



Straightforward transparent banking



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By email to; retailbanking@cma.gsi.gov.uk

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Dear Alasdair

We read with interest the provisional findings and remedies recently published by the CMA as a part of its review of the banking market.

As you know, our view is that capital requirements, access to payments systems, the cost of funding, and proportionate regulation are among the most significant impediments to competition. We note that the CMA has considered these issues but has focused its provisional remedies on other areas, particularly aimed at increasing switching. These are worthy suggestions, but will not resolve the underlying issues that we have identified, and which the CMA appears to be either still considering, or else has deferred to another party.

On capital requirements, we note that your preliminary findings agree with our assessment that the difference in risk weighted assets under the IRB as opposed to the standardised approach is significant, particularly in the area of residential mortgages. We understand that the CMA is still considering how to address this issue and is discussing it with the PRA. We therefore encourage the CMA to work with the PRA to develop proposals aimed at (1) facilitating the transition onto the IRB approach, (2) increasing access to Bank of England aggregate data for use in risk modelling by smaller banks, and (3) reducing the competitive imbalances that exist between firms using model-based approaches for estimating risk weights relative to firms on standardised approaches.

Similarly, we agree with the CMA's preliminary view that access to payment systems acts as a competitive barrier to indirect participants. We also note that the PSR has primary responsibility in this area. Nonetheless, we would like to see the CMA's final report make more concrete policy recommendations for the PSR to explore.

With regards to funding, we do not necessarily agree with the CMA that the 'too-big-to-fail' subsidy has been sufficiently reduced by regulatory changes to make it no longer relevant. We do, however, agree that the end of the Funding for Lending Scheme in January 2016 will further reduce challengers' ability to acquire the affordable funding needed to compete effectively. We would therefore like to see the CMA propose an extension of the FLS, with enhancements to facilitate participation by smaller banks.

On proportionate regulation we note that the CMA has focused on capital requirements and AML customer onboarding rules. The CMA's suggestion of common account opening forms or other measures to streamline customer onboarding are interesting and worth exploring. However, in our view wider changes are needed to make the regulatory burden on banks more proportionate to the level of systemic risk they pose. We would like to see the CMA recommend to regulators that they make greater use in regulation of de minimis thresholds and provide greater firm discretion on how to achieve high level objectives, rather than imposing

detailed requirements designed for systemically important banks and out of proportion to the risk posed by smaller institutions. This latter approach creates disproportionate costs for challenger banks, inhibiting their ability to compete effectively without advancing regulatory objectives. The importance of a proportionate approach to regulation is highlighted in the Bank of England's submission to the European Commission on the Capital Requirements Directive and Capital Requirements Regulation, attached for your reference (see answers to question 13 and Annex 2).

Finally, we note that you are still considering the impact of the new banking corporation tax surcharge. We encourage you to look at this carefully. In our view the new tax will compound the issues outlined above, particularly around capital requirements and cost of funds, making expansion even more difficult for smaller banks relative to larger ones.

We would be happy to assist the CMA as it crystallises its thinking on these key issues. The CMA has already reached out to many of us to propose meeting to discuss the preliminary findings. We look forward to participating and to working with you to find solutions to address the underlying issues in the market.

Yours sincerely,

Phillip Monks
CEO, Aldermore Bank

Ian Lonergan
CEO, Charter Savings Bank

Preben Prebensen
CEO, Close Brothers

Graeme Hartop
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Craig Donaldson
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Andy Golding
CEO, OneSavings Bank

Richard Doe
Managing Director, Paragon Bank

Paul Lynam
CEO, Secure Trust Bank

Tom Wood
Interim CEO, Shawbrook Bank Limited

David McCreadie
Managing Director: Banking, Tesco Bank

Attachments:

Bank of England response to European Commission consultation on Credit Requirements Regulation and the Fourth Credit Requirements Directive, available at <https://ec.europa.eu/eusurvey/publication/long-term-finance-2015>

Annex 2 to Bank of England response to European Commission consultation on Credit Requirements Regulation and the fourth Credit Requirements Directive, available at <https://ec.europa.eu/eusurvey/publication/long-term-finance-2015>