



## CMA investigation into SME banking: British Chambers of Commerce response to notice of provisional remedies

### ABOUT THE BCC

The British Chambers of Commerce (BCC) is a dynamic and independent business network of 52 Accredited Chambers across the UK, with Accredited Chambers in every nation and region of the UK, and in key markets around the world, representing tens of thousands of businesses with millions of employees.

The BCC is an authentic voice for British business and a leading commentator on the UK economy, drawing on a powerful network that represents business interests in Westminster, Brussels, and in every part of the UK.

Accredited Chambers sit at the heart of local business communities, helping thousands of companies - of every size and sector - to grow and thrive. Together with our fast-growing global network, Chambers provide practical advice and support to British companies trading around the world. Chambers help businesses connect, belong, and succeed. For over 150 years, our business has been helping UK business grow.

### INTRODUCTION

The BCC welcomes the opportunity to formally respond to Competition and Markets Authority (CMA) notice of provisional remedies as part of its investigation into SME banking.

As things stand, our members are disappointed with the results from the provisional report. The CMA's report pulls many of its punches — even if it acknowledges that some problems exist in the business banking market. While the proposals to help SMEs switch banks is a positive move, they are unlikely to be game-changing. Our members find it unacceptable that the CMA is effectively endorsing the status quo.

Rather than tinkering at the edges, our members believe that **the CMA should focus on promoting initiatives like the Business Banking Insight**, which lets SMEs across the UK learn from the experiences of their business peers before choosing products and services from different banks. Our members also believe that the CMA should have suggested further remedies to boost competition, or signalled alternatives to government, such as a scaled-up British Business Bank.

Many businesses will be concerned about the prospect of their data being shared around financial institutions. This must only occur with the business's express consent, otherwise it creates yet another trust issue that businesses and the financial industry will have to overcome.

### COMPARISONS BETWEEN PROVIDERS ON THE BASIS OF THEIR SERVICE QUALITY

Feedback from our members confirms that businesses consider service quality as among the key criteria when judging the performance of their bank. This includes the speed of decision-making, quality of onward support, consistency and transparency. Our members also talk of the significant

differences in the relationship banking experiences between large corporate and SMEs has increased distrust and damaged relationships between SMEs and financial institutions. There is also little shopping around because firms struggle to differentiate between the major banks on the basis of service.

**Feedback from our members confirms that businesses across the UK believe that the Business Banking Insight (BBI) initiative is the most effective means of implementing Remedy 5: Enable Consumers and SMEs to make comparisons between current account providers on the basis of their service quality, from an SME perspective.**

The first of its kind website which looks at how well the UK's small and medium-sized businesses are being served by their finance provider and is designed to help businesses make better informed banking decisions. Since businesses trust other businesses, firms place a huge weighting on the views of their peer group when making business decisions. The BBI works by collecting the experiences of 20,000 businesses on the level of service quality across a wide range of SME banking products and services. The data is then disseminated to SME's via a bespoke website (<http://www.businessbankinginsight.co.uk/>) to enable firms to make valid comparisons between financial institutions based on their own set of criteria. In order to secure the long-term future of the BBI we urge the CMA to require all banks to support this initiative by working to increase awareness of the BBI website among their customers.

The BBI website is in the process of being upgraded to improve its functionality and usability. The new website will be up and running in 2016 and we would be keen to engage with the CMA on this as work progresses.

### **CURRENT ACCOUNT SWITCHING**

Feedback from our members confirms that the proposed remedies of increasing public awareness and improving the processes around the new current account switching service are a step in the right direction. However, businesses in the real economy still view banks as being "all the same" and so there may be a reluctance to move to a new bank even if the switching process is made easier. Initiatives like the BBI can play a major role in improving the switching service because it provides SMEs with valuable insight into who is the best finance provider for them based on the views of other businesses as well as helping SMEs identify who supplies the products that they require.

### **DATA SHARING**

Feedback from our members confirms that they are concerned about the prospect of their data being shared around financial institutions. This must only occur with the business's express consent, otherwise it creates yet another trust issue that businesses and the financial industry will have to overcome. The information required must be strictly limited to the necessary information needed for the finance provider to be able to make a reasonably informed decision.

Feedback from our members confirms that significant safeguards must be put in place to avoid unintended consequences. Information should only be shared where an SME gives its permission. It is

essential that businesses must have ultimate control over who their details are shared with and be able to choose whether to exclude certain types of financial services.

The CMA should work closely with relevant organisations such as the Financial Conduct Authority (FCA) to put in place additional protections to secure the data. For the proposed remedies to have credibility businesses must have confidence that the data: is used fairly and lawfully, for specifically stated purposes, kept for no longer than is absolutely necessary, handled according to people's data protection rights and kept safe and secure. There should also be significant penalties for providers who contravene these principles.

#### **ADDITIONAL MARKET CHANGING MEASURES**

A large proportion of our members believe that the CMA should also have suggested further remedies to boost competition. This should have included a greater focus on reviewing market restrictions for new non-bank SME finance providers, including looking at the capital limits for building societies. For example, although there are currently 45 building societies with 21 million members in the UK who play a leading role in the personal finances, savings and mortgage markets, they are largely absent from SME banking.

Under the Building Societies Act, at least 75% of a building societies loans must be secured against residential property, which effectively prevents an expansion into business lending. A reduction in this limit would increase the incentive for building societies to lend to SMEs. A review would need to assess the benefits and costs of such a change, including the likely impact on the financial stability as well as the appropriate reduction in the proportion of a building societies loan book that must be secured against residential property.

In order to boost competition the CMA could also have signalled alternatives to government, such as a scaled-up British Business Bank, to help facilitate greater competition as well as helping to fix the long-term market failure in the provision of business finance in the UK, first identified as the MacMillan Gap. The current under-capitalisation is undermining the British Business Bank's ability to make a significant contribution to Britain's growth companies of the future.

**The BCC remain keen to engage further as this review progresses. For more information please contact: Suren Thiru, BCC UK Economic Advisor**