yes – have to be NatWest customer	Yes	Yes
Barclays	Yes	No	Yes (via Pingit)	Yes	No
Nationwide	Yes	No	No	Yes	No
HSBC	Yes	No	No – only receive payments	Yes	No
Santander	Yes	No	No – only receive payments	Yes	No
Metro Bank	Yes	No	No	Yes	No

Source: Deloitte innovation report.

11. The take-up of digital banking in the SME banking market is reflected in the decline in the branch as the main channel for a significant proportion of SMEs – according to survey data from Charterhouse, the proportion of SMEs reporting to use branches as their main banking channel has fallen every year over the past four years, decreasing from 41% of SMEs in 2010 to 26% in 2014. Nevertheless, for some SME customers, branches remain important for paying in cash or cheques, despite the rise in digital banking and electronic forms of payment, and for banks, branches remain an important channel for customer acquisition and retention.[9]

12. As mobile banking adoption is largely driven by smartphone adoption, which is greater among the younger population, this suggests that both smartphone

[9] See Appendix 10.1 for more information.

and mobile banking adoption is likely to increase over time. Increased mobile banking adoption is likely to be further enhanced by the greater functionality and broader integration of banking services within the mobile application. However, given the pattern of mobile banking development to date, it is likely that any such innovation and the resulting increase in mobile banking adoption will first take place in the PCA market and then be observed in the SME banking market at a later date.

13. Therefore, as is the case in the PCA market, digital banking has not replaced traditional forms of banking, and instead, a multi-distribution banking model, combining both digital and traditional channels, is now present.

Other digital innovations

14. The increasing digitalisation of banking, and particularly the rising adoption of mobile banking, has led to other service innovations in the SME banking market. However, many of these innovations, such as PAYM; cheque imaging; video banking; and online account opening, have first been initiated in personal banking and then developed later in the SME banking market.

15. One innovation that has particularly benefited SME banking customers is the pre-assessment of lending limits to customers. This allows customers to quickly and easily see, through their online banking account, the amount of borrowing available to them without having to go through a more traditional lending application process. For example, since the end of 2013, a significant proportion of business customers managed by Barclays' small business segment have been able to see, via online banking, the amount of unsecured borrowing Barclays has pre-assessed to extend to them (initially up to £25,000 and rising to £50,000 by the end of 2015); select whether this is in the form of an overdraft limit or loan; and then quickly access these funds (usually within 24 hours). Barclays told us that whilst this new service was principally driven through customer feedback, it was also the result of competitive pressure both from new lending platforms and from competitor banks.

Aggregators

16. The use of account aggregation services in connection with SME banking in the UK is limited. See Section 9 for further information.

17. There has been a greater development in other countries:

(a) Commonwealth Bank in Australia recently launched Daily IQ, a first-of-its-kind mobile application that gives its business customers access to

insights about their cash flow, sales and the market they operate in, presented in easy to understand visuals to enable business owners to better understand the financials of their business.

(b) A similar service is provided by Xero's mobile app, which had obtained 80,000 customers in New Zealand as at 2013. However, in contrast to Daily IQ, the service is not provided by a bank, but rather by an established provider of accounting software. This service is more focused on business accounting and enables SMEs to manage their business accounts from a mobile, reconcile data from different sources, manage invoices online and obtain a real-time view of their cash flow. Xero can also serve as a platform for other applications, including tools for additional analysis of transaction data.[10]

(c) Bode Tree, a US company, provides specific financial services, such as forecasting, access to a network of banks and alternative bank lenders, on top of general account aggregation.[11]

Big data

18. When considering the uses of big data in the PCA market (see Appendix 5.6), we found that finance providers could make use of data from a wider variety of sources, in order to assess potential borrowers and the risks of default associated with loans. This could be particularly relevant to the SME banking market, where new entrants could use big data to reduce the informational asymmetry between them and the established banks, which could potentially facilitate new entry into SME lending, thereby improving customer access to credit.

19. Although lending to SMEs is generally based on traditional credit assessment checks, there are international examples of the use of big data in this area, particularly by non-banks. For example, Kabbage, an SME lender with operations in both the UK and the USA,[12] applies 'big data' analysis techniques to data from both social media pages and online market places, such as eBay, to determine the credit score of a small business.[13] Similarly, LendingClub and ZestFinance, both US financial technology start-ups, are also building their businesses on credit assessment that depend on big data.[14]

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[10] See Deloitte innovation report, p42.
[11] See Deloitte innovation report, p76.
[12] Kabbage launched in the UK in 2013 and remains relatively small scale. In the USA, where it has operated since 2009, it was lending $1 billion per annum within four years of launch.
[13] See Deloitte innovation report, p52.
[14] See Deloitte innovation report, p53.

New business models

20. The rise of digital banks underlines the importance of technological innovation in facilitating entry into the market. However, some of the digital-only banks still provide counter services to their customers through agency banking relationships; Inter-Bank Agency Agreements; use of the Post Office network; and/or cash collection and delivery services agreements. Further, the entry of banks with more traditional distribution models, such as Metro, suggest that branch-based banking has not been fully replaced by digital banking, and is unlikely to be in the short to medium term. Please see Section 10 for further information on recent entry and expansion in the SME banking market.

Entry by firms with ancillary financial services products

21. In contrast to the PCA market, where a number of firms with an established presence in retail and other areas have recently entered (eg the Post Office,[15] M&S Bank[16] and Tesco Bank), there has not been any similar type of entry into the BCA market.

Online entry

22. A number of prospective entrants are planning to enter the SME banking market with innovative business models, perhaps most notably with no (or very limited) branch presence and adoption of the latest technology:

(a) Atom launched in 2015 as the UK's first full-service digital-only bank, and will serve both personal and SME customers.

(b) Civilised Bank is currently in the pre-application stage of the authorisation process to become a bank. It believes that advances in IT and changes to the authorisation process have created an opportunity for it to make a successful entrance into the market. It told us that it intends to bring back a 'traditional, relationship-led' style of banking for SMEs, led by highly autonomous relationship managers. Civilised Bank plans to offer a BCA (with overdraft facility), asset-based lending and other loan products, and potentially invoice discounting subject to customer demand. It does not plan to have a formal physical presence, except for some offices that relationship managers may use if and when required. Its model will rely upon relationship managers travelling to visit customers from regional hubs.

[15] The Post Office offers retail banking services under BoI's banking licence.
[16] M&S Bank is a wholly owned subsidiary of HSBCG.

(c) OakNorth, which has been granted conditional authorisation until March 2016, initially plans to offer short-term business loans (between two and twelve months) and property development finance. Its distribution model will be a hybrid of financial technology alternative finance provider and traditional banking services.

Alternative finance

23. In addition to online entry, the global financial crisis and resulting de-risking of balance sheets undertaken by the largest UK banks coincided with the growth of the alternative finance market. According to recent research, the alternative finance market in the UK, which includes crowdfunding[17] and peer-to-peer lending,[18] is substantially more advanced than the rest of Europe and growing.

24. However, awareness and interest in alternative finance among UK SMEs is currently low (see Appendix 8.2) Further, alternative finance remains a very small part of the SME lending market in the UK (eg in 2014, alternative finance accounted for less than 2% of bank-led funding).[19]

Bank in a Box (BiaB)

25. When considering the impact of BiaB technology on the PCA market (see Appendix 5.6), there were a number of instances of banks entering and planning to enter both the personal and SME banking markets on BiaB platforms (eg Metro Bank, Lintel Bank and Fidor).

26. A further example of effective use of BiaB technology, but solely in the SME banking market, is Holvi, a Finnish online bank, which entered SME banking in 2011, targeting small businesses and entrepreneurs. Holvi's aim was to simplify banking services for sole traders, for which current banking systems were not well suited and often resulted in lost revenues and business, as it took considerable time to open a bank account. Instead of building its own banking infrastructure, Holvi focussed on building the customer interface and used partnerships for other functions. The transaction banking infrastructure and the Application Program Interfaces (APIs) required to connect the front end to the customer interface are provided by Nordea, while GB Group, an identity intelligence specialist, provides document verification services to

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[17] Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet.
[18] Peer-to-peer lending is the lending of money to unrelated individuals without the use of a traditional financial intermediary, such as a bank.
[19] British Business Bank, *Small Business Finance Markets 2014*, p53.

support the boarding process. As a result, sole traders and small SMEs can open an account with Holvi in under a minute without having to go to a branch with documents.[20]

27. It is not just new entrants that can benefit from lower cost IT solutions. For example, [✂] told us that it recognised the need to invest significantly in its digital capabilities and systems, in order to give it the necessary agility to compete with smaller banks, new entrants and non-bank providers.

Digital wallets

28. Digital wallets do not currently represent a complete substitute for PCAs or BCAs, because they require customers to have an underlying payment vehicle, which is often a current account. However, digital wallets do appear to be allowing non-banks to provide some financial services to SMEs that are traditionally provided by banks. For example:

   (a) In June 2010, Alibaba launched Alipay Financial, a microcredit company based in Hangzhou, to offer loans to existing SME users of its e-commerce services. Within the first two years of launch, Alipay Financial had made loans worth RMB13 billion ($2.09 billion).[21]

   (b) PayPal, through its Working Capital service, which was launched in 2013, provides cash in advance to businesses based on PayPal payments history. Since 2013, it has provided more than $500 million in capital, and as at 31 December, the outstanding balance of merchant loans was approximately $99 million.[22]

   (c) Amazon Lending was launched on 1 July 2015 in the UK. It has been in operation in the USA since 2011, and has lent approximately $1 billion of capital to tens of thousands of small US traders.[23]

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[20] See Deloitte innovation report, p67.
[21] See Deloitte innovation report, p74.
[22] See Deloitte innovation report, p74.
[23] See Deloitte innovation report, p74.