



**Retail Banking Market Investigation
CMA's Provisional Findings Report
("Provisional Findings")**

Response on behalf of Barclays Bank PLC

20 November 2015

[REDACTED]. Please note that Barclays has provided the information below in the time available, and reserves the right to supplement this response with further information.

1. EXECUTIVE SUMMARY

- 1.1 Barclays appreciates the scale of the CMA's investigation into the supply of retail banking services to PCA and SME customers. The CMA has clearly considered a wide range of information and Barclays acknowledges that certain aspects of the Provisional Findings resonate with Barclays' own understanding of the relevant markets in which it competes¹.
- 1.2 However, the Provisional Findings also identify market features and reach certain preliminary conclusions which in Barclays' view are not supported by the evidence presented by the CMA. Further, the adverse effects on competition (AECs) set forth in relation to PCAs, BCAs and SME lending are not well defined. This significantly affects Barclays' ability to properly assess the CMA's conclusions on the AECs as well as the proportionality of the remedies proposed by the CMA.
- 1.3 In Barclays' opinion, the evidence and analysis points to a UK retail banking sector that is characterised by tough competition and continuous innovation which stimulates rivalry and provides significant benefits for both PCA and SME customers. The emergence and growth of recent credible new entrants shows clearly that the CMA's perceived customer acquisition costs are not a material barrier to entry and expansion. Barclays faces intense competition not only from new entrants such as Metro and Handelsbanken, but also alternative providers such as PayPal, which directly impact Barclays' PCA and SME strategies. Technological developments are also a significant disruptive force in the retail banking sector.
- 1.4 Moreover, the CMA's assessment shows that, in relation to its suggested barriers to entry, conditions are improving overall. The amount of investment new entrants require to compete with larger banks has declined significantly in recent years. The rapid growth in digital banking, the decline in branches and a move to alternative branch formats, have allowed new entrants to be more adaptive and flexible in accessing and attracting customers at relatively low cost.
- 1.5 In particular, Barclays has the following main concerns in relation to the Provisional Findings, which are explored further through the following sections of this response:
 - The CMA has not presented sufficient evidence to support the allegation that established banks exercise unilateral market power over their existing customer base. Barclays has seen no evidence that established banks have a significant incumbency advantage that enables them to retain their market

¹ For example, Barclays agrees with the CMA that current levels of concentration do not, in themselves, give rise to detrimental outcomes and that there is significant innovation in the UK retail banking sector. Barclays also agrees that branches, IT and other features considered by the CMA are not barriers to entry.

position while charging higher prices and/or providing lower quality services than newer banks with lower market shares.

- That a perceived lack of customer engagement results in material customer detriment. Further, insufficient weight is given to the high levels of customer satisfaction, increasing levels of customer interaction, and the significance, in addition to switching via CASS, of multi-banking, internal switching and, on the SME side, multi-sourcing.
- The CMA's suggestion that there are barriers to accessing and assessing information on charges and service quality is overstated and does not take adequate account of ongoing innovations, transparency, SMS alerts, mobile banking and other initiatives that have significantly increased customer interaction with their bank account, accessibility of information, and the ability to assess offers.
- The precise scope of the CMA's investigation and the lack of analysis in relation to certain products or services within the scope of potential remedies. In particular, Barclays considers that insufficient analysis has been undertaken in relation to the range of different SMEs which are included within the scope of the CMA's investigation. For example, the CMA has conducted very little analysis in relation to businesses with a turnover of above £6.5 million. The CMA has also failed to provide sufficient analysis regarding certain SME lending products such as asset finance and credit cards.

2. MARKET POWER / INCUMBENCY ADVANTAGES

Market Power

2.1 In relation to the PCA, BCA and SME sectors, the CMA has not presented sufficient evidence to support its provisional finding that well established banks hold unilateral market power over existing customers. The presence of market power is typically associated with a number of characteristics or behaviours by the entities with market power, such as high levels of profitability, price discrimination between customers and the ability to behave to an appreciable extent independently of competitors, none of which seems to be present in the CMA's evidence. It is incumbent on the CMA to produce evidence of these characteristics when making any finding of market power, as well as taking account of countervailing considerations².

² See *AXA v CMA* [2015] CAT 5, where the CAT emphasised that the CMA should take account of any countervailing factors which show there is no AEC, including the positive effects of efficiencies and the prospect of entry and expansion. In this regard, the CMA has also given insufficient weight to the intense competition from existing competitors, new entrants and alternative providers as well as the levels of innovation which stimulate rivalry and provide significant benefits for consumers. [8] Barclays also notes the recent decision of the CAT reiterating that "[t]here must be evidence available to the CC of some probative value on the basis of which the CC could rationally reach the conclusion that it did" and "[t]he reasons for a decision must be intelligible and they must be adequate. They must enable the reader to understand why the matter was decided as it was and what conclusions were reached on the 'principal

2.2 Barclays notes the similarity of the CMA's provisional finding that incumbent banks have unilateral market power over their existing customers with the CMA's recent provisional finding of unilateral market power in the energy market investigation. However, unlike the energy market investigation, in which the CMA estimated that energy companies made excess profits and also were able to discriminate between switchers and non-switchers, no such evidence has been produced by the CMA in this investigation. Furthermore, Barclays' prices do not discriminate between switchers and non-switchers³ and, indeed, it is not possible to tell which customers are more likely to switch. In the absence of evidence of factors such as excess profits or discriminatory pricing, the CMA's conclusion of unilateral market power is insufficiently substantiated. Moreover, the lack of evidence and reasoning in the Provisional Findings seriously affects Barclays' ability to exercise its rights of response.

Price and quality outcomes

2.3 In relation to the PCA, BCA and SME sectors, the CMA appears to base its conclusion of unilateral market power solely on there being a "weak customer response" to differences in prices or service quality and "some tendency" of banks with larger market share to have higher prices (although acknowledging that it has not observed a similar tendency in relation to BCAs). However, contrastingly, the CMA also states that banks offering lower average prices and / or better quality tend to have been growing market share, albeit at a very slow pace.

2.4 As set out below, [X] there are a number of serious flaws in the CMA's methodology relating to its assessment of pricing and quality outcomes.

PCA

2.5 The CMA's assessment of the relationship between price and quality is based on three different customer surveys: GfK PCA, GfK FRS and a Which? survey which are difficult to consider collectively since they each use different sample sizes, sampling methodologies and survey questions. In particular, Barclays does not consider that the Which? survey is sufficiently robust and the CMA has itself acknowledged that the Which? survey may not be representative⁴.

important controversial issues" (Federation of Independent Practitioner Organisations v CMA [2015] CAT 8).

³ For example, Barclays' Blue Rewards account is targeted at both new and existing customers.

⁴ See footnote 258, '*[w]e note that the Which? satisfaction scores are derived using a much smaller sample compared with the GfK FRS. It has also not been possible for us to verify the representativeness of the sample and robustness of the survey methodology.'*

- 2.6 The CMA itself concludes that there is not a significant inverse relationship between price and quality or price and market share⁵. [X]
- 2.7 The CMA has not analysed in detail the performance of banks across different measures of quality which are observable from the results of the GfK PCA survey. Instead, the CMA's approach of referring to three different surveys of quality, one of which the CMA has acknowledged is unlikely to be representative, is misleading. The surveys all show different satisfaction scores and, more importantly, the surveys do not directly measure the relationship between price and quality. Thus the way in which the CMA has analysed the price-quality relationship is to compare the average results of three quality surveys with the CMA's own "stylised" pricing analysis. A more accurate way to measure the price-quality relationship would have been to match up the respondents to the quality survey with those respondents' cost of banking. This would enable a direct comparison between customer satisfaction and the actual amount that a customer pays for its banking services.
- 2.8 Furthermore, the methodology employed by the CMA in its pricing analysis may not reflect accurately the overall customer mix, due to the initial oversampling based on the six stylised customer transaction profiles. It is not evident how any subsequent adjustments were made to ensure accurate representation.
- 2.9 Similarly, the CMA's analysis of overdraft use and costs could also be combined with questions regarding the customer's perception of quality. In the absence of these direct linkages at the individual level, the CMA's analysis, which simply plots average customer satisfaction with average prices that a hypothetical customer might pay, has the effect of combining two unrelated measures to provide an overly generalised result.

SME/BCA

- 2.10 As the CMA has not yet made available the data and analysis which underpins its conclusions on competition in the SME and BCA sectors, it is not possible for Barclays to evaluate whether the evidence supports the CMA's conclusions⁶. Barclays' own understanding of customer satisfaction is based on the monitoring of NPS and other customer satisfaction measures [X]. Barclays reacts to the results of these surveys by making changes to its product offering based on that feedback. These developments include online SME lending application process and its simplified BCA range)⁷ as well as Barclays' promise to keep customers on the best tariff for them. The

⁵ Paragraph 5.99. All references to paragraphs and appendices are to the Provisional Findings, unless otherwise stated.

⁶ [X].

⁷ The CMA seems to suggest that the introduction of Pre-Assessed Limits at the end of 2013 was due to customer feedback and that this does not constitute a reaction to competition (paragraph 10.108). Barclays does not recognise this distinction, and considers that such improvements and innovations in its service offering are necessary for Barclays to keep pace and compete in the sector.

CMA has not provided sufficient detail regarding its quality comparison metrics, which would enable an assessment of the robustness of its results.

2.11 In relation to SME banking, the methodology employed by the CMA to reach its conclusions on the price-quality relationship is problematic for the following reasons:

- The CMA used Business Banking Insight (BBI) data as an indicator of satisfaction of SME customers despite acknowledging that the survey is in its infancy, as results are only available for 2014, and the sample sizes are relatively small.⁸ It is unclear why the CMA chose to use this data rather than other sources, given the problems which they acknowledge.
- The analysis also fails to take into account the full range of features which are important to SMEs (for example, the functionality and features of the account itself, or the provision of relationship managers). Barclays is again concerned that no account is taken of the range of different SME customers which fall within the CMA's categorisation and the fact that differing services will be important due to their differing sizes and needs.
- It is also unclear how the CMA establishes what is considered the average satisfaction rating from the BBI data. Figure 6.15 suggests that the average BBI satisfaction rating is approximately 63%. Barclays would be interested to understand how this average was calculated.
- Figure 6.15 also uses "quality" and "BBI satisfaction rating (%)" interchangeably. The CMA derives its conclusion that Barclays is a "low quality" bank from the BBI satisfaction rating; however the CMA acknowledges that "*satisfaction levels do not necessarily always reflect an awareness of whether SMEs are indeed best served by their bank*".⁹
- The CMA's apparent suggestion that Barclays is a "low quality bank" is inconsistent with Barclays' actions, which one would normally consider as evidence of a high quality bank. As already noted, Barclays' continuous innovation¹⁰ as well as its conduct in routinely monitoring and acting upon NPS and other customer satisfaction measures¹¹ reflects its position as a high quality bank.¹²

⁸ Appendix 6.5, paragraph 18.

⁹ Paragraph 8.50.

¹⁰ Barclays' response to the Updated Issues Statement, paragraph 4.7 (UIS response).

¹¹ See footnote 7, above. Barclays does not recognise the CMA's apparent distinction between reacting to feedback and reacting to its competitors, and considers that such improvements and innovations in its service offering are necessary for Barclays to keep pace and compete in the sector.

¹² For example, developing its online SME lending application process and its new SME current account range.

2.12 The CMA acknowledges that the interpretation of the results of its BCA price analysis is subject to the following limitations¹³:

- There are a number of components of total price which are not taken into account such as overdraft charges, interest on credit balances and incentives offered to new customers. As the CMA points out, survey evidence suggests around 43% of SMEs have overdrafts¹⁴, 25% of the tariffs used in the CMA's analysis offer interest on in-credit balances¹⁵ and it is typical for banks to offer incentives to new customers¹⁶. Barclays is concerned that the omission of these variables, which the CMA considers relevant, is likely to reduce the accuracy and reliability of the pricing analysis.
- SMEs with a turnover exceeding £2 million are excluded from the analysis and the profiles which are included "may not be fully representative of the diversity of SME BCA usage"¹⁷. As Barclays previously stated,¹⁸ the CMA has not provided a clear methodology and definitions for constructing the representative BCA profiles. This may have led to banks taking differing approaches and assumptions in constructing profiles which resulted in issues around comparability of data. There is also a risk of profiles having been provided that misrepresent customer usage and associated charges.
- The analysis assumed that SMEs are on the lowest price tariff available by the bank. As previously stated,¹⁹ Barclays is the only bank which promises to keep customers on the best tariff for them.²⁰ Assuming SME customers are on the best tariff that is available when this is not always the case, is likely to bias downwards the CMA's estimate of prices paid by customers of banks that do not place customers on the lowest available tariff. Consequently, this assumption incorrectly makes Barclays appear more expensive compared with its competitors.

Customer acquisition costs and new entrants

2.13 In relation to the PCA and SME sectors, Barclays disagrees with the CMA's provisional finding that customer acquisition costs are high due to weak customer engagement, and as a result longer-established banks benefit from this existing market

¹³ Appendix 6.4, paragraph 28.

¹⁴ Appendix 6.4, Annex A, paragraph 2.

¹⁵ Appendix 6.4, Annex A, paragraph 1.

¹⁶ Appendix 6.4, Annex A, paragraph 4.

¹⁷ Appendix 6.4, paragraph 28(b).

¹⁸ [X].

¹⁹ [X].

²⁰ In addition, Barclays offers the Price Plan Selector function on its website whereby customers can choose a plan for the way they do business.

position and ongoing advantages over new entrants and smaller banks wishing to expand. The recent success of new entrants shows that customer acquisition costs are not a significant barrier. Indeed, conditions favour new entrants:

- The amount of investment by new entrants required to compete with larger banks has reduced significantly in recent years. The rapid growth in digital banking in relation to PCA and SME banking propositions, and the decline in the number of branches, allows new entrants to access and attract customers from larger banks with greater ease and at lower cost. Barclays consider that these trends are inconsistent with the CMA's observation that incumbent banks' large branch networks may continue to contribute to the advantage that larger banks have in acquiring PCA and SME customers.
- Barclays faces intense competition not only from new entrants but also alternative providers. The CMA has failed to consider sufficiently the competitive constraint exerted by alternative providers such as PayPal and non-bank finance providers, which have a direct impact on Barclays' PCA and SME strategies. PayPal in particular offers the key features of a PCA or BCA, which poses a significant threat to Barclays²¹ ability to directly engage with and build customer relationships.
- As Barclays has stated previously, whilst branches are important to some customers for some types of transactions, statistics relating to the frequency with which customers interact with branches suggest that there may be a gap between customers' perceptions regarding branches and their actual usage²². Where customer preference is for a physical touch-point there is a range of alternative, more cost-efficient smaller footprint models to the traditional branch network, with significantly lower investment and operating costs²³. Banks with legacy branch networks face the challenge of adapting the rising cost of their branch network to declining demand, whilst ensuring that they meet the banking needs of customers who choose to use branches. Thus a large and extensive branch network entails high costs and the risk that such costs become stranded with innovation and new entry. A lack of scale branch network is therefore neither a major impediment to entry nor to expansion.
- Consistent with Barclays' views, the CMA has found that IT is also not a barrier to entry and/or expansion. New, low cost IT platforms, and the ability of challengers to adapt more nimbly to technological innovations, since they are not encumbered with legacy IT systems patchworked together and needing large scale modifications to keep pace with innovation. Larger, established

²¹ See further the UIS response [§].

²² [§].

²³ Ibid.

banks incur the increased cost of integrating new technology with existing legacy IT infrastructure²⁴.

Competition and innovation

2.14 The CMA states that the four largest banks have collectively lost less than 5% market share since 2005. However, Barclays suggests that viewing the four largest banks as one homogenous block is not representative and potentially misleading, as it assumes no competition and movement of customers between the large banks. Switching between the established banks is a strong source of competitive pressure, particularly as banks' offerings are becoming increasingly differentiated. Furthermore, some customers may have specific banking preferences and may switch between banks in response to service quality, price and/or product features. Such switching would indicate a high level of customer engagement which promotes rivalry between banks. This is largely ignored if the CMA focuses its analysis on the combined market shares of the established banks which has the effect of disregarding competition between those banks²⁵.

2.15 In addition, Barclays would highlight that new entrants to the PCA and/or SME sectors may be choosing a more targeted and selective acquisition strategy, whether that be towards more profitable customer segments or focusing operations in specific regions. In contrast, Barclays offers banking services to a broad, diverse and inclusive customer base throughout the UK and, therefore, looking at changes in market shares on a national level may not take into account some of the strategic choices of new entrants²⁶. For example, approximately 20% of new PCA accounts opened in 2014 were basic bank accounts (or cash card accounts), which only have to be provided by certain banks. This effectively means that, in total, there are 9 million accounts in the market that some of the smaller banks have decided not to provide.

2.16 Barclays does not consider that the CMA has fully considered pending regulation, including the second Payment Services Directive (PSD2) which is likely to significantly impact the sector, promoting competition from a range of third party payment providers who will have the opportunity to build a relationship with consumers while not being encumbered with the costs of providing an underlying bank account²⁷.

²⁴ The CMA also notes that newer entrants' IT systems are much less costly than the legacy systems of existing banks.

²⁵ Paragraph 6.39.

²⁶ Barclays' response to the Updated Issues Statement, paragraph 2.3.7.

²⁷ PSD2 introduces consumer rights to use two types of banking service - (i) payments providers and (ii) account aggregators. Banks will be compelled to provide access to customer bank accounts to enable these third parties to provide their services. The future landscape will enable customers to move money and see their financial holdings in one place, with scant need to interact with the institution that holds their deposit in the background. To take an example, WeChat in Asia is a platform that brings together a customer's financial products and enables them to move money, in addition to providing a whole host of other services. It reportedly has 549 million active users (c.150 million fewer than Facebook messenger). PSD2 essentially

2.17 Evidence of tough competition and innovation does not support the CMA's Provisional Findings relating to the PCA, BCA and SME sectors. Barclays welcomes the CMA's own acknowledgement that there is a significant level of innovation in the PCA market²⁸, however, Barclays refutes any suggestion that there is less innovation in the SME sector or that SME innovations have lagged behind innovations in PCA markets, and considers that insufficient weight has been given to developments for SME customers.²⁹ Innovation is central to Barclays' SME proposition and, as in the PCA sector, Barclays is continuously innovating in order to respond to the evolving nature of customers' needs (please see Annex 1 for examples of Barclays' SME innovations and other SME/ BCA specific comments).

Gateway

2.18 The CMA has investigated whether larger banks used BCAs and PCAs as gateway products to cross-sell other retail banking products and whether any differential level of margin contribution and/or cross-selling acted as a barrier to entry or expansion.

2.19 As Barclays has previously stated, there is evidence that PCAs are not promoted as a gateway to BCAs.³⁰ Moreover, the CMA has found that, based on its initial analysis, the "retail banking products provided to SMEs and personal customers, including BCAs and PCAs, are profitable when considered separately from the banks' overall retail banking propositions".

3. CUSTOMER ENGAGEMENT / SWITCHING

Customer detriment/ gains from switching (PCA and SME)

3.1 Barclays is concerned that the results of the CMA's analysis relating to gains from switching are not sufficiently robust or reliable. [☒].

enables organisations other than banks to become a bank without the overheads. It gives them the ability to present realtime current account information and move money, against a backdrop of light touch regulation and the need only for minimal infrastructure. The possibilities for well-known brands and challengers are considerable. Established providers will have to compete more than ever to remain relevant and retain the customer relationship; while nimble providers facilitated by PSD2 can direct their cost-savings to first rate customer experience and supplementary services. PCA providers therefore need to consider their strategies to respond to this powerful and potentially disruptive dynamic.

²⁸ Barclays' PCA innovations include Blue Rewards scheme and personalised debit cards. (Innovations which affect both SME and PCA customers include Pingit, mobile cheque depositing, mobile and online banking services).

²⁹ UIS response, paragraphs 2.3.2 and 4.6 Barclays' innovations in the SME sector include [☒], TrackIt and pre-assessed lending.

³⁰ UIS Response, paragraph 7.25, "[t]he CMA has also suggested that PCAs may provide a gateway for BCAs [...] The corollary, however, is that 70% of BCA customers use a different bank for their main PCA. The evidence does not support the hypothesis that the PCA acts as a gateway for the BCA. Further, even a high percentage of customers who choose to get a BCA with their PCA provider would not necessarily indicate any weaker competition for BCA customers, as it could simply be the function of customers choosing their preferred supplier in an informed way."

3.2 The CMA's PCA switching analysis has focussed solely on the financial gains from switching, without taking customer preferences regarding product and service features into consideration. In Barclays' view, this is a significant shortcoming of the CMA's analysis as retail banking is not a simple commoditised product which customers choose purely according to price. The value that a customer derives from a particular product will depend on a number of factors, including price, but also product functionality, service quality, relationship aspects and a number of other factors not covered by a simple pound value (particularly the case for SME customers). The GfK survey shows that customers appear to value service quality very highly and that service features are likely to be a strong indicator of customer switching. In analysing switching gains, the CMA has made no attempt to match service features of different types of accounts or customer preferences.

3.3 [X].

3.4 Furthermore, by focusing on financial gains from switching, the CMA appears to conclude that customers are irrationally leaving money on the table. In the energy market, the CMA's estimated gains from switching are £159 a year, on average. This is more than twice the CMA's estimated average gain from switching in the banking market. Furthermore, a GfK survey of consumers in the energy market found that customers required a gain of at least £100 to be willing to switch. The CMA's estimate of a £70 gain from switching in the banking market is considerably less motivating than the gain in the energy sector, and lower than the estimated benchmark for motivating switching in the energy market. This factor, and the relatively high level of customer satisfaction in the banking market, help explain the relatively lower level of switching in banking when compared with energy.

Customer engagement and satisfaction (PCA)

3.5 In relation to PCA, the CMA appears to view switching, and the direct monetary cost saving of switching, as the primary measure of customer engagement, and considers that, as result of relatively modest levels of switching via CASS, customer engagement is low. As highlighted in the discussion of service quality features above and outlined further below, Barclays suggests that this overly simplifies a complex set of dynamics that underpin the relatively strong customer engagement with PCAs.

3.6 Multiple customer surveys characterise the PCA sector as exhibiting high levels of customer satisfaction³¹. Barclays does not agree with the CMA that the combination

³¹ There is significant evidence of customer satisfaction. Research from a range of sources finds that consumers describe themselves as satisfied with their PCA (the GfK Survey Report cites a figure of 91%). As set out by the CMA, searchers represent 17% of the GfK PCA consumer surveyed sample and the majority of them (86%) did not switch following searching (Appendix 7.2, para 21). In Barclays' view, this indicates a high degree of satisfaction in the market. The CMA has found that, over a five year period, the majority of customers consistently stated that they were 'extremely' or 'very' satisfied (ranging from 65% to 67%) (Appendix 5.5, paragraph 17 (b)). The CMA's research also shows that PCA providers attained the second highest NPS over time when compared to other financial products (Appendix 5.5, paragraph 20 (Figure 3)).

of high levels of customer satisfaction but low levels of switching mean that customers are not always making an informed decision to remain with existing PCA providers. Customers mainly value smooth running and reliability in their current accounts. For many customers, searching and switching is not a priority where their account is functioning well³².

3.7 There are increasing levels of PCA customer engagement as a result of digital innovations. Barclays has provided the CMA with information regarding the innovations in its digital banking services (such as Pingit and Barclays Mobile Banking (BMB)). Indeed, Barclays reiterates that customers of its BMB application typically log in approximately [X] times per month and highlights that there are few other applications (in the financial services arena or otherwise) that enjoy such high levels of customer interaction and engagement. The CMA acknowledges that the increasing digitalisation of banking has facilitated access to information on customers' account usage, and that this continued trend will enhance customer engagement with their account³³. In addition, the CMA has acknowledged that the take-up of digital banking will increase, since its own research has found the increased usage of such technologies by younger customers³⁴. The CMA also cites BBA research which found that there were 9.6 million daily logins to internet banking services in March 2015. In addition, given that the trend is both towards more seamless and innovative digital banking solutions and towards prevalent usage of these technologies, it is likely that the consequent effects in terms of customer awareness will be witnessed in the near future³⁵.

Switching dynamics and multibanking (PCA)

3.8 The CMA has acknowledged that customers engage in a range of different ways³⁶; therefore Barclays submits that switching statistics alone are not a reliable proxy for customer engagement. Barclays considers that the CMA's estimated annual rate of switching of 3% understates the true levels of switching and the extent to which customers are taking action to change their PCA provider. The CMA's decision to (i) restrict the sample of searchers and switchers to only a 12 month period³⁷ and (ii) exclude within-bank account switches, has the effect of limiting the sample.³⁸ The

³² Payments UK research finds that "*not getting around to it*" is the main reason given by those who have considered switching but not yet done so. Likewise, Tooley Street Research highlights the top reason as "*it isn't a priority for me*" [X].

³³ Paragraph 7.88.

³⁴ Paragraph 5.114. [X].

³⁵ It is not clear to Barclays what the CMA means by its reference to customers not switching because they are satisfied with their banks in an "*informed manner*". If the CMA is seeking to draw a distinction between customer satisfaction and informed customer satisfaction, this is not a distinction which Barclays recognises and the CMA has not explained the basis for this distinction.

³⁶ Paragraphs 7.13 to 7.14. [X].

³⁷ Appendix 7.2, 9.

³⁸ Appendix 7.2, 15.

approach adopted by the CMA has the effect of biasing downward the estimated level of searching and switching.³⁹ For example, the GfK Survey Report finds a switching rate of 14% over the past three years (8% between banks and 6% internal switching)⁴⁰.

- 3.9 In addition, switching statistics do not take into account the threat of switching which is an important competitive dynamic. This point was recognised by the Office of Fair Trading (OFT) when it stated, "*[m]arkets can be competitive when switching rates are low, if customers are able to switch easily and providers respond to the threat of switching by offering better deals.*"⁴¹
- 3.10 In this regard, Barclays agrees that there is scope for improvement of CASS in terms of raising awareness and confidence in it⁴². However, a range of research shows that customers who have used CASS rate it very highly and Barclays supports the work Bacs are undertaking to publicise CASS and instil even greater confidence in it.⁴³
- 3.11 Barclays also considers that the CMA has given insufficient weight to internal switching and multi-banking. Internal switching is an important dynamic because it indicates that the customer has looked for (and found) an alternative product that better meets their needs; it shows that customers are ready to compare and act on information on their PCA products.
- 3.12 The GfK Survey Report found that just under half of PCA customers (48%) hold more than one PCA, and 30% hold PCAs with more than one bank⁴⁴. The CMA states that the main reason for customers holding multiple accounts is to manage finance rather than to arbitrage between banks. However, Barclays considers the levels of multi-banking demonstrate significant customer engagement, knowledge of alternative offers and ability to act on products and information available in the market. The CMA also appear to have disregarded the evidence that, while not the main reason, there is still a large number of customers that multibank in order to seek value (the SMF report referred to by the CMA found that over a third of customers using more than one account do so), demonstrating that such customers are highly

³⁹ [REDACTED].

⁴⁰ UIS Response, paragraph 5.15.

⁴¹ See

http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev

⁴² See Barclays' response to the CMA's Notice of Possible Remedies (Remedies Notice Response), Remedy 1.

⁴³ [REDACTED].

⁴⁴ GfK Survey Report, paragraph 21. Barclays submits that GfK's research understates the true prevalence of silent switching. It interviewed 722 people, which Barclays considers is not a representative sample from which to draw reliable conclusions. In addition, GfK's findings show that 38% of customers "*like to have everything in the same bank*" and 56% gave reasons "*to do with the bank itself, such as good customer service*". Barclays submits that these reasons indicate engagement, as does the rapid take up of digital services and BMB in particular (paragraph 153).

engaged. Barclays also considers that many customers have moved the transactional function of their PCA to alternative payment providers, which is, in itself, a form of switching.

- 3.13 One aspect of the multi-banking dynamic is that people can move their primary banking relationship without using CASS or even considering that they have switched – they simply increase their usage of one account over the other(s). Barclays notes that [X] customers who have taken out Barclays' Blue Rewards previously held their main bank account with another provider (using Barclays as their secondary bank) but have now moved their main account to Barclays.⁴⁵ This dynamic would not be reflected in the definition of switching used in the CMA's analysis.⁴⁶
- 3.14 In summary, Barclays strongly disagrees with any suggestion that banks may not be incentivised to compete, due to alleged low levels of customer engagement⁴⁷. Since the launch of CASS, providers have been subject to intense pressure to respond to both new offerings and customers switching or considering switching⁴⁸.
- 3.15 Barclays has consistently monitored a 'switching jaws' metric of accounts gained versus accounts lost at the highest levels of Barclays' management since the launch of CASS. [X].

Overdraft users (PCA)

- 3.16 The CMA suggests that overdraft users may be less likely to switch than non-overdraft users.⁴⁹ However, as the CMA has noted,⁵⁰ frequent overdraft users may differ in their switching behaviour to occasional overdraft users. Overdraft users are not a homogenous cohort so the CMA could obtain greater insight by distinguishing between occasional and frequent users as well as over-indebted users.
- 3.17 Whilst it may be intuitive to assume that frequent or over-indebted overdraft users are less likely to switch, Barclays is unaware of any evidence that explores the relationship between overdraft usage and switching. It is therefore unclear whether any behaviour is influenced by a perception of being unable to attain a similar

⁴⁵ [X].

⁴⁶ Appendix 7.2, 9(b).

⁴⁷ Paragraph 7.131. The CMA's statement (7.137) that banks specifically target more affluent customers is not correct. [X].

⁴⁸ For example, a BBC article about 'Barclays Blue Rewards PCA proposition states: "*Analysts say this change of direction by Barclays is a sign of the ferocious competition now underway.*" A City AM piece concludes, "*the current account switching service is 18 months old and the impact on banks is startling...eye catching cash offers to new customers are the most obvious benefit...on top of that banks are improving the way they treat customers*" [X]. As the CMA recognises, increasing digitalisation of banking reduces customers' searching and switching costs "*as it eases customers' ability to access and assess their expected account usage, and therefore facilitates choosing the best-value PCA*" (Paragraph 7.173).

⁴⁹ Appendix 7.2, para 36.

⁵⁰ Appendix 7.2, footnote 9.

overdraft or the reality. In relation to the latter, a decision to extend an overdraft by the new lender would be based on an assessment of the customer's ability to repay using the information available at the time, which would include recent overdraft performance. This would not have been available when the existing provider made their original decision.⁵¹ While recent usage may (reasonably) make it more difficult for an over-indebted overdraft user to find a new offer - or a comparatively attractive offer - it is unlikely that an occasional user would find themselves in this position.⁵²

3.18 Barclays would strongly caution against any suggestion that overdrafts should be automatically ported to a new PCA provider or that a new provider should be compelled to match the existing overdraft. This would risk irresponsible lending as it fails to take account of the individual customer's financial situation at the time - crucially, their ability to repay. Barclays would strongly suggest that any potential interventions to address the CMA's observations would need to be fully grounded in customer behavioural research across different groups of overdraft users, validating both existing underlying behaviour and motivations, as well as the effectiveness of any potential interventions to affect a change to that customer behaviour.

Accessing and assessing PCA information

3.19 Barclays does not agree with the CMA's statement that information on PCA pricing is "*difficult to assess due to the complexity of charging structures*" and with the CMA's finding that its overdraft fees are complex⁵³.

3.20 Barclays has previously expressed its concerns to the CMA about the way in which it conducted its analysis of overdraft use, in particular Barclays has noted the difficulty in obtaining accurate customer responses, due to customers' difficulty in recalling complex information and willingness to openly disclose their overdraft usage. Barclays considers that the overdraft survey results would be more accurate if they focussed on most recent overdraft usage, which customers would have been more likely to recall correctly, and also whether this is typical of their overall usage⁵⁴.

3.21 Customers' knowledge of their overdraft limits is relatively strong. The CMA finds that 63% of customers correctly judged their limits within a margin of error of £1 and 73% judged their limits correctly within a margin of error of 25% of their current limit.⁵⁵ Barclays does not agree that the CMA's findings support the conclusion that customers "very often" perceived that they did not use an unarranged overdraft when in fact they did (only a quarter of those with an arranged overdraft limit thought so).

⁵¹ [REDACTED].

⁵² [REDACTED].

⁵³ Paragraph 7.74.

⁵⁴ [REDACTED].

⁵⁵ Appendix 7.4, paragraph 41.

3.22 Barclays considers that whether customers are provided with timely, relevant information, which they can easily understand and act upon, is a more relevant consideration than whether they can subsequently recall information about the usage of their overdraft. Barclays has redesigned its PCA overdraft proposition in 2014 to enhance the transparency of overdraft charges, combined with an enhanced suite of SMS notifications. Barclays' aim with this reform was to ensure that overdraft pricing is entirely transparent to customers. The result of this redesign is that Barclays now charges capped daily fees for its overdrafts, resulting in greater clarity for customers. Barclays built on the changes to its overdraft proposition with enhanced alerts as well as an enhanced text messaging capability, including sending SMS messages to help customers avoid incurring daily fees and emergency borrowing, as well as Financial Assistance Alerts, advising customers that Barclays has noticed that they are incurring regular borrowing, and suggesting that if they need help or support with finances they can contact Barclays⁵⁶.

3.23 [X]. Indeed, as the CMA has acknowledged, such improvements in transparency have led to an increased understanding of charges on the part of consumers, and a corresponding decline in the unarranged overdraft and unpaid item fees incurred by them.⁵⁷

3.24 Furthermore, Barclays considers that the CMA has not taken into account sufficiently the transparency initiatives which have already been introduced in the sector.

3.25 For example, greater account should be taken of the Midata initiative and digital comparison tools in this sector. Midata should be seen as a useful starting point to develop comprehensive comparison tools that provide the full set of criteria customers consider (not just price) when choosing a current account. Barclays is actively engaging with the Government to shape standards relating to the future development of the open application programming interface (API) to enable the sharing of data and information between providers and other third parties. Barclays considers that the API initiative may give rise to transparency-enhancing innovations⁵⁸.

Customer engagement and satisfaction (SME)

3.26 Barclays remains concerned that the CMA is interpreting some positive features of the industry as "barriers" or elements that actively "prevent" SMEs from searching and/or switching as frequently as the CMA believes to be appropriate⁵⁹. For example, this

⁵⁶ According to findings from the FCA, signing up to text alerts or mobile banking apps reduces the amount of unarranged overdrafts incurred by customers, with the combined effect of both services reducing overdraft charges incurred by 24%. These changes were introduced to support Barclays' aim of simplifying charges and fees for its customers. The full effect of implementing these changes has supported a [X] reduction in customer complaints related to fees and charges.

⁵⁷ Paragraph 5.31. See also the results of the FCA (March 2015) *Occasional Paper No.10: Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour*.

⁵⁸ Remedies Notice Response, Remedy 1.

⁵⁹ Paragraphs 8.55 and 8.56.

includes the importance which customers choose to attach to their banking arrangements, or even positive customer outcomes such as high customer satisfaction or the value the customer attaches to the banking relationship.

3.27 Barclays does not agree with the CMA's categorisation of "inactive" customers. The SME Qualitative Research showed that, when they are dissatisfied with the service they receive, customers switch. The CMA has not provided detailed data on its SME customer satisfaction analysis for Barclays to be able to fully understand and assess the Provisional Findings. Barclays has previously responded to the CMA in relation to previous SME satisfaction survey results that the CMA published prior to its Provisional Findings.⁶⁰. The results of previous SME surveys indicated a high level of customer satisfaction and support Barclays' view that the market is working well, with engaged customers making informed choices.

3.28 Barclays is engaging in industry-wide initiatives to improve SME customers' access to information. Barclays has [X]. This represents a step change in the ability of SMEs to assess the relative quality of service from providers on a standardised basis. As noted above, Barclays is also considering the provision of an open API framework that enables sharing of data and information between providers and other third parties. [X]⁶¹.

3.29 Customers can compare products through independent and commercial comparison sites, web searches, personal reviews and recommendations and brokers; nevertheless, Barclays agrees with the CMA's view that there is scope for the market to work towards real-time, independent, and comprehensive online comparison tools in BCAs and SME lending⁶² - including measurements of non-price factors which customers consider important - so that customers can compare transparent product offerings more easily⁶³.

Switching triggers (SME)

3.30 Customers are likely to search at particular points in time (such as the need to increase lending, or to avail of a risk management service), rather than on a continuous basis. For competition to be effective, it is not necessary for the majority of the market to have constant awareness of the best deals on offer but that all customers can, and often do, quickly obtain the relevant information and act on it.⁶⁴

3.31 Barclays disagrees that there are insufficient triggers for switching – for example, BCA switching rates are already nearly twice as high at the end of the free banking

⁶⁰ [X].

⁶¹ Please see Barclays Remedies Notice Response, Remedy 4.

⁶² Particularly with regard to customers with a turnover of less than £6.5 million and unsecured lending of up to £25,000.

⁶³ UIS response, paragraph 5.32.

⁶⁴ UIS response, paragraph 5.31.

period⁶⁵, suggesting that there are at least two clear points of choice (start-up and the end of free banking⁶⁶) within the first year or so of operation for SMEs. Changes to prices and products in the marketplace may also be triggers for considering a change.

- 3.32 Barclays also issues monthly statements, and carries out annual price reviews and (where appropriate) annual overdraft reviews, which would each constitute further trigger points. Barclays' relationship driven service places emphasis on offering customers relevant information on the best products available to meet their requirements, rather than any assumption that an SME customer's debt requirements are best served by a general purpose business loan.⁶⁷
- 3.33 Barclays considers that a targeted approach to advertising is more effective in reaching SME customers, including the use of KBIs and industry bodies. [X].⁶⁸
- 3.34 Barclays disagrees with the CMA's contention that initiatives (e.g. on availability of finance and decision speed) appear to be focused on retaining existing BCA customers rather than attracting new lending-only customers. For example, brokers and intermediaries are used as a channel for acquiring new customers⁶⁹. [X].⁷⁰

Alternatives to switching (SME)

- 3.35 The CMA cites Charterhouse survey data (and additional surveys) showing limited searching and switching, certainly at start-up and at the end of free banking. Barclays recognises the relevance of switching as one possible measure of competitiveness. However, and as previously submitted, Barclays cautions against the misinterpretation of actual switching levels as a measure of competitiveness against a backdrop of high customer satisfaction statistics, a high rate of churn, and the presence of other, equally valid, alternatives. These include multi-banking,⁷¹ internal switching, switching outside CASS and multi-sourcing.⁷² All these alternatives are highly relevant to the assessment of customer engagement, but have not been given appropriate weight by the CMA.
- 3.36 Barclays considers that the measure of 'main bank' switching understates the effective rate at which activity shifts between BCA providers.

⁶⁵ Barclays also communicates with its customers at this point. UIS response, paragraph 5.38.

⁶⁶ [X].

⁶⁷ [X].

⁶⁸ [X].

⁶⁹ [X].

⁷⁰ [X].

⁷¹ The growing trend of multi-banking reduces switching costs and information asymmetries, supporting increased competition between existing banks. [X].

⁷² The CMA should also take account of the threat of switching as an important competitive dynamic. UIS response, paragraph 2.3.4. See also Barclays' Remedies Response, Remedy 1.

- 3.37 A key dynamic in SME current accounts is the presence of significant entry and exit in any given period (i.e. churn). Start-ups are understandably unlikely to switch within an initial period.⁷³
- 3.38 Whilst BCA customers who have used CASS are generally satisfied with its effectiveness, Barclays is aware that a significant number of customers have switched without using CASS.⁷⁴ Barclays agrees that the CASS service has not been promoted as strongly for BCAs as for PCAs and more could be done to increase awareness of CASS for SMEs.⁷⁵

The importance of banking costs to SMEs

- 3.39 Barclays does not consider its own BCA charges to be complex and has recently undertaken a significant amount of work to simplify its BCA offering. Barclays' enhanced BCA proposition (launched in 2013) involved a move away from individually negotiated prices towards a simpler structure with only two price plans.⁷⁶ [X]. Published prices provide a valid and easily accessible starting point for comparison.⁷⁷ In this way Barclays aims to balance product simplicity with meeting the differing needs of its customer base, including ensuring that they are on the most appropriate tariff for their needs.⁷⁸
- 3.40 In relation to BCA and SME unsecured lending products (particularly those below £25,000), Barclays considers that prices are generally transparent (as the CMA has previously noted, price schedules are readily available on banks' own websites and through publications, such as Business Moneyfacts⁷⁹). The lack of straightforward "like for like" comparability for other, more complex SME lending products is a function of a competitive, innovative and flexible marketplace.⁸⁰
- 3.41 Barclays welcomes the CMA's recognition that the low cost of BCAs is a factor in the level of switching.⁸¹ Barclays estimates that core banking costs for its small business customers (turnover less than £1.125 million) represent less than [X]% of their total spending for the majority of firms. This figure is approximately [X] of expenditure on telecoms, and [X] of that on insurance. This may explain why SME customers

⁷³ UIS response, paragraph 5.37.

⁷⁴ The CMA has previously reported that only around 10% of SME customers are dissatisfied with their bank. Customers are able to switch away from their bank if sufficiently dissatisfied, e.g. using CASS where turnover is below £6.5 million and where there are fewer than 50 employees. UIS response, paragraph 5.34.

⁷⁵ UIS response, paragraph 5.35.

⁷⁶ UIS response, paragraph 5.24.

⁷⁷ UIS response, paragraph 5.30.

⁷⁸ UIS response, paragraph 5.29.

⁷⁹ UIS response, paragraph 84(a) and Response to Updated Issues Statement, 5.29.

⁸⁰ UIS response, paragraph 5.29.

⁸¹ Paragraph 8.64.

might not prioritise switching over other business activities, especially if they are satisfied with their current provider.⁸²

4. SCOPE

Scope of the CMA's investigation

4.1 At the beginning of the CMA's investigation, Barclays commented that the market investigation needed to be proportionate and focussed on areas that have been carefully reviewed and properly identified as potentially problematic⁸³. Barclays' unease has been borne out by the lack of analysis in relation to certain products or services that apparently remain within the scope of the CMA's investigation and its proposed remedies yet do not appear to have been subjected to sufficient analysis. This includes SME lending products such as asset finance and commercial credit cards. In addition, Barclays considers that insufficient analysis has been undertaken in relation to the range of different SMEs which are included within the scope of the CMA's investigation. In particular, the CMA has conducted very little analysis in relation to businesses with a turnover of above £6.5 million⁸⁴.

4.2 The CMA has does not appear to have conducted any analysis relating to charities, clubs and associations and has not reached any conclusions in relation to these customers. Barclays would welcome confirmation that these customers are no longer considered within the scope of the CMA's investigation.

4.3 Barclays also considers that Private Banking customers/ high net worth individuals should be excluded from the CMA's PCA analysis. As the CMA has acknowledged, the number of such accounts is small. These customers also have a number of important and distinct characteristics (such as their account usage, their channel usage, and the set of providers which offer wealth/private banking services), which distinguish them from other PCA customers. There has been no indication that the CMA has engaged with any of the specific high net worth banking providers in the course of its investigation.

Product market definition

4.4 The CMA should consider further the competitive constraint that alternative providers and products place on PCA and SME banking providers. Barclays has explained previously that, as an inclusive and broad provider, it competes with a range of different providers depending on customer or product segment. This includes more established players, new entrants, and providers of the individual elements of a PCA, BCA or SME lending.

⁸² UIS response, paragraph 5.41.

⁸³ [X].

⁸⁴ Please see Barclays' Remedies Notice Response, Remedy 1.

4.5 Barclays welcomes the CMA's recognition that the SME customer base covers a wide range of businesses that can be distinguished by their size, type of business and sector, life cycle stage and growth ambitions⁸⁵. However, Barclays considers that the CMA has not accorded sufficient weight to the competitive threat posed by non-traditional competitors, such as PayPal and Apple Pay⁸⁶ as well as account aggregators such as Xero and Sage.

4.6 The CMA has noted the OFT's view that, in the area of payment services, providers such as PayPal represent a threat for PCA providers⁸⁷. However, Barclays submits that this understates the competitive threat posed by such providers⁸⁸. The CMA should include a wider set of competing finance products when examining general purpose business loans⁸⁹.

4.7 As Barclays has previously set out, there are a range of sub-categories of lending that need to be considered when assessing the range of viable substitute products for general purpose business loans including credit cards, invoice financing, crowd funding, asset finance, credit unions and grants.⁹⁰

Geographic market definition

4.8 Barclays agrees with the CMA's conclusion that it should not define local banking markets⁹¹. Barclays and other banks provide a consistent offering in terms of price and service levels across the UK. Barclays considers that competitive constraints on strategies such as pricing and innovation operate at the national level.

⁸⁵ Paragraphs 4.89, and 4.91-4.93.

⁸⁶ Apple Pay is now accepted in over 250,000 shops, see <http://www.telegraph.co.uk/technology/apple/11720595/Apple-Pay-Everything-you-need-to-know.html>.

⁸⁷ Appendix 4.2, paragraph 14.

⁸⁸ As the report by Deloitte ('The impact of innovation in the UK retail banking market' (Deloitte Paper)) found, *"digital wallets may impact the market both directly and indirectly – directly by lowering the barriers for non-banks, such as PayPal and ApplePay, to start providing either current account or SME lending facilities; and indirectly by impacting on the relationship between current accounts and other services that current players manage[...]. By evolving as a digital platform, they may not have the same reliance on branches that traditional market players do and would be able to position themselves as an internet or mobile bank, similar to the way Atom bank has."* [88], Barclays considers that the speed and materiality of the impact of these innovations is considerably greater than the Deloitte Paper suggests. To prevent its analysis being outpaced by the rate of innovation and development in this area, Barclays considers that the CMA's analysis needs to take account of the likelihood of rapid developments in this space in the near future.

⁸⁹ UIS response, paragraph 3.3.

⁹⁰ [89].

⁹¹ Paragraph 4.39.

ANNEX 1**ADDITIONAL COMMENTS***Examples of SME innovations*

1. Barclays has evidenced significant uptake of digital banking innovations amongst its SME customers⁹².
2. SME and PCA joint propositions include digital and Pingit mobile payments services, Smartcall, Trackit and Video Banking⁹³ (which, as previously shown to the CMA, all have significant impacts on SMEs)⁹⁴. It is Barclays' submission that this shows significant innovation in the SME sector, and, in particular, Barclays rejects the notion that the number of banks with a mobile banking app for SME customers is reflective of the degree of innovation, when Barclays has provided evidence of its innovations in this area and a number of other banks are expected to bring banking apps to the market shortly.
3. Pre-assessed lending,⁹⁵ biometrics for identification and verification, [REDACTED].⁹⁶
4. SME banking has undergone a transformation due to the impact of technology. As Barclays has stated elsewhere, new entrants and technology businesses present the biggest threat to Barclays' business, and drive increased competition. Barclays has already seen evidence of this, with PayPal becoming one of the largest SME payment providers in the UK, but there is much more to come.⁹⁷ Barclays also notes the effects witnessed by the growth of account aggregation services such as Xero and Sage.

SME/BCA further comments

5. Barclays does not agree that the similar lengths of free banking offered by different providers to start-ups is illustrative of a lack of competition; [REDACTED]. Other banks may, of course, take different views, which accounts for the different lengths of the free

⁹² [REDACTED]. Deloitte highlighted some of the innovations Barclays has put in place which also impact on its SME customers, such as allowing BMB users to make payments using their Twitter handle and the degree of functionality of BMB (including allowing customers to see their PCA and BCA in one place on the app). This is supported by research previously cited by the CMA which states that one third of SME customers use a branch at least once a week whilst 74% use internet banking with the same frequency [REDACTED].

⁹³ Whereby even transactions which are currently most commonly carried out in branches can be expected to occur with less frequency in-branch in the near future. [REDACTED].

⁹⁴ [REDACTED].

⁹⁵ UIS Response, 5.25 [REDACTED]. The CMA seems to suggest that the introduction of Pre-Assessed Limits at the end of 2013 was due to customer feedback and that this does not constitute a reaction to competition. Barclays does not recognise this distinction, and considers that such improvements and innovations in its service offering are necessary for Barclays to keep pace and compete in the sector.

⁹⁶ UIS response, paragraphs 2.3.2 and 4.7 [REDACTED].

⁹⁷ [REDACTED].

banking period. As previously explained, Barclays considers that this is a legitimate strategy for both commercial and citizenship reasons. From a citizenship perspective, Barclays is supporting small businesses, who, in turn, generate employment. From a commercial standpoint, this is an initial investment on Barclays' part into the businesses who will be the profitable clients of the future should they remain in business, and should they choose to stay with Barclays.⁹⁸

6. Barclays also does not agree that its acquisition and retention strategies (including negotiation) focus on larger rather than smaller SMEs. As explained above, Barclays aims to gain start-up customers in the hope that they will evolve into strong businesses generating a mutually beneficial relationship for both the customer and Barclays. [§~~§~~].⁹⁹

Review of SME Undertakings

7. Barclays looks forward to the publication in February 2016 of the CMA's provisional decision in relation to the 2002 SME Undertakings and reserves its right to comment further at that stage.

Northern Ireland PCA Banking Market Investigation Order (NI Order)

8. Barclays considers that the conditions for revocation of the Northern Ireland NI Order have been satisfied. Barclays considers that a harmonised UK-wide regulatory regime would offer the best outcome for consumers in Northern Ireland.
9. In addition to the comments it made previously in its response to the CMA's Updated Issues Statement (UIS)¹⁰⁰, Barclays considers that certain of the CMA's proposed remedies would directly impact on Articles 7 and 8 (for example, switching prompts/triggers (remedy 1)), and several of the other proposed remedies, which aim to raise awareness, confidence and motivation in relation to switching.
10. Further, Barclays considers that the NI Order may cause customer detriment by being a barrier to innovation and competition. In the CMA's case study about compliance with the NI Order, Tesco Bank mentioned that it decided not to include Northern Ireland in its initial launch because of the time required to achieve compliance.

⁹⁸ [§~~§~~].

⁹⁹ UIS Response, paragraph 5.30.

¹⁰⁰ UIS response, section 9.



Retail Banking Market Investigation

CMA's Notice of Possible Remedies, 22 October 2015

("Remedies Notice")

Response on behalf of Barclays Bank PLC

20 November 2015

Please note: [REDACTED]. Barclays has provided its comments below in the time available, and reserves the right to supplement its response further.

1. Introduction

- 1.1 This submission is made on behalf of Barclays in response to the Remedies Notice. Barclays welcomes the opportunity to comment on the CMA's proposals.
- 1.2 Notwithstanding Barclays' views on the CMA's provisional findings (Provisional Findings)¹, Barclays generally supports initiatives that will increase transparency, give customers more control, and help them in making informed decisions.
- 1.3 Barclays' concurs with the CMA that, where practical, remedies should be tested prior to adoption. Full implementation of the remedies across the industry should take into account the appropriate duration for practical remedies, and the effectiveness of these remedies should be regularly assessed to ensure they are achieving the desired outcomes. This is particularly important to ensure that any adverse unintended consequences are limited.
- 1.4 As regards the scope of the possible remedies, as reflected in paragraph 4.1 Barclays' response to the Provisional Findings, many of the remedies may benefit smaller SMEs (those with a turnover lower than £6.5 million per year) but are unsuitable for more complex businesses and should be limited accordingly². The Provisional Findings rarely differentiate between different types of SMEs, despite larger SMEs often having a dedicated financial management function, and often using brokers or a tendering process to ensure that they obtain optimal terms. A limitation of the remedies to SMEs with turnover below £6.5 million would not materially undermine the efficacy of the remedies (over 98% of SMEs using BCAs would still be covered³). Similarly, those remedies relating to SME lending should only apply to term loans of a value up to £25,000, and only to unsecured lending, to ensure that they are targeted at the areas where there is the greatest degree of perceived customer detriment.
- 1.5 Similarly, as reflected in paragraph 4.3 of Barclays' response to the Provisional Findings, Barclays also considers that Private Banking customers should be excluded

¹ As described in Barclays' response to the Provisional Findings, Barclays does not consider that the CMA has presented sufficient evidence to support findings of adverse effects on competition (AECs) or that the AECs have been adequately defined so as to enable a proper assessment of the likely effectiveness and proportionality of the remedies proposed.

² Banks are not required to hold deposits of businesses with a turnover exceeding £6.5 million within the ring-fence as they are considered sufficiently large. As this is an industry standard threshold, Barclays considers that this is a sensible threshold for the practical and proportionate implementation of remedies that best suit the majority of SMEs. See the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014, Article 4(1).

³ BACS News Release – Current Account Switch Service moves two million accounts in two years 16 September 2015
http://www.bacs.co.uk/Bacs/DocumentLibrary/PR_Current_Account_Switch_Service_2nd_Anniversary.pdf



from the remedies. As the CMA has acknowledged, the number of such accounts is also small, so there would be limited impact on the efficacy of the remedies.

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

2.1 Barclays agrees that consumers and SMEs are more likely to switch after certain events, but it is important that any system of notification undergoes rigorous testing prior to full implementation. It would be prudent to test a range of different factors, beyond just the 'trigger' itself, but to also consider the phrasing and medium used.

2.2 Barclays agrees with the CMA's suggested trigger points for highlighting the Current Account Switch Service (CASS), with a few exceptions:

- 2.2.1 Barclays does not support contacting customers with a switching message as a result of authorised overdraft usage. Customers apply for an overdraft with their provider because they want to have this facility. It would contradict the wishes of customers to contact them every time they use a facility they have requested. It would seem more appropriate to include a switching message on the annual summary statement.
- 2.2.2 In addition, contacting consumers each time there is an actual or imminent imposition of overdraft charges would involve a considerable degree of contact. This risks bombarding customers and diluting the impact of prompts. If this were to be taken forward, it would be more effective to determine a set time or amount to trigger contact.
- 2.2.3 A prompt where there is a dispute should occur at the final stage of the internal resolution procedure, to avoid creating the perception that the provider is disengaged with the resolution of the complaint.
- 2.2.4 Barclays strongly objects to the opening of a BCA being used as a trigger point. Directing customers towards alternatives to opening a BCA at the start of the relationship is likely to give customers mixed signals and intimate that banks do not value their business. This may lead in turn to lower satisfaction, through no fault of the provider.

There are other details to consider, such as how to define a serious service failure or major dispute if the CMA is to take forward the proposed remedy. Definitions should also be consistent across the industry.

2.3 As the CMA is undoubtedly aware, under possible Remedy 1, a single customer could receive multiple prompts within a short period of time if numerous trigger events occur, or the same trigger event occurs repeatedly. The same information sent repeatedly may be a source of irritation for customers and lose impact. Barclays suggests setting a limit on the number of prompts a customer can receive within a set period of time to mitigate this.

2.4 Further, Barclays considers that the prompt should focus on encouraging customers to re-evaluate their banking options rather than giving the impression that customers are not valued or wanted. It would also be inappropriate for prompts to indicate that

products of other providers are better suited to the customer's needs. This would depend on a thorough and reliable analysis of the customer's profile and account usage compared to the options available in the market. It could also be confusing for customers and suggest endorsement (the customer could hold the first provider responsible for future problems).

- 2.5 Moreover, if the prompts are related to CASS, then the prompts should only be issued to those who are eligible for the scheme (SMEs with annual turnover below £6.5 million).
- 2.6 Barclays strongly disagrees with the proposal that the notification system should involve the creation of a third party to hold customer or bank data (including competitor pricing) or for a regulator to hold this information.
 - 2.6.1 Barclays considers that it would be disconcerting for customers to receive communications about their banking transactions from an organisation that is not their bank. This is especially the case if they had not given permission for this to happen. Customer protection organisations and media outlets have long-advised customers not to trust communications from an organisation purporting to be connected to their bank if they cannot be sure of its validity. Implementing the remedy in this way would seem to introduce unnecessary confusion, especially as it can be delivered differently but achieve the same outcome.
 - 2.6.2 Financial Conduct Authority (FCA) research⁴ indicates that to be effective, communications must be timely and relevant. Passing data to a third party, even if the technological solution is sophisticated, is likely to introduce delay in delivering the message. This may impact its efficacy.
 - 2.6.3 A notification requirement using the systems of PCA/BCA providers is the most straightforward and cost effective means of implementing this remedy. It avoids the complications of data transfer and the development of a new, parallel IT structure for contacting customers that would have to be operated by a body with no other regular contact with recipients. The costs and operational challenges of creating and running a third party to hold customer or bank data would be disproportionate to the potential benefits gained by customers.
 - 2.6.4 Were a communication to be inaccurate or sent incorrectly (e.g. to the wrong address or number), it would potentially create issues around legal liability, reputational impact and dispute resolution.
 - 2.6.5 As Barclays expands upon in Remedy 3, there is the possibility for consumer detriment through fraud or a data breach. A central database would presumably be a prime target, as it would include data on customers of a range

⁴ Occasional Paper No. 10: Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour Published: 11 March 2015

of providers (especially if it were to have lower security than banks' own systems).

2.6.6 Notwithstanding these comments, if this remedy were to be taken forward by passing data to a third party, it may be best facilitated through adapting existing work on application programming interfaces (APIs) (again subject to the data privacy and fraud considerations explained in Remedy 3).

3. **Remedy 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 CASS to do so in terms of security and convenience**
 - 3.1 Barclays submits that there are two different messages proposed within this remedy: (i) raising awareness of savings and rewards that could be gained by switching; and (ii) the benefit of using CASS in terms of security, speed and convenience.
 - 3.2 Turning to CASS first, Barclays considers that it is an excellent service which enjoys high customer satisfaction. The challenge is to promote CASS and highlight features that engender confidence – particularly the guarantee and redirection which address potential concerns around payments going astray. There are high levels of awareness and confidence in CASS (awareness is at 73% and confidence is at 62%⁵). Ongoing commitment is required to continue to build awareness and, more importantly, confidence; this is likely to require several years' investment. Barclays is playing an active role in designing the Bacs 2016 central campaign which (at a cost of [£X]) aims to achieve these objectives.
 - 3.3 SMEs have been identified as the priority audience for the CASS campaign, with consideration given also to overdraft users, younger people and the financially disadvantaged. Barclays suggests that improving awareness amongst SMEs should be achieved through targeted means rather than mass marketing campaigns; for example, through 'Key Business Introducers' (e.g. lawyers, accountants, surveyors or other professionals who serve as trusted advisors to SMEs). The Federation of Small Businesses and business forums or groups should also be targeted to maximise the effectiveness of the campaign.
 - 3.4 In terms of the metrics used to assess progress, the awareness measure used since the launch of CASS remains appropriate. Bacs recently commissioned TNS to assess the methodology and determine why FCA research found a much lower awareness (41%). TNS concluded that the FCA wording caused respondents to doubt what they know and therefore had a suppressive effect; in contrast, the Bacs wording is suitably neutral and accurate⁶. The confidence metrics are more complex. Research shows that customers' key concerns centre on ensuring that payments arrive safely. Optimisa intend to test new metrics that align more closely to the drivers of consumer and SME confidence. Barclays supports this evidence-based work and encourages the CMA to review the results.
 - 3.5 Bacs modelling suggests that the target for awareness will be achieved next year, and further work is underway to understand confidence. The CMA may like to consider whether the HMT targets of 75% awareness and confidence remain the ambition. By way of comparison:

⁵ Bacs Current Account Switch Service Dashboard, 21 October 2015,
http://www.bacs.co.uk/Bacs/DocumentLibrary/CASS_dashboard_-_published_21_October_15.pdf

⁶ See Bacs response to CMA.

- 3.5.1 Think! Road safety campaign achieved 80% recognition over seven years⁷;
- 3.5.2 The Government's Change for Life campaign achieved 87% awareness (at a cost of £222 million)⁸; and
- 3.5.3 The Dutch switching scheme has an awareness level of 37%⁹ after ten years.

3.6 To date, the central campaign has focused on CASS as a service, but the CMA's proposed remedy is broader (covering the 'savings/rewards of switching'). Whilst Barclays does support this in principle, promoting 'gains' of switching in a way that does not inadvertently advantage particular providers will be challenging.

3.7 It would certainly not be appropriate to focus solely on monetary gains because, as the CMA research shows, customers have varied preferences and select their current account for a range of different reasons (such as service, price, channels and innovation). A broad advertising campaign would therefore be more appropriate. Barclays notes that the Department for Energy and Climate Change's Power to Switch campaign, which advertised a £200 monetary gain, did not generate a surge of switching¹⁰. A potential campaign could instead focus on prompting customers to review their provider and see if there are other products or providers better suited to their needs. Most importantly, research consistently indicates that trust and confidence in the process (especially fear of payments going astray) is the primary concern for customers. This suggests that the balance of messaging should be on CASS as a service, with gains as a secondary message.

3.8 There are many advantages to retaining CASS promotion within Bacs, such as: (i) expertise in delivering successful campaigns; (ii) broad membership; and (iii) use of research to facilitate evidence-based decision making. The challenge Bacs faces is to ensure there is continued agreement to fund this activity. However, its recent communications campaigns have been agreed within the existing governance model. The model is different to trade association groups which typically require consensus, and under which, the votes may not have passed.

3.9 Barclays considers that the implementation of Remedy 2, along with aspects of Remedy 1 and Remedies 8-11, could together substantially increase awareness of CASS to the benefit of consumers.

⁷ THINK! Road Safety Campaign Evaluation, Post evaluation of the 'Personal Consequences' Drink Drive campaign, January 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/170657/think-road-safety-january2012.pdf

⁸ Change4Life One Year On, 17 February 2010, Section 3.1, http://webarchive.nationalarchives.gov.uk/20130107105354/http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/documents/digitalasset/dh_115511.pdf

⁹ See the CMA's Working Paper on the Dutch Retail Banking Market Page 8, https://assets.digital.cabinet-office.gov.uk/media/55bb4207ed915d1568000003/Dutch_retail_banking_market_case_study.pdf.

¹⁰ Department of Energy & Climate Change, Transfer statistics in the domestic gas and electricity markets in Great Britain, 24 September 2015.

4. **Remedy 3: Facilitate price comparisons between providers by making customer specific transaction data more easily available and usable, including by PCWs**
 - 4.1 Barclays fully supports the objectives behind Midata and considers it a good starting point. However, since its inception there have been considerable advances relating to open APIs which may provide a better framework to assist consumers. The Government's Open Banking Working Group (OBWG) has identified that sharing transactional data via open APIs could facilitate realtime, convenient comparison services. An open API driven model could:
 - 4.1.1 replace the download/upload mechanism, as data would be passed securely 'behind the scenes', delivering a better consumer experience;
 - 4.1.2 negate the need for providers to make Midata more obvious, as third parties directly 'hook in' to retrieve the information (although it should be noted that it takes a Barclays customer just two clicks to access their Midata file);
 - 4.1.3 have greater appeal and usability as a technical solution for third parties, like comparison sites; and
 - 4.1.4 can support a range of operating systems.
 - 4.2 Barclays' recent research with Ipsos MORI suggests that 4 in 10 consumers respond positively to the concept of data sharing via open API.¹¹ The research also finds that if a proposition is compelling enough, consumers will not consider data privacy and security concerns when giving permission to third parties. It concluded that consumers are at risk of taking 'ill thought-through' decisions. Consumer education and protection should therefore be paramount in delivering the Second Payment Services Directive (PSD2), OBWG developments, and this remedy.
 - 4.3 The consequences of not putting customers in control of their data by addressing privacy and security issues would be damaging to consumers and limit the impact of the remedy. Three-quarters of consumers say that, if they experienced a serious negative consequence as a result of sharing their data, they would not give permission for it to be used again. It would also negatively impact their trust in their bank and the third parties involved, diminish their likelihood of banking digitally, and lead to expectations of compensation from the bank¹². This is not a theoretical possibility but a live concern. It is well evidenced by recent examples of data loss which have impacted a number of companies causing reputational damage. In order to build trust from the outset and minimise the risk of customer detriment, it is imperative that regulation runs ahead of the remedy.

¹¹ Ipsos MORI, "Open API: Exploring the views of consumers and small businesses", page 1. Available at: <https://www.ipsos-mori.com/Assets/Docs/Publications/marketing-open-api-barclays-2015.pdf>. Customers also responded positively to the potential use cases for open API (see qualitative results).

¹² Ipsos MORI, "Open API: Exploring the views of consumers and small businesses", page 7 – 9.

4.4 In developing a revised (ideally open API driven) open data account comparison tool, Barclays considers that:

- 4.4.1 Third parties will need to cross-reference transactional data with the tariffs of each provider in order to make it meaningful. Tariffs would therefore need to be made available by each provider in a usable format and providers need to show which tariff applies to each customer. This is more complex for larger businesses with bespoke tariffs and different needs, so Barclays considers that businesses with over £6.5 million annual turnover should be out of scope.
- 4.4.2 Third parties need to be able to distinguish between instances when a customer is in an authorised or unauthorised position in relation to their account. Third parties will also need to understand the names banks give to their services to compare 'like with like'.
- 4.4.3 Providers will need to agree to provide sufficient customer data to enable a comparison of how a customer would fare under each provider (i.e. set of data wider than that which shows usage with their existing provider). The range of data would need to be revisited periodically to ensure it encompasses new developments or it could deter innovation.
- 4.4.4 The speed/ease of implementation is likely to be impacted by the 'age' of the data required. Providers will find archived historical data more challenging to provide, and comparison services typically only require approximately 12 months' data to be effective.
- 4.4.5 The reliability and accuracy of the comparison services will need to be closely reviewed to ensure they are not misleading.

4.5 Barclays acknowledges the comments in the Remedies Notice on the redactions applied to Midata. Data protection and fraud implications should be carefully considered. As the CMA will be aware, transactional data can be used to defraud customers which can cause considerable distress. Customers who have granted permission are also not the only ones affected; for example, 'silent parties' are those whose details appear within the data (such as beneficiaries of payments). These issues are likely to be magnified in relation to SMEs as they hold various categories of data (e.g. employee details). Redaction was a major consideration for the Midata programme, leading to an agreed industry standard¹³. An open API solution will require similar scrutiny. As noted above, usage of the service will be highly dependent on safety and security.

4.6 The CMA identifies potential cross-over between the output of the OBWG and the PSD2. However, there are differences between the two in scope and timeframes. For example:

¹³ See http://www.pcamidata.co.uk/445505-v2-PCA_midata_-_file_content_standard_-_March_2015-2.pdf. Considerations for firms and their customers were documented in a code: see http://www.pcamidata.co.uk/445081-v2-PCA_midata_industry_code_March_2015.pdf.

- 4.6.1 PSD2 third party access is likely to be required in 2018, allowing time for the development of EU rules to facilitate this. The estimated delivery timetable for an open API standard in the UK is between one and two years, so 2016-2017.
- 4.6.2 PSD2 only applies to payment initiators and account information services (aggregators), so comparison tools sit outside its scope; however, they are included in the greater range of third party access envisaged under the UK open API standard.
- 4.6.3 PSD2 covers micro-enterprises; whereas the open API standard is likely to include small businesses (although the definition is yet to be agreed).

4.7 If alignment between the various initiatives is not achieved, the UK risks delivering (i) enhanced Midata under Remedy 3; (ii) an open API standard; and (iii) PSD2, to different deadlines and using different mechanisms. Given the considerable overlap and the risks of confusing customers by trying to educate them on multiple solutions to the same issue, Barclays considers that Remedy 3 should be delivered as part of the open API standard. The OBWG is looking at 'day one' and 'day two' milestones, therefore comparison services could be prioritised as an early deliverable.

4.8 The CMA asks who should promote Midata or an enhanced version. Barclays considers that third parties who provide comparison services would be best placed to promote them. Potential additional options include making reference to a comparison service within providers' literature and/or on CASS promotional materials. Consideration would need to be given to whether one or several comparison sites are promoted, and whether they are sufficiently credible for providers or CASS to be associated with them. This could be addressed by focusing solely on the comparison site which will be designated by the Payment Accounts Directive.

4.9 Looking at alternatives and interim solutions, the presentation of standard scenarios for PCAs was mandated by the Office of Fair Trading (OFT) in 2008 and is still supported by providers. The scenarios appear to be useful to some customers (Barclays' webpage is viewed [X]). Barclays considers that raising awareness of an open API driven open data account comparison tool and indicative pricing of overdrafts would be more effective than changing these scenarios or promoting them more widely.

4.10 The CMA has identified that non-digital consumers are less likely to use comparison sites. Barclays considers that:

- 4.10.1 There is a societal shift towards digital technology, meaning that the number of non-digital customers is rapidly shrinking. Government services are increasingly being delivered online and many organisations help consumers grow digital skills and confidence (e.g. Barclays Digital Eagles).
- 4.10.2 Providing a non-digital solution for SMEs is not a material concern, as digital usage is significant amongst this population (estimated to be [X]% coverage),

i.e. digital banking penetration is high and these customers are already required to go online to fulfil some of their responsibilities towards Government, such as providing a VAT return.

- 4.10.3 Comparison services developed online could still support face-to-face discussions held by other organisations, e.g. Citizens Advice.
- 4.10.4 The OFT scenarios can be provided in branches.

5. Remedy 4: A price comparison website for SMEs

5.1 Barclays agrees with the CMA that there is more that can be done to assist SMEs to compare the range of banking and financial services available to them. [X].

5.2 However, Barclays disagrees with the CMA's suggestion that it is difficult to make comparisons between BCAs due to 'the complex tariffs structures and multiplicity of charges'. As previously noted, Barclays has recently changed its BCA tariffs to two simple price plans to ensure they are simpler for customers to understand and compare. Customers are now better able to understand exactly what they will pay and when. At present, [X]% of Barclays' SME customers with a turnover of [X] are on this very straightforward BCA proposition.

5.3 In terms of volume, about [X]% of BCA customers have a turnover of less than £[X], whilst (as noted above) more than 98% of these have a turnover of less than £6.5 million. Larger SMEs are much more likely both to multi-bank and multi-source, and to have one or more dedicated staff for financial matters. Whilst it supports the principle of a PCW for SMEs, Barclays considers that the PCW's focus should be on providing solutions for the vast majority of smaller, simpler businesses where there is sufficient volume and simplicity of products to enable meaningful comparisons. This would also ensure proportionality by providing the greatest benefit to the largest number of SMEs, balanced against the complexity and cost of doing so. For the largest SMEs, their complexity and relative sophistication makes bespoke tariffs more suitable.

5.4 In making this recommendation on the scope of any PCW, Barclays submits that the CMA should review [X].

5.5 In relation to the range of products that a PCW should cover, Barclays considers there are four broad groups: BCAs, deposit accounts, overdraft limits and (Consumer Credit Act (CCA) eligible) unsecured term loans. In addition to the products suggested by the CMA, Barclays submits that there may be benefit to SMEs in including deposit accounts in any comparison functionality. Along with these should be included a range of service and quality measures, as outlined in Barclays' response to Remedy 5. These measures could include additional BCA features, online/mobile banking functionality and information regarding relationship management, amongst others.

5.6 Barclays considers that the remedy should focus on the segment of the SME population where there is the greatest benefit from doing so. Regarding the scope of finance products that should be included in a PCW, this would mean covering only unsecured term loans which are regulated by the CCA. This would ensure:

- 5.6.1 that the majority of term loan applications (by volume) are in scope;
- 5.6.2 that a comparable product is used, thus ensuring the most effective comparison of availability and price;

- 5.6.3 consistency of approach with personal unsecured lending; and
- 5.6.4 alignment with CCA provisions.

5.7 Finance products outside of this clearly defined set are not suitable for inclusion in a PCW loan indicator. The level of uncertainty around eligibility would be minimal for the majority of applications for these products, therefore providing little value to relevant SMEs. On pricing, the range of possible outcomes for any applicant will be much wider than for loans covered by the CCA. This reflects the significant variation in loan structure available - including contractual periods, amortisation profiles and covenants, the assessment of relevant security, the applicant's business strategy and their wider relationship. Taken together these mean that any price indicator would be actively misleading to SMEs, ignoring the tailoring of finance that provides the key value.

5.8 Barclays considers that secured lending products are unsuitable for inclusion in a PCW as this would involve the introduction of variables which would impede a comparison of similar products. The value and nature of the item on which the loan is secured and the form of the security will be key determinants of the prices of the loan, however these will vary considerably between circumstances.

5.9 Taken together, Barclays submits that this approach, suitably designed, offers the prospects of a significant improvement in the quality of information regarding finance available to the majority of SMEs. Barclays provides more details on the wider context for this suggestion in its response to Remedy 15.

5.10 On points (c) to (e) regarding the creation of a PCW, Barclays considers that there are four broad approaches. In order of desirability, these are:

- 5.10.1 Opportunity-driven: create a set of open APIs covering the products and services outlined above: (i) transactions; (ii) pricing; and (iii) quality. In turn these could be promoted directly to the FinTech community for them to use them to develop comparison services. This could result in greater PCW competition than envisaged in the proposed remedy. Please note that such an approach would need to align with the progress made in the Government's Open Data Initiative, as referenced in Barclays' response to Remedy 3.
- 5.10.2 Challenge-funded: Created through [REDACTED]. The benefits of this approach include increased credibility (with a non-financial services body overseeing it) and involving the SME FinTech community designing their own solution. This could aid in the promotion of the site, and result in the final design being more suitable for SMEs. In effect, this option could result in an acceleration of the 'API only' approach.
- 5.10.3 PCW 'franchise': Engage with an existing PCW to extend their range to SMEs. This option would require either the industry and/or a regulatory body making a collective decision on which PCW to support, but would risk diminishing the

potential for competition between PCWs. It could also fit uneasily with any existing agreements between financial service providers and PCWs.

5.10.4 Bank-directed: All or some of the banks servicing SMEs could fund/create their own PCW. Barclays considers that this would be fraught with difficulties, particularly with regards to building credibility. This could be perceived as having been created 'by the banks, for the banks'.

5.11 All of the options set out above would ideally be delivered using open APIs (although it could be possible to use an SME version of Midata instead). However, as set out in Barclays' response to Remedy 3, Barclays considers that pursuing the single, thus better suited, solution of open APIs to be preferable.

5.12 Barclays acknowledges that it would be possible, as raised in (c), to offer a limited number of SME "scenarios" as a temporary solution while a more comprehensive PCW approach is developed. However, Barclays submits that this approach has had a muted response when applied in the PCA sector.¹⁴ In addition, Barclays considers that it would be much more challenging to develop a modest number of scenarios that would adequately capture the much more diverse range of SME sizes and transactions.¹⁵ This could well lead to extremely limited value for most SMEs and possible detriment if they were misleading.

5.13 Barclays also considers that there are a number of potential unintended consequences from imposing the creation of a PCW for SMEs. The CMA must keep in mind the cost and competition implications arising from the structure and operation of PCWs, some of which the CMA will be familiar with from other investigations.

5.14 As set out in Barclays' responses to Remedy 3 and Remedies 13-15, there are additional concerns that many SMEs have around data sharing that may inhibit use of any PCW. For example, there are particular sensitivities around sharing performance, solvency and trading data.¹⁶ Data sharing may also increase the risk of fraud to the detriment of SMEs.

5.15 As regards point (h) concerning timings for the launch of a PCW, Barclays considers that a Challenge Prize could be set up and run in 12-24 months. With respect to funding, were the Challenge Prize model to be used, then seed funding could be necessary, yet in the longer term, any PCW would need to be financially sustainable in its own right. If it cannot achieve this then doubt would be cast on the effective demand for such an approach among the SME population.

¹⁴ See paragraph 4.9 for further information.

¹⁵ [X].

¹⁶ Ipsos MORI, "Open API: Exploring the views of consumers and small businesses", page 4.

6. **Remedy 5: Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality**

6.1 Service quality is a vital element of SMEs' and consumers' assessment of their current account provider. Barclays agrees with the CMA that it is important to explore options to facilitate comparison.

6.2 Barclays submits that the CMA should consider the following themes as they assess service quality metrics:

- 6.2.1 Relevance: SMEs and consumers are varied populations – what matters most to one customer may not be of interest to another;
- 6.2.2 Usability: measures need to be sufficiently straightforward for customers to understand and engage with, and suitable to be 'picked up' and used by comparison sites;
- 6.2.3 Credibility: to encourage customer confidence the measures should include a degree of independence, have sufficient scale to be analysed by cohort and geography, span the full market, and be representative of the customer population; and
- 6.2.4 Consistency: the manner in which measures are obtained must be absolutely uniform across providers to ensure customers can compare 'like with like'.

6.3 A consumer who has a preference for digital channels is likely to be focussed on functionality and ease of interaction; whereas a consumer who prefers to engage over the phone is likely to be focussed on empathy, hours of operation and expertise. Likewise in the SME population, relatively small businesses will tend to place more weight on digital functionality; larger SMEs will usually focus more on their relationship manager. The CMA's GfK survey echoes these sentiments: "[q]uality of staff and customer service was rated the most important factor [...] by older respondents [...] and those who use their branch more regularly [...] internet banking facilities were rated more important by younger respondents [...] and irregular branch users."¹⁷

6.4 A single measure of 'service quality' is therefore unlikely to be meaningful for the full range of customers. Barclays advocates selecting a small range of measures by which customers can choose to rank providers (e.g. on a comparison site). A survey measure could be supported by a select number of data points (e.g. opening hours, digital functionality, customer response times etc.). Barclays submits that it would also be beneficial to allow customers to see results based on customers 'like them'. For example, the view of digitally active customers on the quality of digital channels is likely to be more relevant for a fellow digitally active customer, than the view of heavy branch users. In Barclays' view, the CMA should test various approaches in order to select the optimal way forward.

¹⁷ GfK NOP PCA banking survey technical report, April 2015, paragraph 140

6.5 Barclays considers that the main high-level themes of importance to SMEs are: (i) ease of use; (ii) consistency across channels; and (iii) responsiveness. For consumers, Barclays highlights: (i) ease of use; (ii) speed (e.g. of transaction, interaction, resolution); (iii) empathy and understanding; (iv) availability and functionality of channels; and (v) security and reliability. The relative importance of these factors will vary across the SME and consumer populations (as explained above). [X]. In addition to these segments, for SMEs, the size and sector of the business would also be relevant.

6.6 In terms of methodology, while Barclays recognises that survey-based approaches have the key advantage of allowing customers to 'hear from' one another, they also face distinct limitations in reach, particularly for smaller providers and with regard to many aspects relevant to the SME population. For example, even the Business Banking Insight survey (BBI), which has a sample base of 20,000 SME respondents a year, the results for smaller BCA providers will draw on a few tens of businesses¹⁸. For consumers, BDRC's NPS research across the industry includes over 2,000 Barclays customers but only 700 RBS customers and 100 Virgin customers¹⁹.

6.7 Care should be taken when percentage results are used to develop ranking systems and a common should be approach be taken on comparison websites, in order to ensure customers are not given the impression that there is a considerable difference between providers where in fact it is only a few percentage points.

6.8 Barclays strongly recommends that in addition to a survey-based rating approach, the CMA consider the use of measures which indicate breadth and sophistication of service and tools. For example, a PCA customer who uses branches may want to know whether the member of staff they see will be knowledgeable and empathetic but also when the branch will be open and how quickly they can expect to be seen. SMEs may be interested in the functionality of online banking, the availability of relationship management or one of a number of other factors. A modest number of measures will enable them to make a much more informed decision than at present.

6.9 Consideration could also be given as to whether an independent panel or credible third party could assess accounts and provide a rating for them. An example might be Fairbanking Foundation which analyses a number of factors and customer data to determine which rating a product receives.

6.10 Complaints are already published so consumers can use them to make comparisons. Barclays does not consider they are a suitable proxy for service-based comparison.

6.10.1 Complaints focus entirely on the negative, rather than providing a balanced picture, compared to a satisfaction or advocacy score.

¹⁸ Business Banking Insight website, accessed 19 November 2015,
<http://www.businessbankinginsight.co.uk/about-this-website>

¹⁹ [X].

6.10.2 Complaints are a form of feedback and there are examples of providers actively seeking complaints to improve their service. For example, Commonwealth Bank in Australia encourages customers and colleagues to use its feedback system, even though they recognise complaints volumes rise as a result²⁰.

6.11 If complaints are to be used as a service measure, the numbers would need to be put into context. For example, the way complaints are often published shows absolute volumes rather than by volume of customers or transactions. For example, there are approximately [X] complaints annually relating to SME transactions, but this is a tiny proportion of the [X] transactions processed each year. Similarly, the number of debit card complaints is [X] per transaction.

6.12 In addition, the way providers define complaints varies; some capture all expressions of dissatisfaction while others apply a higher bar (all 'justified' complaints). Changes would need to be made to ensure the measures genuinely compare 'like with like'.

6.13 [X].²¹

6.14 Service quality data could be provided by a PCW. Barclays considers that there would not be any material benefit in having to set out these data directly to SME customers or within a branch setting, but this could be useful for consumers.

²⁰ Business Insider Australia, The Commonwealth Bank is Fielding More Complaints Than Ever Thanks To Its New Feedback Channels, 27 August 2013, accessed 19 November 2015,
<http://www.businessinsider.com.au/the-commonwealth-bank-is-fielding-more-complaints-than-ever-thanks-to-its-new-feedback-channels-2013-8>

²¹ [X].

7. **Remedy 6: Standardise and simplify BCA opening procedures.**

7.1 Barclays agrees with the CMA that account opening processes can be improved. However, the industry has already made significant improvements to the account opening process, leading to a reduction in the length of time taken to open an account. Barclays continues to invest in improving the client onboarding experience. This can provide a bank with real competitive advantage and this, rather than regulation, will continue to be the best driver of innovation.

7.2 Standardisation, automation and the move to digital opening of BCAs will be far more practical for simpler entities, such as sole traders, or single person companies. These customers also represent the majority of account openings each year, comprising approximately [X] % of account openings in 2014. The size of the customer and the complexity of their organisational structure determines the extent to which customers successfully open accounts through the electronic identification and verification (eID&V) procedure, the level of automation possible and the extent of any supplementary evidentiary requirements. For example, SMEs can range from a domestic firm with no international payments to a firm with a complex offshore structure. For simpler entities whose details can be checked via a credit reference agency such as Experian or Equifax, the process will be considerably shorter. For more complex SME customers, for example, where the SME is a subsidiary of a larger group or has a large number of owners, obtaining a certified organisational structure chart may cause delays.

7.3 [X]. There has already been significant progress towards standardised evidence collection relating to account opening, and many regulatory changes are currently being advanced. Barclays cautions against over-complicating the process by adding further requirements.

7.4 Barclays considers that the CMA should disaggregate the different aspects of the account opening process in order to better understand which parts would be suitable for standardisation and are likely to have greater degrees of commonality across the industry, such as the core questions on identification and verification (ID&V), and Know Your Client (KYC)/ Know Your Business, amongst others. These contrast with questions relating to customer servicing and the commercial relationship, such as onboarding, which are specific to the provider and varied across the industry. Barclays competes with other providers regarding customer servicing and relationship building and standardisation of these parts of the account opening process could stifle competition.

7.5 In reference to question (d) on streamlining KYC or anti-money laundering requirements, Barclays submits that the standardisation of basic KYC information will help enable banks to make decisions quickly. This standardised set should form a baseline, on top of which banks may request further information, depending on the risk view. A standard, easily verifiable secure baseline pack for KYC would greatly enhance the process for banks and SMEs. It should be noted that each bank assesses its risk appetite for serving a particular customer differently, and is key to the way in

which banks compete with each other, therefore having a standardised set of KYC information does not mean the banks' decisions will be the same.

7.6 Barclays submits that there are many regulatory measures within this area, some of which can hinder progress to improvements in BCA opening. Each individual requirement takes a period of time for Barclays to implement, which, in turn impacts internal operational capacity. Consequently, giving better notice and clarity around changes to affected parties is important. For example:

- 7.6.1 the requirement under the Common Reporting Standard (which will be effective as of Q1 2016) to include information on account holders' tax residency and citizenship status; and
- 7.6.2 the requirements under the Immigration Bill to check the immigration status of banking customers (nationality and date of birth) against a common database.

7.7 It may be possible to introduce an industry-standard common business register which the banks could rely on. [X]. BDI is a data routing, tagging and virtual holding company that enables businesses to share their private, commercial data with other counterparties. BDI was developed as a 'Data Hub', and is currently owned by Santander, KPMG, Oliver Wyman and AgFe. It offers businesses control over their data by enabling them to permission counterparties to access their data, and this mechanism could be used for KYC/KYB queries.

7.8 In response to question (f), Barclays considers that the minimum time required to process an application depends on the customer providing the relevant details for Barclays to meet its obligations and to conduct the necessary checks. A deadline could not always be complied with as timing of the process is not always within Barclays' control.

7.9 As has been highlighted in Barclays' responses to other remedies which refer to use of data sharing (Remedies 3, 4, 13-15), it is not clear whether customers would support such an initiative. Customers may have concerns about their data being held in a central repository and the control framework for the central repository would also have to be considered further.

7.10 Barclays submits that any common account opening form would have to be compatible with each bank's systems, and further considerations would be needed over the most appropriate point of entry, i.e. whether the data should be input through a single point or via each bank's website.

7.11 In Barclays' view, there are potentially unintended consequences in introducing a standard common form for account opening. A substantial amount of innovation and competition in banking products has been created by those competing to offer the best customer experience and fastest processes. However, this risk could be mitigated by limiting the mandatory common sections to the core KYC questions, enabling innovation and improvements to the entire experience of onboarding.

8. **Remedy 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**
 - 8.1 The CMA's analysis in their working paper²² highlighted that the rate of switching is lower for customers using overdrafts than for other customers. However, there is no evidence as to the causality between using an overdraft and an impediment (perceived or otherwise) to being able to switch PCA provider.
 - 8.2 For some groups of frequent or over-indebted overdraft users in particular, mirroring the overdraft with the old provider to the new provider may not be appropriate from a customer affordability and financial health perspective.
 - 8.3 [X]. However, in the context of the CMA's proposed remedies, Barclays would welcome the output of additional customer research to understand the impact of these proposed enhancements on a customer's decision to switch.
 - 8.4 Both avenues would require a degree of investment to build the required functionality and integrate within Barclays' existing systems. By utilising a 'soft search' approach with credit bureaus, Barclays will, in both instances, be able to provide greater certainty for customers without adversely impacting a customer's credit score.
 - 8.5 Barclays submits that partial switching could provide additional choices for customers and simplify the process for a customer who wishes to retain both old and new accounts whilst transferring payments from one to the other, and is supportive of enhancements to the existing partial switching service (as noted in its response to Remedy 11). However, Barclays does not consider that partial switching is the most effective route of addressing any perceived issues (real or otherwise) in relation to switching for overdraft users.

²² CMA's Quantitative analysis of searching and switching in personal current accounts, 19 August 2015, paragraph 7(g). See also Barclays' response to the Provisional Findings, paragraphs 3.16 – 3.18

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

9.1 The Tooley Street Research study commissioned by Barclays earlier in 2015 highlighted the importance of a switching service that provides assurance to customers that all payments continue to be made and not lost in the transition²³. Barclays believes the redirection service and the guarantee are key aspects of this service.

9.2 CASS was launched with a 13 month period for redirections. This was extended, as the service matured, firstly to 24 months, and then subsequently to provide 36 months of redirection, essentially ensuring that customers who benefit from this feature can continue to do so. The industry is now actively looking at the solutions for the medium term to maintain the integrity of the service for users. Barclays considers that it is important to consider this across a number of dimensions:

- 9.2.1 Continue to provide the benefits and reassurance of a redirection service beyond 36 months where customers continue to have a need;
- 9.2.2 Work with payment originators to update the consumer account details they hold to reduce the incidence of payment redirections; and
- 9.2.3 Actively promote the existing features of CASS, including the redirection service and the guarantee (as covered in Barclays' response to Remedy 2).

9.3 In relation to the first of these, Barclays is fully supportive of, and engaged in, the industry activity in relation to enhanced redirection. The emerging proposal is that all users of CASS will benefit from a minimum 36 months of redirection and will continue to be supported by the redirection service for regular payments until it is no longer required, with a corresponding strengthening of the guarantee. This proposed approach provides reassurance for customers who continue to use the service, whilst ensuring the size of the central redirection table is appropriately managed in order to meet the Bank of England's Payment Systems Oversight & Policy directive that CASS must not create unacceptable additional risk to the core Bacs system (if all switched account details were to continue to remain on the central redirection table indefinitely, this would significantly increase the size of the database, with corresponding implications for data storage, manipulation and potential future challenges around account number and sort code re-issue).

9.4 In relation to supporting payors and originators to update payment details, it is estimated that the number of customers utilising the redirection service after 36 months is [REDACTED]%. Currently the proportion of Direct Debit originating companies with up-to-date consumer account details is [REDACTED] % (measured [REDACTED] months after a switch) and there is a programme of activity across the industry working with Bacs to increase this level still further.

²³ Tooley Street Research, Towards World Class: The Consumer View of Current Accounts and Payments, June 2015

- 9.5 Barclays submits that the benefits of this remedy are likely to be less pronounced for BCAs, as business closure rates suggest that many new SMEs and a significant minority of established businesses will no longer be trading after 36 months.²⁴
- 9.6 In relation to Account Number Portability (ANP), Tooley Street Research²⁵ highlights that there is some support for the opportunity to retain sort codes and account numbers on switching due to a perception that consumers would otherwise have to notify employers or family and friends of the change. However, this option is not a top priority for consumers and its appeal evaporated if customers thought it would make the overall system more complex or risky.
- 9.7 If this consumer perspective is combined with the significant investment requirements and the fact that the research highlighted that ANP would not in itself increase the incidence of consumers considering switching, Barclays submits the measure would be disproportionate and have the potential to introduce material risks into the payments systems. Furthermore, Barclays suggests that the activity to increase awareness and confidence of the CASS service effectively meets the underlying customer need referenced here without the need for ANP, as discussed in Barclays' response to Remedy 2.
- 9.8 Barclays considers that these observations also apply to SMEs, and Barclays supports a focus on enhancing redirection rather than introducing ANP. This option is more proportionate than ANP given ANP is highly complex and is likely to introduce greater risk into the system. ANP would require vast commitment of resources which could otherwise be focussed on innovation and customer service.

²⁴ For further information please see paragraph 10.5

²⁵ See footnote 23

10. **Remedy 9: require banks to retain and provide ex-customers on demand, with details of their BCA and PCA transactions over the 5 years prior to their account closure**
 - 10.1 Barclays is not aware of any evidence to suggest that access to retained transactional data, especially covering 5 years, is a 'barrier' to switching. It is therefore unclear to Barclays why the CMA has proposed this as a remedy.
 - 10.2 Barclays' PCA customers can currently request copy statements at any point after account closure for up to 7 years. There is a £5 charge for this request. If the customer receives eStatements and still has other accounts with Barclays, they retain access to statements for their closed account. If the account closed is their last with Barclays, they are advised to download statements they wish to keep before closure. They retain the ability to request paper copy statements after closure.
 - 10.3 If this remedy were to include an electronic dimension, Barclays submits it could be achieved through providing a data file and/or pdfs of statements to customers when they leave their existing provider. This would reduce the need for consumers to go through an ID&V process whenever a request is made (i.e. if an 'old' bank were required to retain the data); otherwise ID&V checks would be necessary to ensure transactional data is not inadvertently given to the wrong customer at risk of fraud.
 - 10.4 Barclays suggest that 5 years too long for digital information to be provided because the 'use case' is not clear. Lending applications and identity requirements are usually supported by much more recent data (e.g. for the last 3 months). Barclays suggests that this remedy is limited to the last 12 months' digital data.
 - 10.5 The Provisional Findings state that start-up and newer SMEs have the highest failure rates²⁶. Only 60% of SMEs will still be in business after 3 years and around 40% of business will still be in business after 5 years. Consequently, the majority of new businesses would not benefit from business data being kept for 5 years. Accordingly, particularly given that the CMA has not produced any evidence to suggest that access to data has been a barrier to switching in any event, Barclays considers that implementing a remedy that would only be available for maximum of 40% of all SMEs would not be proportionate.

²⁶ Paragraph 70.

11. Remedy 10: Require BACS to transfer continuous payment authorities on debit cards when switching through CASS

11.1 In reviewing this proposed remedy, Barclays queries whether the issues described are leading to a conscious decision not to switch by material volumes of customers. Barclays has not seen any body of evidence that perceived issues with continuous payment authorities (CPAs) acting as a material barrier to switching.

11.2 As such, Barclays welcomes the CMA's proposal to test the proposed enhancements through research to gauge the likely impact on consumers. Whilst Barclays acknowledges that CPAs are relevant to some consumers, use of this payment mechanism by SMEs with a turnover of less than £6.5m is limited (on average there are just [X] CPAs per SME debit card holder). Bacs' response to the Remedies Notice states that "analysis during the programme suggested that at most around 0.2% of switched customers' transactions may be affected"²⁷.

11.3 In relation to proposing a target of less than 100% for the guaranteed transfer of CPAs, Barclays strongly advocates that, in order to maintain the integrity of the broader CASS service and to remove ambiguity, confusion and potentially the loss of consumer confidence, if CPAs were to be included within the switching service they would need to be supported by a 100% guarantee.

11.4 The detailed technical feasibility of incorporating CPAs into CASS is better addressed by Bacs and the international card schemes. However, Barclays makes the observations below.

11.4.1 A technical solution that provides for a 100% guarantee that CPAs are transferred would need to be achieved through one of two principal routes:

- (a) One route requires a solution that updates all CPAs, potentially via an enhanced existing account updater service provided by the international card schemes. This would require mandatory adoption by all merchants of a service currently provided on commercial terms, as well as adoption by all card issuers where currently only five of the CASS participants actively utilise scheme updater services.
- (b) The other route requires a combination of an account updater style service (where merchants are registered) and significant re-configuration of the re-direction service to mop up where CPAs are not updated and funds are drawn on the old account.

11.5 In the absence of clear evidence of material customer benefit, the anticipated level of investment for either of these routes, together with the additional service resilience risk resulting from the added service complexity, this proposal may not be proportionate.

²⁷ Bacs response to the Remedies Notice, 19 November 2015, page 46.

11.6 As the CMA appears to suggest, a more pragmatic approach may be to mandate that customers are informed during the switching process of the CPAs that are linked to the old account. This provides visibility of arrangements that are not always transparent to the customer, as well as the option to set-up or cancel the arrangements on the new account at the customer's preference.

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

12.1 Barclays considers that partial switching could provide additional choices for customers and potentially simplify the process for a customer who wishes to retain both old and new accounts, whilst transferring payments from one to the other.

12.2 Barclays also notes that the three customer benefits highlighted by the CMA are already attainable by the current partial switching service within CASS, namely:

- 12.2.1 The ability to experience the service quality of the new provider before closing an account with the old provider.
- 12.2.2 Addressing the issue of CPAs linked to the old account by retaining the old account with sufficient funds to meet the requirements of any CPAs. However, Barclays queries the degree to which the presence of CPAs is an explicit barrier to customers switching.
- 12.2.3 Enabling customers to retain their overdraft facility with their old bank prior to confirming a similar facility with their new bank.

12.3 However, Barclays considers that, in addition to raising the awareness of the partial switching option within CASS generally, there are two key enhancements required to the existing service:

- 12.3.1 Incorporate the option of a redirection service for both credits into the account and regular payments from the account (predominantly direct debits). Tooley Street Research commissioned by Barclays highlights that a key concern for consumers is that a regular payment may go missing²⁸.
- 12.3.2 Provide a clear and transparent guarantee covering the setting-up, transfer and redirection of payments into and out of the account from the old provider to the new provider.

12.4 In relation to a pre-determined switching period, Barclays considers that having a defined 7 day time period is less critical. Of more importance from a customer perspective is being able to define the specific date of the switch so that it appropriately coincides with other activity on the account.

12.5 Barclays agrees with the assertion that increasing the use of partial switching could have a bearing on account holding behaviour. However, there is currently a significant amount of multi-banking observed in the sector (particularly amongst SMEs); equally there is a large volume of secondary account opening outside the CASS service. Therefore raising confidence and awareness of the partial switch service within CASS may not fundamentally alter the proportion of multi-banking, but may lead to an

²⁸ See footnote 23

increasing amount of account dormancy, with accounts being left with no credit balance and no transactional activity. [X].

12.6 Whilst the industry has committed to reviewing and enhancing the partial switching service, including the possibility of introducing some form of guarantee, there is not yet a view of the required investment to deliver. Equally, the Payments Account Directive will become law in 2016 and has significant implications for the partial switching service. To ensure the integrity of the existing services and avoid confusion for customers (which would undoubtedly reduce confidence in the services at large), it is imperative that any potential remedies to the switching service recognise and work within the broader regulatory agenda.

13. **Remedy 12: CASS governance**

13.1 Barclays has the following observations in relation to the structure and functioning of the CASS Management Committee:

- 13.1.1 By definition there are both net winners and net losers (in terms of customer acquisition through switching) represented in the management committee, as all participants of the switching service are represented (this provides broader representation than the Bacs scheme board for example).
- 13.1.2 Secondly, all the participants, whether they be large established banks or smaller challengers have equal voting rights. Furthermore, and with reference to the CMA's provisional finding in relation to incumbency advantages, there are a number of large, established banks which are net-winners and a number which are net-losers via the switching service. Therefore, Barclays does not support the assertion that key decisions are being vetoed by a minority of net-losers. As a case in point, Barclays, who have to date been a net loser from the switching service, have been very vocal in their support for investing in central activity to promote the service.

13.2 Barclays does, however, recognise that, following the changing role of the Payments Council (now Payments UK) from a strategy setting organisation for the UK payments agenda (including switching) to an industry trade body, there is potentially space to introduce an Executive Strategy Board which would: (i) set the strategic direction for the switching service; (ii) provide the point of escalation for the Management Committee; and (iii) comprise senior representation from CASS participants.

14. **Remedy 13: data sharing with credit reference agencies**

14.1 The possible remedy as set out in paragraph 154 of the Remedies Notice refers to one of the measures contained in the Small Business Enterprise and Employment Act (SBEE Act) regarding the sharing of bank data relating to BCAs and finance products with Credit Reference Agencies (CRAs). It is noted that draft regulations on this subject are currently being considered.

14.2 Barclays understands that the CMA is primarily interested in whether the range of credit information set out in the Schedule of the draft regulations should be expanded. The introduction of this requirement was extensively consulted on prior to the passing of the SBEE Act and Barclays has taken an active part in the consultation on the exact form of the final regulations. Barclays considers that the requirement for data sharing with CRAs represents the formalisation of a practice that has been in place for many years, albeit with an extension to all SMEs and with an expanded range of data items.

14.3 Given the work that has gone into the draft regulations so far, which has involved more than six months of discussions between relevant parties, Barclays submits that there are no further data items that could be included as part of the Schedule in the draft regulations that would, at this time, materially improve the ability of third party users to make effective credit decisions regarding SME finance applicants. However, the implication of Barclays' responses to Remedies 3 and 14 is that these particular requirements are likely to be brought in to the wider development of open data.

14.4 On point (a) in paragraph 155 of the Remedies Notice concerning obstacles to data sharing, Barclays notes that clause 5(1) of the draft regulations sets out the conditions under which a customer will be deemed to have provided agreement to data sharing with CRAs. Further, the current drafting of clause 5(2) requires designated banks to include such wording in their standard terms. Given that these draft regulations will broadly codify established practice, Barclays does not consider there are substantive legal issues regarding confidentiality raised by data provision to CRAs. This does not mean, however, that SMEs do not continue to have concerns about the management of their data and note these in Barclays' responses to Remedies 3, 4 and 14.

14.5 Regarding point (b), as already noted, data sharing with CRAs places established practice on a statutory basis. Barclays considers that the available data is and will continue to be effective in allowing a wide range of finance providers to make informed judgements on the creditworthiness of SMEs.

14.6 Barclays also understands (b) as referring to the framework set out in paragraphs 141 to 144 of the Remedies Notice concerning the choice of lender by relevant SMEs. In this context Barclays notes that the British Business Bank (BBB) already has an objective concerning the awareness of different types of finance within the SME population. The use of the phrase 'prompt' suggests that the CMA is thinking particularly of SMEs who have approached a particular finance provider. Barclays submits that it is better to build on the BBB's initiative of developing general

awareness of finance options rather than introducing a requirement to 'prompt' at the point of contact and/or application.

- 14.7 On the issues of making lending terms more accessible, Barclays would agree that it is possible to make their terminology and presentation more standardised, and is constantly working to improve and simplify its own terms. The development of open data is likely to facilitate this further. However, in Barclays' view, for many small businesses the most important factor is not these details, but the certainty of their application being accepted, something that Barclays discuss in more detail in Barclays' responses to Remedies 4 and 15.
- 14.8 Point (c) proposes that all SME finance applications should be shared in a similar manner to that already set out in the SBEE Act for declined applications only. Barclays notes that the referral of SMEs who have had a finance application declined to approved third party platforms will be done only with the explicit consent of those businesses rather than as an automatic process. Barclays considers this to be a key feature of the requirement, clearly aligning with customer control of their data, and would be very concerned at any suggestion of compulsion on these or wider applications.
- 14.9 In the context of wider effort to both make SMEs more aware of their finance options and to improve their financial management, it is not clear to Barclays that a formal notification process would be desirable. This would be particularly the case if finance service quality was included within the scope of Remedies 4 and 5, together with loan indicators provided as discussed in Remedy 15.
- 14.10 Barclays also has doubts about the feasibility of any such proposal in the form set out in (c). It is not clear when an 'application' might be deemed to have occurred. It might be the point when it is submitted, but could also be the point of initial enquiry to a finance provider. Further, for many small businesses the demand for finance may be relatively urgent. It is not clear that any delay under these circumstances would be to the benefit of the customer.

15. Remedy 14: Commercial open data and data sharing proposals

15.1 As Barclays set out in its response to Remedy 3, the report of the OBWG due by the end of 2015 will set out the path to an open API standard for all financial services providers. This will allow SMEs to more effectively use their account and transactions data to compare and contrast a range of financial products, providing greater ease and functionality than Midata currently offers for PCA customers. Successfully implemented, open data may supersede the current provisions set out in the SBEE Act for data provision to CRAs.

15.2 The timings for implementing an agreed standard and the accompanying data architecture will depend on the detail of the OBWG's final recommendations. However, Barclays anticipate that initial functionality would be in place within 12-18 months and that the full framework would be available within 24 months. This would provide a base for extending the scope of open data to include some of the uses put forward in paragraph 157 of the Remedies Notice, although Barclays notes that these are not the immediate focus of the OBWG.

15.3 Barclays considers that 24 months is a reasonable timeframe for implementation of open data and the accompanying open API standards. As a comparison, Midata for PCA customers took approximately 12 months from initial discussions to launch in March 2015, but this had a more limited scope in terms of both products and data, with the compressed timescale arguably resulting in a sub-optimal solution. Barclays is not able to offer a timescale for the inclusion of data and information supplied directly by SMEs, i.e. from account providers, as this is not currently in scope and would depend on the format of any proposed solution.

15.4 The development of open data will bring technical challenges in terms of both the range and structure of data to be made available. For SME lending the requirements set out in the SBEE Act draft regulations for data sharing provide a clear starting point to this work. As already set out for Remedy 3, these technical issues will overlap with regulatory ones, particularly with respect to data privacy and security. For example, how third parties will be able to obtain access and where liability will reside in the event of misuse will have to be established. The requirements set out in PSD2 for payment providers and aggregators offer an important framework for resolving these issues. In general, Barclays considers that these should be developed via existing initiatives, rather than a further set of requirements.

15.5 It is not possible to be definitive about the incentives that finance providers would have to make use of open data and standard open APIs as and when they become available because they would represent a substantial change in the availability of data. However, Barclays considers that there are likely to be strong drivers for their use in the context of SME lending. These include – a wider range of data than available through current sharing with CRAs, faster access to this data and a standard format from all suppliers. In turn, these will allow providers to make faster and more accurate decisions, benefiting both them and SMEs seeking finance.

15.6 The incentives for finance providers to use an open data facility containing wider information are less clear. The reason for this is that additional material supplied by SMEs, including those outlined in paragraph 157 of the Remedies Notice, will not be in a standard format, unlike those made available by open data. As a result it is very likely that finance providers will require additional material and/or the same material in a different format, thereby putting distinct limits on the benefit of this option.

15.7 The incentives for SMEs to engage with the range of opportunities coming from open data will depend on a number of factors. One factor is an understanding of open data, what it involves and what it could provide. Another is sufficient confidence in the management of business data by their BCA and potential finance providers. As Barclays has set out in more detail in its wider response to the CMA's remedies, SMEs are cautious about making their data available to third parties, particularly where this may reveal staff or customer details. A further factor is the take-up of open data by providers and other relevant parties. As Barclays noted above, there are reasons for thinking that there will be clear incentives in this regard.

15.8 Paragraphs 158 and 159 of the Remedies Notice are connected with and refer to the lack of an obvious body to undertake the publicising of open data for SME lending. Barclays disagrees with this comment and would suggest that developing awareness of open data could be done either through the existing CASS mechanisms or in conjunction with the development of a PCW for SMEs. The OBWG is also likely to recommend a customer education campaign for consumers and SMEs. Open data will be able to address a number of issues and should therefore be conveyed by a single body with a common approach. This would also simplify any funding issues. In addition, this publicity would sit alongside the British Business Bank's work to increase SME knowledge of the full range of finance options as noted in Barclays' comments on Remedy 13.

16. **Remedy 15: Require banks to provide a loans price and eligibility indicator**

16.1 Barclays is broadly supportive of the aims of this remedy, provided it is clearly targeted at the product that is likely to provide the greatest benefit to SMEs. Barclays has already considered some of the issues raised by this proposed remedy in its response to Remedy 4 regarding a possible PCW for SMEs. For completeness, these will be restated here along with comments on other aspects of the remedy.

16.2 Before addressing the technical, regulatory and other issues relating to this remedy, Barclays considers it is important to comment on the SMEs that are likely to derive greatest benefit from any changes in this area. The remedy refers to an eligibility and price indicator. Therefore the decision on whether to provide finance to a given SME applicant will necessarily precede a decision on the price of that finance. As a result it is the eligibility of receiving finance, rather than the price, that leads to greater uncertainty among a larger number of SMEs. Data from the SME Finance Monitor makes this point clear²⁹. While in the six quarters to 2014 Q4 three-quarters of SMEs applying for a new or renewed loan finished the process with a facility, this varied significantly by firm size. For the smallest³⁰ SMEs this proportion was 70%, rising to 98% for the largest³¹ ones. Barclays concludes from this that a remedy providing the most benefit to SMEs will be one that is primarily concerned with providing greater clarity on the likelihood of a finance application being accepted.

16.3 In this context, Barclays advocates a final remedy with two parts:

- 16.3.1 The first would be based around the proposed PCW for SMEs and would seek to provide a standard view of finance eligibility and price across all participating providers for a clearly defined and limited set of products.
- 16.3.2 The second would require all finance providers to offer suitable means of assessing both eligibility and price for a wider range of options on their own websites, but allow more flexibility in the way this could be presented.

16.4 A PCW-based solution would offer those SMEs who have the greatest uncertainty at present with a means of assessing finance eligibility and price for those products they are most likely to draw on. Barclays submits that this part of the remedy should focus on unsecured term loans for initial balances of up to £25,000. There are a number of factors supporting this view. It would align with finance regulated under the Consumer Credit Act and thus provide an existing framework on which to draw. Further, the unsecured nature of the products greatly simplifies any provider assessment as well as permitting faster responses to applications, which is another important consideration for the SMEs identified above. In addition, these are much more 'standard' products than higher-value finance options with regard to their length,

²⁹ BDRC SME Finance Monitor Report

³⁰ No employees

³¹ 50-249 employees

costs and features. This permits more meaningful comparisons across providers, a core aim of the remedy.

- 16.5 As previously noted,³² finance products outside of the set of clearly defined products in paragraph 5.6 are not suitable for inclusion in a PCW loan indicator.
- 16.6 Barclays considers that there are considerable challenges connected with this solution. There would need to be agreement on how both eligibility and pricing should be displayed (and that these are done in comparable ways across providers). However, Barclays submits that equivalent tools are already available for unsecured personal loans. Therefore, Barclays views this approach as building on an established base, albeit with the additional benefits of the availability of open data.
- 16.7 The provider-based element of Barclays' proposal for this remedy would necessarily be much less clearly framed as it would need to:
 - 16.7.1 encompass a wider set of products; and
 - 16.7.2 a much greater range of options within each of these.
- 16.8 In Barclays' view, the overall objective should be much more focused on supporting the start of the finance decision process than delivering a quick result for SMEs. A key element of the customer value in a wider range of products lies in the scope for flexibility and adjustment to the particular requirements of the SME concerned, such as on price terms. This remedy and others that might be carried forward by the CMA should be part of a process of supporting businesses in obtaining the finance that is right for them. Barclays considers that these businesses will be more likely to have dedicated financial management, have experience negotiating finance and have spent more time planning their enquiry and application.
- 16.9 The effective implementation of a remedy along these lines is dependent on the implementation of open data for SMEs. Barclays noted in its response to Remedy 3 that this is likely to take until the end of 2017 to be fully completed. While it may be possible to take initial steps before this date, Barclays expects the final version of this remedy to align with these wider timings.
- 16.10 Oversight and monitoring of this remedy is best done by the Financial Conduct Authority, as the principles and practice would closely align with those already in place for personal unsecured lending. As Barclays has indicated above, it considers that the PCW element should be relatively narrowly defined in order to give SMEs confidence that they are comparing on a like-for-like basis. In turn, this means that the results for both eligibility and price should be as unambiguous as possible, with limited scope for providers to then change their response, allowing SMEs to act on them. Key aspects of terms and conditions would also be displayed in order to support this objective. Banks' own website-based indicators would be less precise, albeit with

³² See paragraph 5.7

a key condition that they should treat existing customers and other SMEs in a similar manner, subject to agreed data limitations.

- 16.11 While it is not possible to be certain prior to the development and launch of indicators along the lines proposed, Barclays considers that SMEs would have good incentives to use them. The standard indicator would give much greater transparency to the majority of term loans (by volume) and in doing so address that part of the business population where there is most uncertainty around the provision of finance. The provider-specific indicator would give an enhanced view of the finance options available to SMEs and equip them to discuss how they can best fit their particular requirements. Promotion of the finance indicators would not need to be carried out in a standalone manner. Instead awareness would be built by the introduction of open data and the launch of a PCW for SMEs.
- 16.12 Barclays also anticipates that finance providers, particularly those looking to expand, would have strong incentives to reach out to businesses.