

Retail Banking Team
Competition and Markets Authority
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The IoD welcomes the Competition and Market Authority's investigation of retail banking and the chance to contribute to the review.

About the IoD

Founded in 1903, and granted a Royal Charter in 1906, the IoD is an independent, non-party political organisation of around 35,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. Approximately 92% of FTSE 100 companies have IoD members in management roles, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-up companies.

The IoD welcomes the conclusions of the provisional findings and agrees that there is much work to be done to create a truly competitive retail market. Responding to the CMA's provisional findings in October Jimmy McLoughlin, Deputy Head of Policy at the IoD, said that 'few would disagree that competition in the banking sector could be improved. For small businesses, the battle to secure a loan or overdraft can feel like an uphill struggle. For current account holders, switching bank accounts is seen as a time-consuming, bureaucratic and pointless exercise. Although these are big challenges, the CMA has rightly concluded that further regulation, a ban on free accounts, or a break-up of high-street banks is not the answer'

We wish to offer a note of caution, though, about the power of legislation, regulators and government to enact swift cultural change. Many of the changes that would create more competition in the sector will only come about via consumers – be they individuals or SMEs - becoming far more active than they are currently in engaging with their current accounts. We cannot expect overnight results, and it is important that any remedies decided upon are given time to bed in. We do not want to be in a position in which we go through this process again in a year's time because significant progress is not immediately apparent.

With that caveat, we now take each of the proposed remedies in turn.

- 1. Prompt customers to review their PCA or BCA provider at times when they may have a higher propensity to consider a change.**

We are inclined to agree with the findings of the CMA that the lack of trigger points contributes to a kind of consumer inertia. As noted elsewhere in the documentation issued by the CMA with regards to the provisional findings and remedies, it is doubly problematic for SMEs; inertia in the PCA area

has a knock-on effect in the BCA market due to the tendency of entrepreneurs to graduate towards their existing PCA provider for their initial BCA.

We feel there is a happy medium to be found with regards to this remedy. Anecdotally, we have heard from members that one of the reasons individuals are unlikely to investigate switching is that ‘they (providers) are all the same.’ Mandating messages to consumers or businesses in some cases would only serve to reinforce that – the level of information passed to a consumer is one of the areas in which providers can compete. Many providers offer text messages to customers when their account drops below a certain level, or when a customer is about to enter an arranged or unarranged overdraft. This gives them a competitive advantage over those providers that do not offer such a service, and therefore we should think carefully about removing this area of potential differentiation.

That said, we do think there are areas in which messages or information should be mandated. These are:

- A widespread loss of service to a provider’s PCA or BCA customers arising from an IT breakdown;
- A widespread data breach, in which a provider has been hacked or in any other instance where private data could potentially have been exposed;
- A material change in the bank’s terms and conditions pertaining to a BCA or PCA product used by a consumer; and
- The expiry of an SME customer’s free banking period.

We are not married to any particulars on the content and substance of messages pertaining to the first and third points; however we would urge providers to work together with the CMA and consumer stakeholder groups to develop a uniform template for that communication that doesn’t place significant costs on smaller providers.

On the second point – a message in the case of a data breach – we would urge the focus and priority to be on speed on behalf of the provider, with a safety-first approach. Data breaches will become ever more of a problem in the 21st century and will have significant knock-on effects for consumers and businesses alike if those consumers and businesses are unaware that their data has been exposed. The CMA should work with other regulators, government and providers to develop guidelines along these lines.

On the fourth point, we agree with the suggestion that at the end of the free banking period the remedy should require that banks provide SMEs with a warning that they are approaching the end of their free banking period together with an estimate of their likely charges for the coming year based on their account usage during the free banking period. There is an argument that a yearly statement could also be produced detailing total fees and we urge industry providers and the CMA to consider how best this would work.

We do not agree with the suggestion that providers should communicate better-value products from rival providers. The focus should be on providing information.

- 2. Increase public awareness of the potential savings or rewards that could be obtained by changing one’s current account provider and of the benefits of using the Current Account Switching Service to do so in terms of security and convenience**

As noted earlier, the best way to encourage competition in the banking sector is to increase public engagement with the idea of switching. This will create the cultural shift that is necessary to deliver real competition between providers, and the benefits that that provides.

Awareness of CASS remains low. This is regrettable. We welcome the fact that Bacs has increased its advertising budget, and a well-designed campaign would contribute to greater awareness. We would also urge Bacs (and the CMA) to work closely with the Department for Business, Innovation and Skills, who communicate regularly with businesses, to ensure that SMEs are aware that CASS applies equally to them. We echo the CMA's call for the campaign to focus on security and convenience, and in particular that it is a broadly 'hands-off' procedure from the consumer's perspective.

There are lessons to be learnt in terms of targeting from other sectors, notably in the energy sector. The Big Deal, a social enterprise which brings groups of consumers together in order to deliver 'collective deals' from providers, has gained much traction from regular engagement with mainstream newspapers, notably *The Sun*. We would urge the CMA to work with consumer groups and other stakeholders to work with media providers to ensure that messages around potential savings are advertised through earned media in newspapers.

We do not have any recommendations as regards funding any future campaigns, and would urge industry providers to work together to ensure that any funding commitment is sufficient to deliver results, whilst being proportionate to market share to ensure that smaller banks are not unduly hindered by the costs of the service.

- 3. Facilitate price comparisons between providers by making customer-specific transaction data more easily available and usable**
- 4. A PCW for SMEs**
- 5. Enable consumers and SMEs to make comparisons between account providers on the basis of their service quality**

We have grouped these as they fit together well.

The IoD is fully supportive of the Midata initiative and feel that if it is executed properly has the power to transform the way consumers and businesses engage with not just their banking providers but with everything from their energy providers to their mobile providers to their online movie streaming. The UK leads the world in the 'digital economy' – the Government should lead the world in digital innovation and the use of data, too.

We are fully supportive of the initiative mentioned in paragraph 63, emphasising the use of historical transaction data on PCWs to estimate likely future charges from different providers. We note that concerns of the CMA with regards to the current incompatibility of Midata exports, and the occasional difficulty of finding the relevant data for export on some providers' websites. It goes without saying, however, that if people aren't using Midata it is unlikely to be particularly revolutionary. We are therefore also supportive in principle of the initiative in paragraph 67. Our full support would be conditional on the security measures in place to prevent data breaches.

We do believe that Midata should be extended to SMEs, as soon as practically possible. The complexity of BCA tariffs and charges makes comparison challenging and, as banks will not be obliged to produce such tariffs and transactions in a standard format, it is unlikely this would change unless Midata is extended to SMEs. We would urge, as an aside, the CMA to consider the inclusion of standardising BCA tariff and transaction information (as far as practically possible) within these remedies in the final recommendations as an interim measure. This would allow smaller, challenger

banks to challenge incumbents on something more like a level playing field. It would also allow for effective competition to be created around start-up firms' (who have no transaction or credit history) BCAs, potentially encouraging an uptick in the number of individuals who choose a different provider for their BCA than their PCA.

Unsurprisingly, therefore, we are supportive of the development of price comparison websites for SMEs. Where we quibble with the CMA's remedies, however, is that the remedies consistently talk of "a PCW" or "an effective SME PCW." This seems to imply a one-stop shop PCW, which we do not feel is the most effective way forward. It is worth remembering that PCWs are providers of information – monopolising that provision of information is dangerous. Britain has thousands of innovative financial technology firms, and they should be free to develop competing PCWs if they so desire. We have seen in recent weeks examples of SME PCWs, including a project developed in conjunction with Lloyd's, which we believe could make a positive contribution in this space as regards creating competition. Interestingly, it included 'value-add' which would not necessarily be available under a strict PCW, including historical data presented in a readable and comprehensible way. We fear the establishment of a single PCW would risk negating the benefits of PCWs, and could lead to its capture by larger, incumbent banks. Such a move would be equivalent, we fear, to knocking down a barrier to competition only to replace it with another. The provision, we therefore believe, should be for a competitive marketplace in which a number of PCWs deliver differing services for SMEs – potentially specialising by sector, size, or point in the business lifecycle.

We would just urge a note of caution on remedy 5 – that 'service quality' within a bank is difficult to judge. The CMA may wish to think more about developing a working group to ensure that this is as stringent as it might be.

We would also urge the CMA to consider a provision that any PCW or a 'service comparison website' as implied in remedy 5 demonstrate if it is funded by a provider clearly and openly. Some of the suggestions in the remedies would see providers potentially funding a platform which marked their own homework, so to speak. We have no great objection to this, but it should be made abundantly obvious and clear to those using any prospective platform that this is the case.

6. Standardise and simplify BCA opening procedures

There is no question that both the reality and the perception of switching is more onerous for SMEs. We would therefore support a remedy which standardised the essential customer due diligence requirements. It would be desirable if providers were required to accept a 'CDD data pack' and indeed have heard from some providers that there could be a central depository of CDD data. Our concern with such a plan would be that larger providers could use this CDD depository as a barrier to competition against smaller players; if the CMA could guarantee that this would not be the case, we would not be against the idea.

7. Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider.

Of the two prospective methods suggested in paragraph 96, we would prefer the former option. We would be wary of requirements for decisions to be made on overdrafts before switching, as this could create unwelcome demands on smaller providers. A website tool would be welcome, however. We would encourage the CMA to investigate, via 'mystery shoppers', whether the overdraft prediction tool was delivering a fair result. If a provider is giving out overdrafts left, right

and centre in principle but reneging once an account had been switched, further action would necessarily have to be taken against that provider.

8. Require payments into the old account to be redirected to the new one for a longer period than at present

The current CASS provisions guarantee redirection for 3 years. This strikes us as an adequate amount of time; any lengthening would be welcome, but we would be deeply sceptical that it will make much of a difference.

9. Require banks to retain and provide ex-customers, on demand, with details of their BCA and PCA transactions over the five years prior to their account closure

This seems a sensible move to ensure that transaction histories are kept despite switching, reducing a disincentive to switch. We wonder though whether, for ease of access, it would make more sense for the information to 'come with' the PCA or BCA holder to the new bank, so that identification and security processes are uniform. Providers should be able to discuss with the CMA the best way to move forward – in principle, though, it is right that history is kept for a period of time.

10. Require Bacs to transfer continuous payment authorities on debit cards when switching through CASS

We will leave it to providers, regulators and others to discuss the practicalities of what at first glance seems rather complex. We would only add that this is unlikely to be of much relevance to SMEs, few of whom use CPAs as a form of payment either in or out of the business.

11. Require all banks to support the partial switching service and to provide an equivalent guarantee to that offered as part of CASS

SMEs typically value the relationship they have with their BCA provider, and as such are unlikely to take up partial switching in significant numbers due to the additional complexity and, as discussed, the value of their relationship with their existing provider.

12. Changes to CASS governance

Any changes to CASS governance should continue to emphasise that smaller providers are allowed a significant seat at the table in order to ensure incumbent providers cannot capture the process.

13. Data sharing with credit reference agencies

14. Commercial open data and data sharing proposals

15. Require banks to provide a loans price and eligibility indicator

We have grouped these SME-focussed measures on reducing banks' incumbency advantages together.

On remedy 13, we are supportive of the opportunity for SMEs to share bank data with CRAs. We agree with the call in paragraph 154 for the Treasury to use the powers envisaged in the SBEE.

We would, though, urge the CMA to work with providers and regulators to ensure that CRAs have stringent data confidentiality rules in place and that, in the case of a data breach, customers were informed immediately.

On remedy 14, we have no concerns in principle, but we do not think it will be a particular 'game-changer'. As regards paragraph 159, the CMA is right to note that there is no obvious candidate for

the role of 'promoter' in the context of SME lending. However, Britain has a remarkable ecosystem of business support groups (including the IoD, the British Chambers, the CBI, the Federation of Small Businesses, etc.) and the CMA should work closely with those groups to emphasise the potential benefits of switching; again, we can look towards the media as another means of promoting the benefits of switching.

We are supportive of the 'loan indicator' in remedy 15, with qualifications. As with the 'overdraft indicator' for PCAs, it is crucial that there is legitimacy to any indicator and that means monitoring must be robust. The CMA must work with other groups to develop monitoring methods, including but not limited to business surveys and mystery shoppers. It should come down hard on providers who offer the world to attract switchers, before moving the goalposts once an SME has committed. Monitoring this will be challenging, but this is one area in which the CMA must take an extremely strong line on those who seek to subvert the switching process.

Conclusion

The IoD supports the work of the CMA in this area, and agrees with many of the provisional findings and is positive, as above, about many of the remedies suggested. We do think, as also noted above, that we must take a long-term view of success in this area.

We would also urge the CMA to take a rigorous approach towards testing many of these remedies. Successes and failures will often only come to light after being tried in the real world.

Most importantly, however, we would urge the CMA to work with other regulators to ensure that more providers are able to come in to the banking/lending space. We believe that digital banks and challenger banks have the potential to significantly reshape the provider landscape and increase competition in the sector. Many of the measures needed to create more vigorous competition in the sector are outside the remit of this investigation; for instance, the 'new' Bank Tax, and the onerous approval and licencing process. We urge the CMA to use its platform as a bully pulpit in this area – and we would also ask that the CMA shouts loudly from the rooftops about the importance of extending the Midata initiative to SMEs.

We would also welcome the CMA turning its attention to the rapidly expanding alternative finance market in the UK. While traditional bank loans are still the favoured finance option for many established firms, new sources of business finance, ranging from peer-to-peer lenders to Angel Investors, are becoming preferred avenues for finance for a new generation of UK business leaders. The Government has – to a degree - recognised the vitality of the alternative finance market. However, politicians and regulators still have some way to go towards becoming fully alive to the rapidly expanding landscape for lending in the UK.

In a broader context, we urge the CMA to always ensure a level playing field across capital markets, and that incumbents cannot be allowed to erect barriers to entry for competitors through CMA-sponsored projects. As noted, the creation of a single price comparison website for SMEs could unintentionally become a tool for such a practice. The most effective route to a level playing field is in promoting vigorous competition, not creating a closed shop.

By way of further reference, we have included the latest statistics on IoD member issues with access to finance below. We look forward to working with the CMA over the coming months and engaging in any discussions or events around this issue.

December 2014

- Only one in five (**20%**) businesses say that accessing finance is easy for them.
- Over half (**55%**) have not even applied for a bank loan or overdraft in the last three years.
- Of those who did apply for bank loans and overdrafts, nearly one in three (**29%**) saw an application rejected.
- A significant minority also report that the cost of borrowing has increased (**29%**) and that lending conditions have become tougher (**30%**) since 2011.
- Over half (**55%**) reported that retained earnings are their primary source of finance