EEF response to the Competition and Markets Authority "Retail banking market investigation" interim report

Overview

1. EEF, the manufacturers' organisation, is the representative voice of UK manufacturing, with offices in London, Brussels, every English region and Wales. UK Steel, a division of EEF, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processers.

2. Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. We directly represent over 5,000 businesses who are members of EEF. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and the EU – is designed to help British manufacturers compete, innovate and grow.

3. In this submission we set out our response to the CMA's "Retail banking market investigation" Interim Report. Access to finance remains an important issue for UK manufacturers, and measures to alleviate competition bottlenecks in financial markets could go a long way towards supporting investment and growth in the UK economy.

4. The CMA's provisional findings have identified that the lack of competition in the financial sector continues to constrain businesses' access to finance. This reflects EEF's own conversations with manufacturers, many of which remain disengaged with the banking sector.

5. The CMA's possible remedies are a step in the right direction towards increasing churn in financial markets through better customer engagement. However, the CMA's assessment that the lack of competition stems exclusively from weak customer engagement places limitations on the effectiveness of its remedy package.

6. The onus the CMA has placed on customers to drive incentives for banks to deliver better outcomes as well as the onus placed on banks to implement some of the remedies increase the risks of falling short of the desired outcome of improving

access to finance through meaningful improvements to the competition dynamics in the financial sector.

7. More emphasis on reducing barriers to entry for challenger banks and more direct interventions to improve customer engagement would add considerable firepower to the CMA's remedy package. It would also increase the likelihood that these interventions stand the test of time

EEF's position on the CMA's Provisional Findings and Possible Remedies notice

8. Improving businesses' access to finance is vital for driving investment and growth in the UK economy. The latest data from the SME Finance Monitor and the BoE's Credit Conditions survey illustrate that despite some improvements, access to finance remains constrained, especially for SMEs.

9. EEF agrees with the CMA's provisional findings that the financial sector exhibits competition issues that limit the volume and distribution of lending to UK businesses.

10. More specifically, barriers to SME switching or searching, limited access to credit information and low transparency over products and pricing, remain pertinent for UK manufacturers.

11. As such, the remedies proposed by the CMA to address these barriers in the BCA market are a positive step in the right direction. Manufacturers have expressed that low product diversity and the lack of transparency over financial products and pricing have been factors in their disengagement from the banking sector, especially in the context of the damage the financial crisis has inflicted on bank-business relationships.

12. However, the proposed remedies are unlikely to fundamentally address the competition issues in the financial sector, and therefore unlikely to fully gear the system towards supporting the growth of UK businesses more effectively.

13. In particular, EEF considers that the emphasis the CMA has placed on customer engagement in its proposed remedies appear to be disproportionate to the competition issues itself has identified.

14. While increased customer engagement could go some way towards improving the supply dynamics in the financial sector, it does not fully address the underlying issues. The CMA identifies that the concentration of market share to the largest four banks is only an issue in as far that market shares have remained stable over a large number of years.

15. However, given the incumbent advantages that large banks have and the CMA itself has identified, it is unlikely that increased customer engagement would generate more players in the market as opposed to – at best – more competition between the four largest banks. These banks are still better positioned to absorb potential remedies and to use their incumbent advantages to protect their market share. While competition between large banks is in itself desirable, incentives for these banks to cooperate will continue to exceed incentives to aggressively compete among themselves to generate the desired benefits for customers.

16. In this regard, the lack of remedies to alleviate barriers to entry for challenger banks is disappointing. The CMA identifies that mergers involving smaller banks could have a positive effect on competition by allowing them to challenge larger incumbents. Measures to enable that process along with other provisions to lower barriers to entry for challengers could go a long way towards bolstering competition in the sector.

17. The lack of proposed remedies to address barriers to entry for challenger banks and the onus the CMA has placed on the customer to drive incentives for banks to improve their services, increases the likelihood that we will be back in the same position in a few years' time.

18. In addition, EEF is also sceptical about the onus the CMA has placed on banks to drive outcomes in relation to remedies 1 and 2. Banks, just like any other business, have the objective to grow their market share and increase their profits. Behavioural remedies aimed at forcing banks to prompt customers to alternative providers is naturally contradictory to that objective and would likely lead to lukewarm implementation. Possible remedies that circumvent the role of banks in this process must be sought.

Comments on specific remedies

Remedy 1

19. While establishing trigger points for customers to switch providers would be welcome, it is unclear how this remedy could achieve the desired effect.

20. Since in most cases only the current account provider will be aware of those trigger points, it seems unlikely that banks would be willing to effectively prompt customers to switch to their rivals. Even if this process is forced through by an appointed regulator the impact is likely to be small.

21. The low take-up of the Appeals process – which banks had more incentive to implement and promote – indicates the difficulties of stimulating customer switching through online promotional activity. While the operation of the Appeals process by banks has been good, awareness among customers remains low. Also, past evidence suggests that the transmission mechanism for implementing such remedies from the bank headquarter level to local branches can be difficult.

22. Finally, aside from the immense complexity of monitoring the compliance of such a system, the costs involved would be large. It would be unacceptable for any of this cost to be borne by tax-payers.

Remedy 2

23. Improvements to the promotion of the CASS service could be helpful in increasing customer switching rates. However, similar to our comments for remedy 1, we are sceptical about the effectiveness of bank promotion of CASS as well as the limitations of changing customer behaviour through online promotional activity.

24. Completely or gradually removing the turnover limit for SMEs would help to increase the customer base for CASS and secure the engagement of a larger number of SMEs. CASS should not exclude any SMEs from engaging with the system.

25. Regarding the funding of CASS, contributions should not be made by the beneficiaries of the service. Disincentive should not be placed for finance providers to compete aggressively for new customers or for challenger banks seeking to increase their market share.

Remedies 3 & 4

26. The extension of Midata to SMEs and the establishment of a PCW for SMEs will help small businesses to better understand their finance needs and improve the transparency of product pricing. These measures should be implemented as soon as possible.

Remedy 8

27. The introduction of Account Number Portability (ANP) should be actively pursued. While the implementation could be cumbersome, market developments towards this direction are already underway. Starting on the preparatory work for setting up ANP as soon as possible would allow the UK to move ahead of the curve in this area. The CMA should not exclude measures that would help increase churn in financial markets.

28. The Parliamentary Commission on Banking Standards has also recommended that ANP should be further considered. It concluded that while banks have done a lot of work on producing evidence around the costs of ANP, adequate consideration of the benefits has been overlooked. The Commission recommends that "*the Government immediately initiate an independent study of the technical feasibility, costs and benefits of the full range of options for reform in this area*" to be conducted by an independent body.

About EEF

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From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused. More information at www.eef.org.uk

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