COMPETITION AND MARKETS AUTHORITY
RETAIL BANKING MARKET INVESTIGATION

Notes of SME roundtable held at
Competition and Markets Authority, Southampton Row, London
on Tuesday, 15 December 2015

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

Alasdair Smith	- Chairman
Ed Smith	- Member
Jill May	- Member
Philip Marsden	- Member

FOR THE STAFF

Bill Roberts	- Assistant Director, Remedies, Business and Financial Analysis
Christiane Kent	- Inquiry Director
Adam Land	- Senior Director, Remedies, Business and Financial Analysis
Colin Garland	- Director, Remedies, Business and Financial Analysis
Tim Ker	- Legal adviser
Robert Wood	- Economic adviser
Veronica Mansilla	- Assistant Director of Economics
Chris Whitcombe	- Assistant Director of Economics

FOR SMEs

Georgios Nikolaidis	- EEF
Mark Chidley	- FCA consumer panel
Chris Hewitt	- Finance Innovation Lab
Thomas Parry	- Forum of Private Business
Suren Thiru	- British Chambers of Commerce
Erin Flood	- Federation of Small Businesses
Toby Bateman	- CBI

Digital Transcription by WordWave International Ltd trading as DTI
8th Floor 165 Fleet Street London EC4A 2DY
Tel No: 0207 404 1400 4043 Fax No: 0207 404 1424
Email: ukclient@dtiglobal.eu

THE CHAIRMAN: Since everyone seems to be here and the firearm bell has gone for 10 o'clock, let us start. Very warm welcome to all of you. Thank you very much indeed for coming here. Let us start off with introductions. I am Alasdair Smith. I am the chair of the Banking Inquiry Group.

Q. (Mr Garland) Colin Garland, director of remedies.

Q. (Ms Kent) Christiane Kent, one of the inquiry directors.

A. (Mr Nikolaidis) Georgios Nikolaidis, senior economist at EEF, the manufacturers association.

Q. (Mr Roberts) Bill Roberts, CMA. I work on remedies.

A. (Mr Chidley) Mark Chidley, I am a member of the Financial Conduct Authority's consumer panel.

Q. (Mr Smith) Ed Smith, inquiry member.

A. (Mr Hewitt) Chris Hewitt, I work for the Finance Innovation Lab.

Q. (Mr Land) Adam Land, senior director of remedies.

A. (Mr Parry) Thomas Parry, from the Forum of Private Business.

Q. (Ms Mansilla) Veronica Mansilla, assistant director economics.

A. (Mr Thiru) Suren Thiru, British Chambers of Commerce.

Q. (Ms May) Jill May, inquiry member.

A. (Ms Flood) Erin Flood, Federation of Small Businesses.

Q. (Mr Marsden) Philip Marsden, inquiry member.

A. (Mr Bateman) Toby Bateman, CBI.

Q. (Mr Whitcombe) Chris Whitcombe, assistant director of economics, CMA.

Q. (Mr Ker) Tim Ker, lawyer.

Q. (Mr Wood) Robert Wood, economist at the CMA.

THE CHAIRMAN: Okay. Good. Well, once again, welcome. Colin has the task of keeping us in order and on time this morning, so Colin, over to you.

Q. (Mr Garland) Well, thank you very much for attending this round table this morning. I think this is the last of quite a few round tables that we have had with banks, consumer groups and yourselves. We have sent our presentation round in advance of the meeting, so hopefully you have all had a chance to look at that to inform you of the areas that we want to focus our discussion today. Given the cast, you will not be surprised that we going to focus on issues around SME banking today and the remedies to address the ACs that we found in relation to SME banking. Of course, if there are things that you want to talk about which are not in our presentation, we would like to hear those as well.

If we just turn to slide 3. In fact, we have just spent a bit of time thinking about where we are in the process. We put our provisional findings and remedy notice out in October. As I say, we are in the process, and at the end of the process of our round tables and hearings. The next landmark in the process is the provisional decision on remedies which we will publish in February 2016 and we will work towards the statutory deadline for the final report, which is due by 5 May next year.

In terms of today's objectives, we had very much like to focus on discussing our remedy proposals. So we have got a set of remedies focused on shopping around and switching, another set of remedies focused on SME lending. We had also like to spend a bit of time thinking about the remedies that we have set out that we are not minded to pursue and also to give you an opportunity to suggest additional remedies that weren't in our remedies notice.

In thinking about remedies as well, it is important that we recognise that it is a package of remedies. So, while each individual remedy on its own might have a limited effect, it is the interaction of the remedies together that we think will help generate the beneficial change in the market.

Then finally, as a way of introduction, as you see there is microphones on the tables here, so that this session is being transcribed. The transcript will be published in due course, but before we do publish the transcript you will have an opportunity to review that and correct any errors.

So I am going to hand over to Adam now, who is going to talk about awareness.

Q. (Mr Land) Yes. So if we start probably on slide 8, is probably a good place to start, so just to place this into context when we are thinking about encouraging, promoting engagement, I guess, of SMEs with their banking arrangements and their current accounts in particular. We are thinking about the process of engagement as a journey, if you will forgive the Americanism.

So you start essentially at the top of this diagram with SMEs going about their business, not particularly thinking about their banking arrangements, thinking about all the other things that businesses have to worry about and we are thinking about, well, how can we promote awareness of the opportunities of switching and promoting engagement at that initial level and that is what I am going to talk about. We are then moving on to giving small firms the tools that they need to make good comparison of the options available to them and to be able to access them easily and make good assessments and then finally the third stage is to help make it as easy as possible if people do decide to change providers to make that switch without any risk of losing business or losing a key payment and so on. So that is other overall framework when we are thinking about switching remedies.

I am going to focus on the first stage of that journey essentially, which is around promoting awareness really and there are two things that we put into the remedies notice that we would like to get a discussion going on in this part of the section. The first is really about prompting customers and SMEs in particular to think about their banking arrangements, to review their banking arrangements from time to time and then the second is more about the overall awareness among SMEs of the opportunities for switching and how that could be raised and increased and the overall awareness of CASS, which we found is very low, particularly with small businesses. So I am going to pick on those two topics.

So the first issue is about finding ways of stimulating engagement by SMEs in their banking arrangements and in the context where this is going to be one of any number of things that SMEs have to think about. So what we are interested in? There are really the sort of classic questions really. So when is a good time to be trying to focus SMEs on these issues? What messages, what information is most likely to be powerful with small businesses? Are they most likely to say, well, there is a point in here? Who can convey -- who is best to communicate these messages with SMEs and then we can talk a bit about the sort of practicalities of how it is done. But just to start off, I think, on this area, I would be interested to talk a bit about the timing of communications with small businesses around the banking thing. So the sorts of options we have been thinking about, one set of options are essentially sort of periodic, so there is ideas around the statements or getting in touch with businesses from time to time during a year. Another set of ideas are really more event driven, so whether there are particular milestones in your journey as a small business, where communications about banking, there is the opportunity for switching the choices that SMEs have, would come in.

So if we could start just by sort of talking a bit about the timing, when small businesses are most likely to be receptive to messages around banking and around their options, would be a good place to start. Does anyone want to kick off?

A. (Ms Flood) For most small businesses the main time they will be receptive is going to be when they have an action to undertake, such as the point they are going to be a purchaser so, they are going to be actively thinking about finance. This will happen at different life stages of the business, and be good business as usual, ie making sure that they have the right machinery and that they have got the right IT.

The other point in time, in combination with this, is annually. So it just becomes a normal part of doing business that at least once a year businesses consider finances and that needs to happen at a time of a year that is not linked up with trying to do tax returns or anything else. It really does have to be just a very quiet time of year, so businesses have actually got the time, to do that.

You will know that FSB looks after sole traders and self-employed right through to businesses of 50, but on this we are most concerned with are the sole traders and the self-employed, because they do not have a finance team and they do not have time. So the timing of an annual check does need to be at a quiet time of the year.

Q. (Mr Land) Interesting. Any other perspectives about this issue on timing?

A. (Mr Parry) Well, I think part of the problem, as Erin says, is quite simply it is only when you need things. All the research we have done, the latest stuff from the British Business Bank, the majority of businesses either look at their accounts on ad hoc basis or they never do. They start off with one bank, which is the power of the three banking for two years, and they stick with it. So various reasons for that, but the other point that I think is worth doing is I am a sole trader as well and I do that whenever I get my accounts back and the key player I feel here is the accountant and in 2008/2009 we notice that accountants and banks were talking a different language and that to us was probably one of the worrying things about the credit crunch, was that accountants were saying we have got a solid business there, the banks were still rejecting them.

Q. (Mr Land) Thank you. I think I might get a few just thoughts on the table and then we might try and draw them up.

A. (Mr Thiru) Yes. I think, certainly looking at some certain events, things like, when a business has had a bad experience of a bank, poor procedural process sort of thing as well, but, again, within that you have to be careful of when you place it within that process, because, if this business makes a complaint, they want to resolve and say, "ah, maybe you should leave and go somewhere else". So I think an issue would be, to offer switch at the end, once that complaint has been resolved. So I think that is the important thing.

The second point is actual general awareness as well. Businesses quite often only use these sort of things when they need to, but I think there is an issue around general awareness as well. So we very much support the move for all banks to promote CASS, but I think they all should be looking at providing other sources of information to help businesses switch, such as the Business Banking Insight (BBI) as an example. So businesses are in a position to know what they need to do if they want to switch with some certain event that is triggered that.

A. (Ms Flood) When we are looking at past behaviour, it is important to recognise that past behaviour can be because of external things that were happening at that time. Just because there were certain behaviours in the past does not mean that a business is not going to take up checking annually if the banks change the way they do business as well. We should not be locked into thinking that past behaviours will continue in the future under different circumstances.

A. (Mr Chidley): I think the list you have is a perfectly sensible list, but I think Erin and Thomas together have raised two further points. So it is very much that transactionally driven component which is quite hard, because it will be very different for individual business. But I think the annual review certainly does have some sort of place in this and quite a lot of only emphasis is being placed on annual reviews as a good way of making banking relationships more transparent, and providing -- and here we can produce a little bit more supply side pressure. We can get people to tell people about their banking, because it transpires that most people do not really understand their banking. Certainly those are overdrafts tend not to understand the extent and frequency within which they tend to use the overdraft and I think again the annual review tends to be an interesting point, certainly for customers with an overdraft, because the overdraft, though legally speaking it sort of just carries on, it is a sort of resolving current account but with an overall draft limit applied, it tends to get reviewed by the bank annually and of course at that point there tends to be a fee paid for the continuation of that in addition to the rather opaque components of the pricing and overdrafts and certainly I think we need to -- well, I am sure we will come on to this, but we do need to look quite closely at the pricing of overdrafts, because making comparisons is, I think, close to impossible.

Q. (Mr Marsden) Can I just ask, is there ever a particularly quiet period for SMEs or is better to perhaps tie a remedy to some sort of trigger like that or some sort of actual change in the bank's approach or an expiry of a period or --

A. (Ms Flood) There are quieter times. These are not when businesses are looking at doing tax returns, or Christmas. Different businesses might also have quieter times. If seasonal, for example, the business might have a down time. It should not be that every business has the same particular point of the year. One option could be for the business to select a time when setting up a bank account ie for the bank to actively ask the smaller business to select when it suits to do an annual review. The business would then know the annual review is coming up, in the same way that pensions are reviewed using pre-retirement letters.

A. (Mr Chidley): I think it is a good point, but one also has this overall, and we have touched on it, just the levels of resource that it is particularly available to micro-enterprises and the bottom end of this scale. Will there ever be a good time? Maybe, maybe not. Will there ever be somebody who can really turn their attention to this and provide the proper level of analysis to ensure that they're moving to something which is genuinely different, genuinely better value, genuinely will see them better treated. Well, that isn't going to happen.

A. (Ms Flood) Resource is an issue for smaller businesses.

Q. (Mr Marsden) But that is the key point, is it not, that, rather than trying to agonise over what the particular point in time is, to have the self-selection option?

A. (Mr Chidley): Yes. I agree with Erin.

Q. (Mr Marsden) Because of differences in businesses.

Q. (Mr Land) So it sounds like there may be space both for sort of reactive messages or for -- so there may be times when people are more responsive to messages, and that may be the end of the free banking period is one or it may be a bad experience is another, but then also what seems to be coming out is also actually, to make a good business decision, that is going to need someone to actually spend a bit of time to think through it. So you need to, as well as jogging memories, you probably need to create some space for people to actually think about it and that is where trying to create some sort of periodic cycle may be more positive particularly if you can tie it in with the right sort of periodic cycle. If it is coming in with an overall business banking review, then part of that could be am I with the right bank, rather than just looking into it.

A. (Mr Hewitt) Have you looked at issues award trust of banks as well? So there is awareness of you can switch between this bank and that bank, but if there is a general mistrust of any of them or if I switch from HSBC to RBS, what is the difference going to be anyway, because if there were different business models out there, if there were more local banks, if there were more mutuals offering a different type of service, might that different level of trust in that type of institution, you know, bring out a different awareness. You will probably have to look at other countries for that, because there is not enough banks in this country to do. But I just wondered whether you have looked at that.

Q. (Mr Land) Interesting, yes. I might on from the timing -- I mean, I think we have got some good insights about timing and do feel free to chip in with more. But I think the point you have made and also the point we have made about accountants as well is that, yes, I suppose another issue then is -- some of my best friends are accountants. I am married to an accountant. But I suppose the next issue is really sort of who should be communicating. If we have got some messages that we want to communicate with small businesses, essentially that, you know, you should think about your financial arrangements, there are options available to you, where would these messages best be coming from. So I think TSB, I think, mentioned -- anyway, one of the smaller banks I think mentioned accountants to us as being one source of sort of trusted advice outside the banking arena. An alternative would be the banks, and your own bank, would be communicating messages about this. What thoughts do you have about best to communicate with small businesses about advice and guidance about switching and searching.

A. (Ms Flood) If there was a trusted source of information or a web or the British Business Bank then that would work quite well. I think the banks are the gate keepers and the majority of small business will go to their bank, and in these cases it is the attitude/behaviour of the bank that is going to influence whether businesses think they should look at something else, not look at something else, or the bank's going to look after them anyway, there is no difference between banks. So it is about the bank being able to prompt/direct the smaller business, then to make it easy for the small business to find the information. If there is an external independent trusted source to go to, to look at for switching options, for example, then it is about the bank being very positive and putting that option forward.

When the banks are saying we cannot give you exactly what you have asked us for but we can give you this product/service instead, small businesses are still going to be staying with what they know. If the business goes to another bank, the reality or perception can be it is not going to be any different. Business perception is they have only really got the four main banks to choose from, in a market that is still very concentrated, and until that changes we need a trusted/independent source to go to for small businesses to find the information they need.

Q. (Mr Land) I am interested in other views about sort of sources of advisory information or to prompt --

A. (Mr Nikolaidis) I think Erin makes quite a good point. I mean, a lot of the issue here is that a lot of the trigger points we talking about only the banks are aware of those trigger points and that creates a fundamental problem in that I just do not see how banks will enthusiastically prompt the customers to go to their competitors if their service is not satisfactory. So we somehow need to overcome this incentive problem through perhaps going through accountants or third parties.

A. (Mr Bateman) Yes. I mean, I was going to echo both of those points, to be honest. It is the lack of kind of trusted distribution channels for information into small businesses that seems to be the real nub of the problem and I think, you know, as everyone's highlighted at a number of kind of round tables and reviews, accountants are one way to get over that. I know that people talk about -- and a central government providing that a lot and, I do not know, I just happened to notice in the last BDRC SME finance monitor that I think only 12 per cent of businesses are aware of the British Business Bank. So I think that just shows that sometimes we can come up with these central solutions as well and they are not getting the reach that we want either. So in a kind of imperfect world I think I just echo, you know, the two good points that actually accountants can be potentially a source, but again you have to be careful of cutting and cross cutting commercial as well, so --

A. (Mr Parry) I was going to say exactly the same as everybody else had, but one of the key issues, I think, is with the banks as well. One of the difficulties we have now is is there a branch of an area, do you know who your bank manager is? I, as an individual, swapped to a bank who I actually now have the guy's mobile phone number. He then tells me whenever something happens that I need and it is that element or indicator of trust that I do not think you get when we had a case where somebody was ringing up, it was a case of cybercrime, and they did not know who it was because the bank blocked the number coming through and I gather that is standard industry practice.
Now, if you do not know who is on the other end of the line, how do you know that it is, for example, NatWest trying to sell you something or NatWest trying to get you to find something out? Is it a sales call, is it an advice call or is it something to do with the fact that, you know, your bank account has gone overdrawn or something slightly more serious and I think that is part of the problem that sometimes you have.
Q. (Mr Land) Yes, thank you. The sorry -- oh, sorry, yes.
A. (Mr Hewitt) Those sort of relations are simply not in the business model of the large banks now because the big ones are all moving away from that sort of relationship banking, because there are obviously some of the smaller ones there, but it is like chicken and egg of you have a very concentrated set of incumbents with 80 odd per cent of the market. Just encouraging some new ones to grow is not -- yes, and since we know that the structure is not delivering what small business needs, but it is worth -- so one of the problems I have with some of your remedies is they are not structural enough, and we will get on to it later, but these examples just throw up the problems.

Q. (Mr Land) So we have got that point and we will come to it later. Another thing that is come out of our other conversations we have had is around, I suppose, other touch points that small businesses have with, I suppose, the Government in some description in their normal life cycle. So I think people talked about Companies House, we have talked about HMRC, the sort of points at which a small business needs to interact in some way with government. Are those good opportunities, times, to provide messages to small businesses about their banking services or is that --
A. (Mr Thiru) We certainly see it as an option. We see this very much as a joint effort, so it is the banks, it is accountants, it is HMRC potentially and others as well. But I think the important point is the information, whoever's providing it, it needs to be in the same language, it needs to be credible, independent as well, so I think that is a big thing for our members and I think trust is a big word here, because they would not necessarily trust it if it come from the banks. They do not want a sort of independent stamp of approval so they can use it appropriately.
Q. (Mr Land) So if it is coming from the Government, it has some bona fides with it. If it is coming from their local authority it has some trust as well without that conflict of interest that you get from a bank, saying switch to someone else.
A. (Mr Thiru) Well, yes, absolutely, and I think probably that language is the big one, really. Everyone needs to speak the same language about it and essentially you use the same source.
A. (Ms Flood) I think Suren is saying exactly the right thing. It is around the definitions. It is very difficult to compare if the banks are calling the same thing different things, very difficult to do that. It is also difficult when they are

quantifying them in different ways as well. The Small Business Act requires the banks, when releasing credit data, to use similar data sets for that, which means that it is possible to do. I think what is quite telling is that legislation is needed to get this to happen.

Also another touch point that you might want to look at are local authorities, especially with the new changes to business rates, they are going to be even more involved with smaller businesses.

Q. (Mr Land) So moving on again, we have talked a bit about when you communicate with businesses, talked about who is trusted to talk to business. The third sort of key issue then is, well, what is the message. I think we have sort of danced around that. So what is most likely to resonate or be helpful or be useful to a small business and actually going to have them focus on their banking arrangements and review from time to time are they with the right bank, are they with the right account.

A. (Ms Flood) There are over a hundred banks that businesses could look at. It does not necessarily mean they are all going to be right, but to raise the awareness, as (unclear 10:27:50) has said, there are other banks around. Another thing is that switching is fine in some cases, but rather than businesses having to switch, it could be that businesses have a business current account with one bank and then get other finance from other specific finance providers that are designing products that suit small businesses rather than just having to have an overdraft from the bank. So let's make it easier for smaller businesses to break away from having one source of finance.

Q. (Mr Land) Are there other thoughts about sort of information being useful and most impactful to help prompt engagement on banking arrangements?

A. (Mr Thiru) I would certainly agree with that point. I think the thing around sort of coupling products together, products and services from one provider, I think it is a sort of crucial one, because they may want to get a loan, but they may want to get it from the bank that they have got their business current account with and it is trying to sort of stick that out, really, and saying there is still options out there for them. I think that is sort of the key thing.

I think in terms of what we tell them, is that you can switch and here's the information to switch. I think it is between that link between being able to switch and saying that this is the process of doing so and actually finding the information at the same time as well, so they know who they can possible switch to, is the best bank for them. I think creating that sort of link is important.

Q. (Mr Land) But people talk about a call for action or a signed posting then, is something which is then -- so a signed posting for something you can do, as opposed to why do you think about stuff, is what you are saying?

A. (Mr Chidley): The FCA did some very interesting work on this in a slightly different context, but it is when you have the information, then a relatively small number of people do things. When you have the means of doing the thing, a relatively small number of people do things. But if you have both the information and trusted means, so here we would be talking about trusted information and a more effective CASS, then suddenly three times as many people, not, you know, actually react. So it is actually critical to have both the trusted information and then a trusted mechanism of doing the switching, assuming always the switching is the answer, which I do not think it is.

Q. (Mr Land) Thank you. Toby?

A. (Mr Bateman) Yes, I was just going to echo the points I think you have covered very well there, Mark. You know, if you can get information out not just about the different advisers and the different products, but actually the mechanism to switch, I think that is something that our members certainly are not aware enough of, the fact that there is a kind of trusted mechanism out there.

A. (Mr Thiru) And that is why on the new business banking insight website were are planning to create cross links between the information we have on our website and things like CASS. So you have got process of doing so and then you have got the information to help you actually make that decision, whether you want to do so or not.

Q. (Mr Land) So if there were a message which was coming from accountants or from government or from your bank, then one way to sort of direct that would be to a helpful portal of some description. Business banking would be one, for example, where you could then move from there and consider your options, so it is actually having something that you could usefully do, having been engaged, is it takes around the next step on that journey.

A. (Mr Chidley): I think there is actually a third limb to this, and I am not sure now is quite the right point to raise it, but I just perhaps ought to say it, because otherwise I might well forget, and that is what work has been done to actually look at the reasons why there is so little SME bank switching, and I think it is this whole issue of -- we have talked about the levels of resource, we have talked about the lack of information, we've talked about those sorts of things, but there is also this whole it is a very high risk for a very potentially small reward. Why would you jeopardise all of this and it is much more -- I mean, I know you will have discussed this in the context of broader retail banking, but it is much more critical for small businesses, because if suddenly just source of cash flow disappears because of a banking cock up, you know, these businesses are not well treated by their banks in circumstances where they get into difficulty and they could suddenly find that their overdraft is stopped, they are working capital is turned offer and this comes back to this whole issue of trust and that none of this can be seen without a significant improvement of the duty of care which banks are prepared to step towards their customers in exchange for making money.

Q. (Mr Land) Yes. No, we will definitely pick that up later on in the morning.

A. (Mr Parry) Just one other thing. I think looking at it from the other side as well, I completely agree with Mark's point of view, because we did some research with our members and 4 per cent were had a switch, 17 per cent were considering it -- this was a few years ago, when the banks were treating them very very badly, but they -- as they said, the risks were too high, but also the rewards are not made very clear. The assumption for most small businesses is that, or from other members, has been that all banks are the same and actually that couldn't be further from the truth, if you know what you are looking for in a bank. In my own instance, I was looking for someone who would -- you know, where payments would go straight out and go straight into the HMRC's account rather than waiting for five days, so I changed the accounts accordingly. But those sorts of information leads are not readily available until you actually speak to the bank themselves and find out how they can help you.

Q. (Mr Land) And small businesses are incredibly diverse, so actually getting the right bank is really important. Yes.

A. (Mr Bateman) Can I just make one more, kind of slightly tangential point? I think it comes back to your diversity point. We have talked a lot about micro and very small businesses. I think a big part of it, and it relates to everything we have spoken about already, is actually, when you move up to a slightly larger business, so the 'Ms', they actually have more capacity, they have more time, they can look at this, and I think one of the things CBI has been focused on is that kind of cohort, I think there is only about 1.8 per cent of all businesses that are defined as medium-sized, but actually encouraging them to think about better corporate governance practices is very important. So a lot of this kind of reviewing your arrangements, a lot of this, taking the time out to take a step back from the cut and thrust of your daily business activity, that is what good corporate governance is and actually trying to increase more medium sized businesses and potentially smaller to look at those arrangements and not think that corporate governance is a kind of crusty dusty word that they would never want to get involved in and I think that is a really important point, because it is comes back to more about the businesses doing it themselves rather than looking for any kind of intervention.

Q. (Mr Land) So reviewing your banking and finance arrangements as being a fundamental thing that --

A. (Mr Bateman) That should be part of that, yes, along with a bunch of other things that the board should look at. But I think, yes, getting some basic corporate governance into mid-sized businesses is something that we should all be looking at and be aware of as well.

A. (Mr Nikolaidis) If I can also make a rather general point in that, when it comes to this -- when we talk about the amount of information that small businesses should have and their whole process of switching, we also need to think about what is an acceptable time and effort that businesses should spend on looking at the finer details of a bunch of products that basically have very small differences between them. So if I am a small business, should I spend a week in trying to decide which bank has a 0.1 per cent difference in rates or should that information be in itself more readily available and actually be something that I can decide for and clearly see the difference, because, coming back to Mark's point, if I have to spend a lot of time to switch for a product that is only marginally different, then it is a high risk for a really small reward, so maybe that is a reason why so many businesses do not even bother with switching.

Q. (Mr Land) So I think in a moment Ed is going to start to take you through and talk around ways in which we can make comparisons easy, quicker, simpler and we will do that. The only other thing I had on sort of my section that I wanted to just get some views on is, I suppose, overall levels of awareness of the potential benefits of switching and the switching process among SMEs, which are generally low, and would be interested in your thoughts about (a) whether that is a problem and then, if so, how might the switching service and switching generally be better advertised, promoted, to SMEs. I mean, I think there is sort of general blanket campaigns that CASS does, but that is not a particularly targeted way of reaching SMEs. So I would be interested in thoughts about how switching overall could be promoted with the sort of communities that you represent.

A. (Ms Flood) When there is not switching, there is low competition and that is why there are the four incumbent banks. When there is low competition, there are the four incumbent banks, then there is no real need or drive to develop products that are specific for small businesses. The main point is that there are banks with very good robust products, but they are not actually geared up or designed specifically for small businesses.

Reading the evidence that you have been given by the banks, such as, "it is very difficult", "each small business is so different", well, yes, but it is possible for other industries to have very specific products. Looking at pensions, looking at insurance products, they are not all as highly commoditised as the banking products are. By not switching, this is not helping the banking industry to step up to the mark, because they do not have to. The main banks have a comfortable share of the market, each with between 19 to 24 per cent, but not necessarily meeting the needs of smaller businesses. The structure of the banking market is not going to change without more switching.

A. (Mr Chidley): I think the other thing is that the switching has got to be high quality switching. You know, it has got to be moving from a sort of high cost low quality provider to the opposite, because if you're just moving from one to the other, what is the point --

A. (Ms Flood) Where as now, businesses perceive there is no difference.

A. (Mr Chidley) -- and it will not change the behaviours and you will not suddenly generate a competitive market. You will only improve competition -- sorry, I probably should not say this in these august halls --

Q. (Mr Land) No, do, yes. That is why we invited you.

A. (Mr Chidley): -- but you will only improve competition if you are going to actually bring about that kind of switching decision, and the switchers have got to incentivise the providers to improve quality and produce lower prices across the board, otherwise all that you will have happening is that the switchers will be well looked after and the people who do not switch will continue to cross subside. There's a lot we could say about cross subsidy, but, you know, they will continue to do that. So the switching has to be the right type of switching, not just any old switching, and it has to be the kind of switching that incentivises banks generally to up their game, otherwise you will just perpetuate the status quo.

A. (Ms Flood) And right now we need some other force to come into play, until there is some tangible difference between the banks, which is not currently being shown to the small businesses. Although the banks can show businesses a range of products and services, this is opaque. If I am struggling to compare between banks, and I know what I am looking for, how is a small business owner at 8.30 at night going to do that? Until there is some substantive difference shown between the four main banks we are --

A. (Mr Chidley): We are tinkering around the edges.

A. (Ms Flood) We are tinkering around with switches and need to do something else. We need switching to get competition, but we need something else, switching is not the solution to change the banks --

Q. (Mr Land) You need to provide new business models to show --

A. (Ms Flood) -- to do this, but also, banks should not be expected to do everything for everybody. There are other finance providers, there are other smaller banks who will also design products that suit the needs of specific small businesses. So that there is potential for diversity, the remedies need to go further to get diversity into the market. I disagree with the premise that there is no sort of detriment for the small businesses, if the concentration in the market with the four big banks does not change.

A. (Mr Nikolaidis) I think these are really good points and I agree totally with them. I think no amount of awareness or price comparison websites will make SMEs to switch if they see no tangible benefit from doing so. There is so small differences between the products, I have no incentive to switch. If I can make, again, an overarching point about maybe the whole remedy package, is that the big issues to align incentives properly, and I do feel that this package of remedies places the onus on banks to act against their interests by, let's say, prompting customers to speak to their competitors and a lot of onus on customers to address incumbency advantages of banks through better customer engagement and information. So we do see a disparity between the objectives and the actual actions taken to address those objectives.

Q. (Mr Land) Well, this is why we are having these meetings, so as we can get your ideas about what else we need to be doing. So I think it is good and so -- I mean, I think we have probably talked a lot around the ideas we have come up with here. Is there anything anyone else wants to raise in relation to these issues around awareness at this stage or we might move on and talk about --

A. (Mr Parry) From my point of view, the biggest awareness that any bank has is a branch in an area. I understand Erin's point about there being a hundred providers, but for me there are three realistic alternatives where I live, where there are three banks in the local area. So I think you need sort of awareness of -- you need to split off the account from the financial products a lot more and look at them in different ways and I think the financial products as well, something that they failed to have is that they are not linked to things here. A lot of the time businesses are fundamentally disinterested in the finance side, they are happy with what they have got, 70 per cent are staffed with who their banking with at any one time. So I think there is an issue there, but, you know, the perceived security that the branches have is a big impact and it will be interesting to see what happens as the branches diminish as well as to, you know, what happens with the alternative side, alternative online banking services, because their harder to compete with while dealing with cash handling than maybe other places.

Q. (Mr Land) Shall we move on to access --

Q. (Ms Kent) Can I just very quickly -- sorry. We have mentioned about incentivising the banks in this area and different banks to sort of act against their own interests, which I think a couple of people have mentioned. Have you got thoughts about how we can incentivise the banks to -- as in setting them targets. How would you measure those targets? How would we incidentise them, particularly the incumbent banks, to do the right thing.

A. (Ms Flood) The remedies seem to be just tinkering with what we have already got rather than trying to understand the position of small business and asking is this actually going to make a tangible difference? Earlier on I spoke about the fact that to make a change the Government had to bring in legislation. We have regulations now to get the banks to do things, and that is really telling. The banks have said it is very difficult and it is very hard, so perhaps it is more that banks do not do all these products or services for small businesses and need to be upfront about it -- let's bring that opacity into the banking industry and that will help.

Over time, when we are looking at digitalisation, in say five years' time, this will be a different conversation, but right now we are at a point of transition. Businesses do not have all the digital skills or the APIs to find the finance that they want. The online banks are just starting to set up and working up what they are doing about relationship management, how they provide that personalised contact. We need to set the agenda so that this can happen in the current environment. We need to do something -- the remedies seem to be very light touch.

A. (Mr Chidley): I think broadly speaking, if you have got a carrot here and a stick here, all one's experience where banks are concerned would suggest that the stick works better than the carrot.

Q. (Ms Kent) So what sort of sticks?

A. (Mr Chidley): Well, I think you need to -- and I think there are some pricing related things that can be done, I think there are some behavioural things that can be done. I think one could -- a thing we feel strongly about as a panel is that banks should be obliged to dough a duty of care to their customers. You know, there is a whole load of things that can be done that will just redress this huge imbalance between the banking industry on the one hand and its customers on the other, its customers that effectively generate all of its profits. I mean, it is a scandalous imbalance and I do not believe that this bundle of measures will do a huge amount to change that. It does need some altogether more fundamental changes to the way in which banks behave towards their customers.

Q. (Ms Kent) Does anybody else want -- just on duties of care and how we might --

A. (Mr Hewitt) Well, on the stick, I think you appear to have taken the biggest stick off the table already, constructional banking -- you know, should we be breaking up some of these big banks. I think that stick, if you want some of these other things to be taken seriously by a set of very very powerful incumbents, I would say you need to put that stick back on the table, say, okay, in five years' time we want to see Y, X and Z delivered to the real economy and the small business sectors. If you do not, then we still hold the rights to use this stick and to do it by other means. I think that is -- if you take that away, then I think then the power of your situation is very much weaker.

A. (Mr Thiru) And certainly our view is that banks should be obliged to provide this information, should be obliged, as you set out, to provide information about current account switching, to promote that, promote such as that provided by the BBI which provides information around how to sort between banks -- you know, where they switch to should be the information before that, because, as you say, history suggested, left to their own devices with this, they will not all not promote it, they will not provide extra information to their customers. So I think that would be absolutely the case and not being just about the big four banks, I am talking about, you know, right across the sector.

Q. (Mr Whitcombe) In addition to the incentives of the bank, what appetite is there amongst these accountancy firms that we have talked about to, I guess prompt customers or provide information and advice to customers about their banking arrangements?

A. (Mr Bateman) I mean, accountants are paid by the hour, right. So will answer whatever question you have -- you see, I think it is about driving the business itself to kind of ask those questions and to seek advice on it. I think the points that have just been made -- it would be interesting to get views of others actually on whether that is across all product segments or are you talking about individual product segments, say, you know, current accounts or lending or other types of services that banks provide. I think we are a bit more positive about competition from outside banking in certain product segments and I am just wondering if others actually think that that it has been enough. You know, should we be talking about competition in lending or are we actually saying that there is not enough current account providers out there? Because I think for me, on the lending side, you have actually seen the market starting to deliver some of these more, like, positive kind of developments. So whether that is, you know, a function of the fact that they are more inherently profitable than providing current account accounts. I am not quite sure of that. For us, it is about nailing down competition about the entire banking offer or with individual product segments within that, because I think that is really hard to untangle, I think. Yes, sorry, that was not really a contribution. More of a question.

Q. (Mr Land) No, that is fine. It is the earlier point that people have been making about moving something outside the big four and you can see some of that in some areas, albeit not across the board, but I can see that where there is actually an alternative, where there is a tangibly different alternative, that is where some of these messages might start to resonate more strongly, because you tell a story about how you can get something that is different and better.

A. (Mr Bateman) I guess it is like Apple making personal computing cool. You need something to come in and make banking -- not cool, but kind of draw people's attention to it again, and I think the best way of doing that is often, yes, supporting scale up banks supporting new entrants and actually, rather than kind of focusing on the incumbents, kind of getting out of the way, almost, of the market allowing it to deliver, but, I mean, interested in other people's views.

A. (Mr Parry) Going back to Chris' point about the accountants, we have noticed that a number of other members who are accountants have been taking on ex-bankers or former members of RBS, Barclays, those sorts of people, so they actually understand the products and the options for their clients out there. That is the only indicator we have that these people are now providing an extra value service, but I think it is one that a number of certainly mid-size accountants -- when I say mid-sized, I mean sort of people with, I do not know, 15 to 20 accountants in the area or region, they seem to be sort of taking on these opportunities and taking on the sort of option of giving their members the chance to hit the switch or split their accountants between certain people.

A. (Ms Flood) With digitalisation and the work that HMRC is doing on that, as more small businesses become better able to do their own online tax, they will still have specific reasons to go and see a tax agent. But digitisation will also encourage the tax agents to broaden the scope of what they are able to offer, because they are going to lose a little bit of business when it just comes to the basic tax return, so they will then that capacity to expand out.

Q. (Mr Smith) I think it will be interesting to have your views, there is also the development of web based accounting solutions coming on to the market which in a way are partly disintermediating the professional accountants from doing the book-keeping side of it. I would be very interested in your views as to things like Brightbook zero, other developments in the market, whether you see those as helping that process. Do you see that as a --

A. (Ms Flood) Yes, as more small businesses are able to do that. The other piece is when the online sources include a prompt that makes the reader aware of information or prompts them to think about doing something else.

Q. (Mr Smith) So that prospective look at where digitalisation is going to take this market for SME is actually at one level not quite as cloudy as where we are.

A. (Ms Flood) No, but we are looking at five years at least, and who knows how that is going to play out.

I will just come back to the point that incumbent banks have got a lot of power and it is different for -- I quite agree, the medium size businesses, quite different. I still hear about cases where smaller businesses have been given the run around and how the banks have closed their business, including the relationship with whoever has been responsible for the winding up. So these issues still come through for the smallest of the small.

Q. (Mr Smith) It is been very helpful to have your perspective on -- I mean, initially awareness, but you have explored and already moved into the sort of access and assess thing, because I think one of the things you have done, and we all work or know or indeed in some cases are SMEs, is that they are sort of time poor, expertise poor and information poor when it comes to this. So in a way the sort of second bucket of remedies as we go through this cycle are how do we deal with accessing and assessing the information that might be available in a very speedy environment where people are time poor and expertise poor and we have sort of explored the intermediary link. I would quite like to go back to some of the things we are saying about the extent to which one might develop a Midata solution for SMEs, the extent to which you then get into the whole current area of problems with data security, perception of data security, whether PCWs work or might work in a SME environment, and then also cover the banking business insights, which I know you met with the staff last week. So can we perhaps start with that sort of accessing data, using your own data and the sort of Midata type solution which does exist and a bit clunky in the PCA side, but the extent to which that might be developed in a SME environment?

A. (Mr Bateman) Yes. I mean, it is something that we are quite positive about and

I know Erin's on the working group for the open banking working group as well, which aims to develop the standard API between banks. I think coming back to the automation point, and your point about kind of online accountancy services, if these things can become more streamlined, easier to use, it comes back to your time pressured point, that more people will use them inherently. So I think it is something we are positive about, but given time to develop what timescale are we talking about. You know, is it five years, is it ten years, so -- positive.

Q. (Mr Smith) I would be interested in your views, because we have had views from other members of the OPWG as to time line, what is your view on API development time lines and implementation and --

A. (Ms Flood) Can I push the fact that we still need to get broadband coverage sorted first?

There is a generational change coming through and that younger generation are going to be working. The rate of change already with FinTech is rapid. I think the future that banking will be very customer centric. Businesses will have the mobile device, have the prompts to make sure that they have all the information they need, and get information on the best option. It will not be as much about businesses searching as somebody else making their search very tailored. I believe it will be a different world, but we are some way from that.

Q. (Mr Smith) How far do you think we are have from the development of a sort of standard API environment which then can be rolled out.

A. (Ms Flood) Well, EU regulations are quite interesting -- currently there are regulations coming through that the banks can only use the information for the specific purpose for which it was originally given, which is the standard, but also that they have got to get the explicit consent. This is quite different to a customer saying to the bank that it is fine for bank staff to use their Midata. Instead the banks have actually got to tell customers that they want the data for X, Y and Z. Some regulations will take at least three years for agreement and then that needs to be transposed. If that change can be made, it will have to be transposed through into legislation. That is just one example of what might cause a time lag. In other countries, as you will know, this is already up and running and it is quite normal practice, and has been for about ten years in some of them.

Q. (Mr Smith) So if we are talking about that sort of time frame, then there is something -- is it worthwhile investing in something like an Midata solution or the SME world, pending that sort of three, four, five year horizon that we --

A. (Ms Flood) Yes, I have looked at the Lloyds Midata 2 option and whilst it is at an early stage. I think they have done quite a remarkable job on it. This type of IT will make a difference for some small businesses. There are also businesses that are just starting out, have got a great idea, but do not have the IT skills or business training. So, for some a Midata-type tool may make use of big data and help drive and change the market, but, again, we are still tinkering around the edges. To make a substantive shift for the majority of the small businesses who are not going to have a huge amount of IT or business skills when they start off, something more fundamental needs to happen.

A. (Mr Thiru) For our members perspective, we have significant concerns about data security. Businesses want to feel in control of the data and I think there is concern that, once it goes through API all those various other developments, then they are going to lose their control and also there is issues around sort of digital footprint affecting the credit history as well that has been impacting some of the lending decisions as well and there is concern that, you know, that that data may be accessed by -- obviously there is four possibilities there, particularly in the wake of Talk Talk, the example of that data being hacked. Also other types of lenders may not necessarily want them to contact them or have access to things like pay end, is the obviously example that members sort of flow to us. I think that is sort of a big issue and our concern is that things are happening a little too quickly and some of those issues around security, around sort of practicalities of this, it is not really been thought through at this stage.

Q. (Mr Smith) So as you go through a transition, you have a perception -- or both the reality and an increased perception of data issues and unintended consequences which you would say your --

A. (Mr Thiru) Yes, absolutely, and I think they is a broadly welcoming of the end goal. For example, if lend decisions are made on a much more informed basis, clearly that is good outcome for SMEs, but I think it is ironing out the process for getting there, I think.

Q. (Mr Smith) The take care.

A. (Mr Thiru) Yes.

Q. (Mr Smith) Is that a view that is shared?

A. (Mr Parry) Yes, I agree with the points about security particularly, it is a big issue, but also the diversity issue about touch points. We have members who have four or five individuals and the only time they do use the computer is for a VAT return. So there needs to be several other touch points in there. Whether you can get a third party like an accountant to sort of found out the data for you, if you like, and then process it actually in a way you understand, but not everyone likes -- strangely enough, I do not understand this, not everyone likes

Excel and other analytical tools.

Q. (Mr Smith) So that comes back to the point that you have all made, which is time poor, expertise poor, use of intermediaries as an interface to you -- to the fact that doing it yourself might be a bit further away. Why do you think there has not been the development of a price comparison website for SMEs in the same way that there has for personal consumers? Is that the volume? Is it the heterogeneous nature? Is it the big four? Is --

A. (Ms Flood) The reason given is that small businesses are diverse, but there is no reason why there cannot be basic simple questions, and the same definitions and terms, to give an indication. It might be a band or a range that does not breach any competition rules. There's no reason why that cannot be achieved by the banks. Business banking opacity can be due to products and services being tailor made / all very individual, so businesses have got to come into the bank and see it, but it is possible to provide comparable information on products and services. The other industries have achieved that.

A. (Mr Chidley): I think one of the problems is that, if you were to produce against the sort of background of the market, as I think we have described it reasonably accurately, when you were comparing, you would not find a lot of difference and that, backed up by very low product innovation, which the CMA also identified, you're just going to have a lot of homogenous products broadly speaking very similarly priced. It is not a very sexy read.

Q. (Mr Smith) Is that the core product that is similarly priced or I think, as Toby and others were saying, you know, as you move into a series of other --

A. (Mr Chidley): I think the other issue, I was just coming on to say, is it is so difficult to work out actually what you are paying for, in particular with -- let's take a BCA, that is quite hard to work out, because it has got multi-components and you have got a tariff of individual fees and you might have a monthly fee as well, overdraft even more complicated, because some people will charge you, you know, a daily transgression rate and you can quite quickly with overdrafts get to a situation where it is costing you more than the regulated pay day loan sector, and there is evidence out there to show that. So I think this does bring us back to this whole complication of working out what the actual thing is costing and therefore, to compare, by and large, you need to compare things that are similar, and --

Q. (Mr Smith) If you had your own data, Mark, and you were able to put your own data, your actual transactions for the last year or two, into a site and it was able to compare --

A. (Mr Chidley): Yes.

Q. (Mr Smith) -- you would either -- if you take your premise, you would either get everything is the same or you would actually start to get some difference through there. I mean -- but we don't know.

A. (Mr Chidley): No, you're right, we probably don't, and certainly there is not any current evidence out there and, if people were sufficiently un-risk adverse to be prepared to allow that data to be used in that way, issues already raised, then it would be terrific if you could then compare an apple with another apple, but if you are going to compare an apple with some other fruit, it is not quite the same, and the market has developed in this way that I think it is almost impossible to unpick precisely, you know, whose charging what and in what particular way for a similar product.

A. (Ms Flood) This is going back to the need for legislation for credit data to be comparable, for it to be the same, and that is just not happening with the banks. It does make comparison between different banking products and services incredibly difficult.

A. (Mr Nikolaidis) I mean, I agree with the points around the table. It is also the complexity issue. So you might have more than one financial product with a bank, so how could that go into the price comparison website or, for example, I have had feedback from members that some banks, for example, don't support defence sales, so how do you know that, how do I look for a bank that supports the kind of sales I want to make, that supports all the financial product range that I want to buy into. It is just a bit more complex than looking at your energy bill as a personal customer.

Q. (Mr Smith) Well, that sort of does bring you then on to points that you have made as well, which is there is capacity on price, it might be able to move so far, but you have also emphasised very strongly service quality. I would be very interested on your perspectives on not just the importance of service quality, which you have demonstrated, but how one would go about doing a comparison of service quality using --

A. (Mr Nikolaidis) So that already exists.

Q. (Mr Smith) Yes, and it does come back to BBI and stuff and the meeting last week was helpful in terms of the next stage. I mean, you might just want to take us down that road of BPR.

Q. (Mr Land) And how that can be amplified as well, in particular how you can make more of it, I think is what we are really --

Q. (Mr Smith) Yes, because we are aware of it, obviously, and seen it, but I think the fact that you have developed it to the next stage is also very helpful. So looking in your term how long it will take on some of the other aspects and how quickly does BBI really get scaled up and used.

A. (Ms Flood) As far as the quality side goes, it is imperative. Just looking at price does not do it. Businesses have to be able to look at other things, and relationship management might be really important or ability to deposit cash, whatever it is going to be. With the Business Banking Insight, we have started off with a basic website. In the first quarter of this year coming up we are going to be developing it a lot further and so the individual, the small business, can set their own parameters of what they are interested in. Businesses could look at regions, whether they want relationship management or, other criteria. There is ability to scale up and to get awareness raised. Once the website is stronger and once the banks step in and promote Business Banking Insight, I think that would definitely help.

Q. (Mr Smith) The made the point to the staff last week that the banks are not quite as engaged as you might like. Is that fair?

A. (Ms Flood) Whilst banks have provided funding, we would really like the promotion side of it as well. This just comes back to the need for some sort of imperative to make this change to help get the banks more engaged.

Q. (Mr Smith) Other views on the BBI or other service quality mechanisms.

A. (Mr Thiru) Certainly from our point of view, service quality, and this is not just for banking but also across all suppliers, service quality is probably the number one thing that our members look at, certainly of service, you know, because they need to have the certainty to run their business and that is number one across the board, not just in banking, so I think that is clearly a big thing. In terms of BBI site, I think Erin's covered it. In terms of the website itself, it is now up to 20,000, in the last couple of weeks and it is one of the biggest surveys of its kind in the UK of SMEs. A massive revamp of the website is also taking place, which should be live towards the end of Q1 next year, so that is all going through. I think what is quite key, in addition to what Erin said, is that you can actually use the website to identify who is providing what and who is good at providing what as well, so even into the big four banks we have seen data coming out on the website, that you can actually differentiate between a RBS and HSBC based on the sector levels, you know, someone doing better on that sort of level, whereas if you go up to a macro level, most of the big four look pretty much the same as you earlier pointed out. But actually whether you drill down to the sector level, and by region and product as well, you get quite a broad range of differentiation between that.

Q. (Mr Smith) So as you expand the information set, you then do hit one of the challenges you have raised, which is time poor, how broad an information set you get to, that it just becomes quite dense for someone who is time poor to get into and then that comes back to --

A. (Mr Thiru) Well, the website you can actually filter the data, so it is very much sort of simple, the whole thing, and whether you want to look at data as a whole, you say, oh, before you go and look at it --

Q. (Mr Smith) Menu driven approach.

A. (Mr Thiru) Yes, absolutely. So it is very much driven that way, so businesses can look at and what is important to them really, as opposed to what we are deciding should be important for them.

A. (Ms Flood) And it is going to be ramped up. It is basically just one page. Businesses just fill in the criteria of what they are interested in and then they apply that filter. Easy as that. When looking at price, it is possible to have the same type of approach, ie chose the criteria to filter the data -- it will give an indication, because there are going to be differences between products, there could be bundled products or a discount on administrative charges could be lost. But we are not seeing that coming through from the banks.

A. (Mr Thiru) Just on the awareness point, I think that banks should be obliged to promote BBI alongside current account switching, which I mentioned earlier, I think making information available to businesses and help with that switching process is vital and the bank should be pushed to do that and we are very clear in our submissions to the CMA that the bank should be obliged to promote BBI as well as current account switching, which is a total package.

Q. (Mr Smith) Views on this side of the table on BBI and -- you were obviously both in the meeting last week, so --

A. (Mr Parry) The other thing was, just coming back a few stages, was that we do use something at the moment which is a hard copy called Moneyfacts and the information you get out of that, if you have ever tried to look at a comparison -- if you have ever tried to sort of envisage that as a comparison website, it would just be an absolute disaster, because there are lots and lots of sort footnotes and various other things, and the parameters are so large, that it is just very very difficult to provide, and then we cannot provide it to other members, because they are then sort of stepping over us to giving our management advice on these sort of things. So there is also --

Q. (Mr Smith) So that is a blocker there.

A. (Mr Parry) -- block, but it is (inaudible 11:13:06).

A. (Mr Chidley): I mean, the consumer panel's published some research in a position paper earlier this year which we refer to as consumers as co-regulators, but the idea of this is very much that information is provided in relation to service quality as well as price, so some of those softer measures, and from our point of view we quite like the idea of this extending -- it is not quite a scores on the doors food hygiene rating, but at one level it could be that and we like the idea of trying also to capture the sort of components of the bank's culture. We certainly like to see customer feedback included and I think at one level penalties and redress paid out and that sort of thing. So you can make this into really quite a big and quite an empowering tool for consumers, but I think we are at a very early stage with all of it at the moment, and I would just refer to our consumers as co-regulators.

A. (Mr Nikolaidis) Nothing really to add, just a question in terms of what is the take up look of the BBI at the moment. Is it being used a lot? Does it --

A. (Ms Flood) It is been low and, again, it is the rapid start that led to a rather rudimentary website, and a lack of the promotion as well. So I would expect the banks to be --

A. (Mr Nikolaidis) So are banks in charge of promoting the BBI.

A. (Ms Flood) There is a separate -- no, they are not.

A. (Mr Nikolaidis) Okay.

A. (Ms Flood) However, there is a separate agency that is there to do the promotions and those promotions are ramping up more now as we are almost at the 20,000 mark of the number of respondents. So it is a really robust data set. However, banks are a main point of contact on finance for smaller businesses and as the banks are funding it, they could promote it on their web.

Q. (Mr Land) And one thing we have noticed, I guess, when we are looking at remedies in this area, is that there are a lot of initiatives, a lot of good initiatives. So we have talked Midata and APIs, we have talked about CAS and each of them is dealing with part of the issue and I suppose what we are trying to get our heads around is, well, what is the thing that would put all these pieces together and really sort of amplify the impact of each of the individual steps and I'd be interested in your views.

A. (Mr Thiru) And what about execution in BBI, and we did some testing of the website and the project itself a few months ago. One of the key things that came out of that is the thing about trust and credibility. They want an official stamp on there, to make sure the information they are receiving is credible really, and that is why, for example, that the BCC and FSB had their stamp on this project, as an example. So I think that is crucial really.

In terms of getting all the information together, I think, you know, it could be in terms of a hub, it could be a virtual hub, so, you know, increased links between the various options out there, for example, BBI and CASS is an example where those links can exist. So if people want to go to one place and think they want to switch, they get some information on the BBI website and they want to switch, and then this link to -- you know, to actually go through the process of switching.

A. (Mr Nikolaidis) Can I ask -- I do not know how helpful this is, but for example I am sure you have all used a lot of other websites and stuff and when you buy the product, you are done with it, there is always in the end a message that says rate our service here, provide your feedback. That can be the same with banks and prompt you to the BBI website, for example?

A. (Ms Flood) Yes.

A. (Mr Nikolaidis) Because I get a thousand emails per se asking me to rate them or provide feedback of those services. So a similar principle could apply for banks.

Q. (Mr Smith) Yes, and it is one of the things, again, that has been explored and is in the mix, the extent to which customer satisfaction scoring is part of a service quality indicator. One person's service quality is not necessarily another person's service quality, it is an innovation of privacy and all that kind of stuff. So there is a balance, but ask the customer, I mean, I think one of the things you have said is ask the customer, put the customer in control and I think it is been an theme of the morning in a way.
Is there anything else around the sort of access and assess part of this cycle that we have been discussing or shall we move to applying and actually changing and the mechanisms that should exist there?

A. (Mr Hewitt) One thought I have on the asking the customer thing is whether perhaps -- and I do not know whether if it is come up in the consumer panel's consumer regulation paper, but whether you can use, if you like, sort of public engagement techniques, sort of deliberate in polling (11:18:13), citizen's jury style sort of hearings, where you will get a panel of small businesses, if you are looking at that market, to, if you like, interrogate the banks and sort of say are those service quarters (11:18:25) being delivered and so put the burden of proof on providers to a sample of the UK and you can sort of give money for their time, so you get, if you like, some real on the ground feedback, how this impacts. That is just a different way of the tradition methods of the consultation.

A. (Mr Chidley): And that might perhaps get you over this problem that you were just describing, and we have some further research which rather frustratingly we are just awaiting, a final report early in the New Year, this is work we have done around bank culture rather than anything else, but we have had a specific SME work stream, and one of the fascinating things is how clearly consumers and SME consumers in particular get the whole sort of concept of culture and they can differentiate from service standards and things like this. So there is a lot of -- you know, these people, there is wisdom in the crowd out there and they get these things far more than I think they give them credit for certainly.

Q. (Mr Smith) No, it is a powerful point.

A. (Mr Chidley): So we will share that with you when the time comes, disappointingly not until the New Year.

Q. (Mr Garland) So we move on to action, the first bullet.

Q. (Mr Marsden) So the slide we are looking at now is 12 and 13. You will see a range of options there on 13 and just taking them in order, if that is possible, we have noted, sort of exploring it in a way the changes to BCA opening processes that would make the most differences to small businesses and whether there is a way of finding amongst these diverse businesses and banks a form of standardisation that would be helpful or what are the key elements of that, those sort of questions. Why do not we start with that?

. A. (Mr Bateman) Do you want me to go on this one?

A. (Mr Bateman) I mean, I do not want to say too much about individual procedures. I do not think we have talked to our members enough to get that. I guess one of the things is obviously speed, so setting -- not a time limit necessarily, but saying what good opening procedures would be in terms of how quickly they can get it done. So I know that speed is something that our members talk about a lot. I do not know how closely you have looked at that and the variation between that, but it would be interesting maybe to tell others, you know, as part of the quality review, how quickly can another provider get something done, would be quite interesting.

Q. (Mr Marsden) Yes. So target times, that sort of thing. Yes.

A. (Mr Thiru) I think from our point of view it having a bit of a safety net. I think it was touched upon earlier about, if something goes wrong with moving someone's payment accounts across or, you know -- and I think that can be typically crucial to SMEs, who run quite a tight cash flow and anything that is knocked out, you know, in terms of paying their staff, paying supplies, that sort of thing, will actually have quite a massive impact, I think, and that safety net reinforces that actually, will create greater confidence for businesses.

Q. (Mr Marsden) I think there is also a recognition obviously as the size of businesses change and banks are different data requirements of what they need, you know, that is a struggle to try to find any sort of standard opening form or whatever when you have got different data points, but on the other hand some of the things you are experimenting with show that it is feasible. I just wonder if you think there is particular good things or problems in that area with respect to the different sizes of various businesses.

A. (Ms Flood) The risk appetite of the banks has to be balanced by the regulatory requirements on them. Banks have got to know their customer, but it also should be proportional to the small business. This should be based on the actual risk of the small business, not just about the anti-money laundering requirements, but more around if that small business fails, what is the actual detriment around this and, to get some proportionality on how much information is required. There should also be some standardisation, so that, even if the risk appetite of the banks is different, at least the forms should look the same. There is no reason why they cannot use the same form, having put their brand on it, so it starts to become more of a standard process so that all businesses know what they are looking at, would be very helpful.

A. (Mr Bateman) Yes, and I think we have a few regulatory points around -- especially around AML, KYC, I know they physically get paper copies of documents and stuff. If you could digitalise that, it is much easier to send an email than a letter. So a few, like, tinkering things like that, but no kind of big silver bullet, I think.

Q. (Mr Marsden) So it sounds though we are thinking that, if there is a feasibility issue, it is not a big problem, it is just a matter of trying to find some form of common approach on big items and then digitalisation would therefore help in a great deal with some of the actual people requirements.

A. (Ms Flood) Yes. This should be absolutely doable. It is a business current account. There are thousands of them. It should be possible to standardise the process of opening them.

Q. (Mr Marsden) Okay. Good. Well, we have nailed that one on the head then.

A. (Mr Parry) Just a couple of things. Not only the safety net, but the disruption, but also transparency. Often you do not know what information the banks have about you. Mark talked earlier about sort of sleep walking into auto renewals and so forth, but also banks (inaudible 11:23:56) to one another to, you know -- some banks are probably -- some bank relationships are probably easier than others to get. I know a number of business owners who have had huge problems in changing banks, even though it is very straightforward, and you would be surprised what information comes up. Anti-money laundering, Data Protection Act, anything that sort of suggests I want to make life -- any regulation can be used to make life as difficult as possible for that changeover can be used.

A. (Mr Thiru) Yes. There is a concern about the bank's IT equipment. I mean, there is concern among businesses that even the biggest banks are not really up to the switching process from an IT perspective, I think.

A. (Ms Flood) There are legacy, issues. It is within the banks themselves being able to share and find the information, let alone being able to pass it on.

A. (Mr Bateman) I guess, just a general information, the Treasury is looking at the AML regime. So I know in the Cutting Red Tape Challenge this is something that they are quite keen to understand and I am sure others have responded to that consultation, but I think that is quite a positive move.

Q. (Mr Marsden) Okay. Moving onto the next point, then, thank you, we talked before obviously about the fear of payments being lost and the actual happening of it being very critical, especially to small businesses, and now, you know, we are trying to weigh up the relative benefits of account number portability versus the longer period of redirection, just the various views around the table about that, which would be more beneficial of course. There are different costs with respect to both of those options, quite considerable differences, but which do you think is most beneficial?

A. (Mr Nikolaidis) From my understanding, banks find the cost for either of these two remedies quite high and, given that ANP (Account Number Portability) would perhaps have a greater impact in increasing the churn in markets and more switching, that that would allow maybe the UK to go ahead of the curve in this area, where it does seem the market is heading anyway. It might be better to get the work started on ANP. I mean, the FCA have said that ANP would increase confidence, consumers to switch, and also the Parliamentary Commission Banking Standards has also recommended that ANP should be further considered and they did say that, while banks have produced a lot of work on the costs of ANP, there has not really been done any work on the benefits of it, so maybe this is a point that should be further considered.

A. (Mr Bateman) I am not sure if ANP does make switching easier though. I mean, the members I have spoken to are not massively one way or the other about it, so I cannot really give a strong view.

Q. (Mr Land) So the main difference seems to be at some point, unless you have permanent redirection, you might miss a payment and ANP is a bit of sexier way of explaining it than the other things, but I wonder what really resonates with small businesses?

A. (Ms Flood) Just looking to future, what will account portability actually allow businesses to do? The redirection is a nice fall back to have, and that is what ANP can also cover but what else can ANP do in the future? I agree that it would be good to have a look at what else can be achieved through this. Not just the costs, but really look at the benefits of the future.

A. (Mr Chidley): I think you got into a full cost benefit analysis, have you not? I mean, at the moment there are some examples of it which look -- some of them appear to have been slightly half baked anyway and it would be a big step and on the face of it has significant potential upsides, but it also has associated costs and obviously an associated risk.

Q. (Mr Land) So what is the upside, because that is what we want to hear.

Q. (Mr Marsden) Have your members specifically identified particular benefits?

Q. (Mr Land) That will tell us the costs. We want to know from this group what the upsides are?

Q. (Mr Marsden) Besides the benefit obviously certainty.

A. (Mr Chidley): Yes, generating -- well, if you want this much more lively market, when people feel, you know, empowered to move around much more readily, then if you knew, you know, this would give you a great deal more confidence in doing that. But it has got to be the right secure scheme, because, again, the risk aversion thing will sort of go off if suddenly -- you know, if I have this, am I at greater risk than I would be in some other way. I do not think you necessarily are, but it needs to have a full cost benefit analysis undertaken before you can do it, and --

A. (Ms Flood) Also looking to the future around data protection, we have the ability to use data and we have not quite caught up yet with having the data protection in place, but that will happen. This is a massive opportunity and it would be a shame to lose this time, because I do not know the next time you are going to do another review of the retail banking market. So let's grasp it and make sure we have got a banking market that is fit for the future.

A. (Mr Nikolaidis) Yes, I am not going to pretend I have any robust quantitative evidence on this, but I just -- even if ANP, we conclude that it is not of use, I just do not see why we should exclude a remedy that could have quite a big impact. I mean, we had other independent bodies recommending it, us having potential impact, but we only have evidence of one side of it, which is just banks saying this is too costly. I do not see why that is a sufficient reason to completely exclude this remedy. It might be the case that we produce evidence on it and it appears to not have impact big enough and exclude it then. We do not have the necessary information to evaluate whether it is good or bad.

A. (Mr Thiru) Yes, and I would certainly go with. I mean, businesses are not wedded to their account number in the same way they are wedded to their mobile number of course. But I think the case needs to be made really and not necessarily with account portability, but what the prudent process, what the safety around it and, if account portability delivers that, then our members would be favour of it, but I think the case has not been made yet.

A. (Mr Chidley): Right, good.

A. (Mr Hewitt) I wonder whether there is a -- I am not an expert on the costs and benefits of ANP, but is there a more structural competition issue behind this, which is not about the account number portability issue, it is around access to the payment system and the ownership model behind that payment system which is owned by the big banks, so any of the new challenges coming in have to go to an agency banking agreement. Yes, we know those agreements are very opaque, we know they are a big barrier to entry, but those players. So again, to bring in actually different offers for small business, do we need to address that issue, not the more technical issue around account number portability and I know there is a payment service regulator and you're minded to say that is their business, but are you going to make any kind of recommendation saying we would like them to look at this issue with some direction as well, rather than just saying not our job, mate?

A. (Mr Chidley): That was a question?

A. (Mr Hewitt) That was a question, yes.

THE CHAIRMAN: We had a lot of discussions with the PSR about what they're doing and the position we took in our provisional findings report was that they seemed to have the right agenda and to be addressing the right issue. So, had we found something different, then we might have been minded to make a recommendation that they ought to have been doing what they were not doing, but the position as our current view is that what the PSR is doing is what we would want them to do. So making a recommendation to tell people to do what they're already doing, does not seem quite the right place to be.

Q. (<u>Mr Land</u>) And the Cruickshank Review, which various people, including me and Sue Lewis from the FSA consumer panel worked on, made a recommendation 15 years to set up this regulator in order to sort these things out. Having done that, we are quite keen to -- you know, we appreciate that, but I think having actually bought the dog, we are not proposing to bark ourselves essentially on that one. I think it is important to -- having got a good robust solution in post they have to try to make it work.

A. (<u>Mr Hewitt</u>) Interesting, you are both on the Cruickshank Review. Given the history, given the longevity of this issue, are you actually genuinely happy that it is moving as fast as it could do? It sounds like are you, but why? I think put it that way.

THE CHAIRMAN: The establishment of the PSR, which has just been established, this is its first year, yes, so we are very pleased the PSR has been set up.

Q. (<u>Mr Marsden</u>) Moving on to partial switching, so trying out your new account and do you think there would be a benefit of linking that to some sort of CASS guarantee? Do you think there are various upsides or perhaps downsides unintended consequences, with respect to having sort of partial switching being allowed? How would your members react or use that sort of facility or are they.

A. (<u>Mr Bateman</u>) Just so I am clear on that, is that kind of staying with your current account provider but going to a different provider for say a term loan or something? Is that what you are talking about?

Q. (Mr Marsden) It could be various ways, but it is mainly testing out what is offered somewhere else before you actually make the switch and trigger the CASS process.

A. (Ms Flood) It is nice to have but it is about driving up awareness and use first and then, once people try it and find it is working, it might help them to think about staying with their bank for some of their money, and being comfortable to go over to another finance provider for another source of funding. It will have more use in the future once people are using the CASS service, but we need to address the fact that people are not aware or comfortable, they do not feel secure yet.

Q. (Mr Marsden) Does the time poor nature of the majority of these businesses effect in any way what you think they will do with the partial switching or their ability to sort of experiment, if you will, without a guarantee from CASS?

A. (Mr Chidley): It feels like the right thing to do, but it requires people to separate out the various components of their banking relationship and so a lot of people would use an overdraft as their loan component, because it is so flexible, but obviously you cannot move your current account and leave your overdraft in one place, because the overdraft is a limit placed on the current account. So I think it is of limited value, but it may well be that -- and, again, banks try to stop people doing a lot of this. They contractually try to stop you from having a loan account with a separate bank, for example, which does not feel entirely competitive. So I think there are some benefits, but they are not massive.

A. (Ms Flood) And it will get better if we actually tackle the other issues that we have been talking about. There are many other things that need to be sorted first, but I definitely think there is something to hold on to. It does no harm.

A. (Mr Thiru) I mean, I suppose it is work in practice, you know, would you move sort of half your funds into the new account? Would you move it all across? It still feels like it is going through a switching process. You know, you're going to go back in a month or whatever the control period is. So, I mean, it may well help but I imagine only in the margins.

A. (Mr Parry) I am very positive about it. I think it is very useful for certain types of business. For example, if you have got a nice simple case, you have got two shops, one shop switches over, you see how it works out, then you can take the second one across. To then talk about the safety nets, reducing disruption, the issues about any assets that the business had that were limited finance as well. We think that is going to be a big problem if you have got a multiple number of accounts. Have you got same assets, sort of funding and security with so many options and we are not aware of it.

One of the things we have not touched upon was we spoke to one of our reasonably large members the other day. They had been caught by cybercrime and they had been with the bank for over 25 years, but it was the first time they saw their terms and conditions. When they saw their terms and conditions, that you cannot do this, and they had never seen them before. You know, things like that, again, we are going back to the trust issue and so forth, but they were not aware that things had changed with them going on to online banking.

Q. (Mr Marsden) Okay. All right. I am moving on now to past transaction history, so we are thinking about trying to access your data in a world without account number portability and you have switched, or you are thinking of switching and you have realised, you know, I probably would have liked to access a few months, a few years, whatever, data, either for free or for a charge. You know, how helpful do you think that would be? What sort of limits should there be to that or how useful --

A. (<u>Ms Flood</u>) I speak to the banks and think I am agreeing with the banks that the data needs to move with the customer, otherwise the business ends up with an organisation that the business is no longer in a contractual relationship with, holding on to their data. Whereas the bank that could actually use the data the most would be the business's current bank and so data needs to follow the business customer.

A. (<u>Mr Thiru</u>) Also I guess there is an issue with how prudent that your next customer, or your previous customer of that bank thinks. I mean, in terms of process, in terms of the outcome, I think it is a good one, but actually I think there might be a more efficient way of doing it. I think like, for example, taking the data across, which moves you, you know, taking your whole history, take it with you.

Q. (<u>Mr Marsden</u>) But the key thing being that the customer is always able to access the data through whenever provider or themselves, if they have Midata --

A. (<u>Ms Flood</u>) You never know when you might. There could be a court case that goes back 25 years and that piece of data is still needed. You just do not know what the future might bring or when you need access to your old data.

A. (<u>Mr Parry</u>) Then the obvious thing is HMRC needs records going back six, seven years. Seven years is the safety net, therefore you need that information. So it either goes to the customer or someone's got on hold on to seven years' worth of data.

A. (Ms Flood) And it should not be expensive for the customer to access their own data. So if it is online and it is with my current bank, I should be able to digitally go and find it. In the ideal world, once everybody gets their legacy IT issues sorted.
A. (Mr Bateman) Yes. No, I would agree with the sentiments that are made, to be honest. Nothing really to add.
Q. (Mr Land) Is there an angle on this which is connected to -- Ed talked earlier about the accounting software and suppose one difference between businesses and personal customers is that a business is more likely to have a good record of key transactions or key financial players unless, like me, they are married to an accountant, in which case my every move is documented on my wife's computer. But I suppose that is an area that some of this data is more likely to be held outside the banking system within SMEs, to start with. Does that help, or do you still need the data, banks to hold the record of the transactions as well?
A. (Ms Flood) Because the data -- if you have got your core data held with the bank, then it does not matter if an error has been made by a third party, you can still revert back to the core data.
Q. (Mr Land) So you need the bank to have a record? You need a bank to have a record for purposes as well any record that you have got as well? They are both.
A. (Ms Flood) Yes. At this point in time. In the future, who knows.
Q. (Mr Land) Thank you.
Q. (Mr Marsden) And last item on this slide, as you will see, is about CASS governance. Of course we have talked about CASS before. Not really talking

about the mechanism per se here, but we are talking about the future of CAS and how representative it is or how independent it is, is it thinking for the customer, your various customers, or what changes do you think might be needed, if any, to the governance of CASS to better represent your members or to help your members with things they are struggling with?

A. (Mr Chidley): I mean, is it right to say that it is really currently under the control of the industry? That does not feel a entirely comfortable place for it to be, so I would have thought there were reasons why, if we really want to make something out of this, it needs to be independent in some way, shape or form, so it can be separately independent or perhaps logically it could be part of the payments services regulator, I am not sure. But I think we had rather allowed too many of these things to sit within the industry. It is --

Q. (Mr Marsden) Is there some degree of independence itself or some degree of independent oversight or more representative collaboration or, you know, with some of you, would any of that help, or is that a step too far.

A. (Mr Chidley): I think it just needs to be independent, does it not, in some way, shape or form? I mean sensibly independent, not independent in some complicated and expensive way.

A. (Mr Bateman) It is not something that has ever actually come up with members. It is something we have been asking them about, but at this point in time it is not something that they are jumping up and down shouting about.

A. (Mr Thiru) I wonder say there is little awareness around businesses, that it is being funded essentially by the industry. So the perception there is independent, and whether it be or not I think is slightly different. But in terms of perception of business, I think it is pretty independent.

A. (Mr Chidley): So much of this is about the perception of risk and so forth, that if we do not do the things that, you know, we can relatively straightforwardly do to deal with those perceptions of risks, then we are missing, you know, the low hanging fruit or whatever the expression is.

Q. (Mr Marsden) Turn on to SME then.

Q. (Mr Garland) Well before -- so next we are going to talk about SME lending, but before we do that we can have a five minute comfort break and come back here and we are talk about SME lending and then the remedies or potential remedies.

(A short break)

Q. (Mr Garland) Then we will start to move onto the discussion of SME lending, which Alasdair was going to lead on.

THE CHAIRMAN: In some ways now, I think of SME lending as the central problem in SME banking, in that among the various frictions in the market, perhaps the most important one that we see is the fact that many many small businesses, when they take the step of looking for finance for their business go to their existing banking providers, a very high proportion of them do that, and one understands why: the existing banking provider has a lot of information about them that no other provider of finance has got and in turn they have a lot more understanding of their own bank than they have on other providers. So if you are looking at having a very significant increase in competition for small business banking, then the relationship between the BCA provider and the provider of finance is a thing that we would want to have a very close look at.

So on the remedy's package we have -- well, there are three remedies I want to raise, but two of them seem to be very closely related to each other. The proposal arising from the Small Business Enterprise and Employment Act, that there should be the possibility or requirement for business data to be shared with CRAs, credit rating agencies and in terms for the credit rating agencies fob the conduit for bringing competition from other providers to the provision of finance for small businesses and the next remedy is very similar, but more focusing on opening up through open data competition, commercial competition, for lending for small business loans. So both of them, I suppose, deriving from treasury initiatives, or one of them focused on credit rating agencies through the Small Business Enterprise and Employment Act, one of them deriving from open data initiatives, opening up the market to other providers. So your reactions to these two remedies, what do you think the scope there is?

A. (Mr Bateman) I mean, we have been broadly supportive of them and through the kind of legislative processes you have identified. I think they get to the nub of the kind of information asymmetry that we hear a lot about as a characteristic of this market. Obviously we have talked a lot about data protection, so that is still kind of an issue. But, no, I think generally we are quite positive. We think they are going to drive, hopefully, some good changes in the market.

A. (Ms Flood) It is definitely going to be supportive of the future and where it is all going to be heading. There are a few more issues around the data protection. We need to be empowering the small business. It is their data. So they need understand the purpose for which the data is going to be used, how long that data is going to be held. There is a real risk that the data can lose currency, but not be destroyed, and instead brushed off and used for another purpose later on. There is also the issue of where small businesses can go if they think they have got a complaint or they have got a concern. They need to feel that they have got control over where the data is going and that sort of transparency of the process, who is using it. What small businesses still perceive or is reality is that, once they go looking for credit, they leave that digital footprint and then that is actually going to end up being damaging. The very mere fact that they have been shopping around or looking, is deemed by some organisations to show that the business is a bit of a risk.

A. (Mr Thiru) Yes, I certainly agree with that, about digital footprint. I think the important point is around control as well. Businesses want to feel they are in control of their own data and I think particularly around this area as well and sort of SME financing and also going somewhere to complain as well. We had issues from businesses who I guess are slightly above the sort of sole trader end, more towards the top of the S on the M type business size and they struggled to find anyone, if they have had an issue with their bank about their lending practices, they have struggled to find where to go, aside from the legal route. You have those at the very bottom who are at the Financial Ombudsman Service, but there is nobody no one really catering for those above that as well, so, again, beats into that confidence angle and sort of trust angle with the whole process of getting a loan in the first place.

A. (Ms Flood) Yes, and there are issues around access to the legal system, the costs that are currently there. Businesses are coming up against the banks, who have the business's data and they have the legal teams, and businesses do not have the time or the knowledge/understanding to go to court. There is a gap, and whilst it is good that the Financial Ombudsman Service covers micro-businesses, there is a gap for the other smaller businesses.

A. (Mr Bateman) I think it is worth adding as well that these are obviously solutions just on the debt side of things. So they do not really do much, as far as I can see, to promote the use of equity and arguably there is an imbalance in the use of different types of finance among the UK's small and medium sized business community, and actually I think that comes back to an argument I hear a lot from members of the banking community to say that, when it comes to lending and access to finance, the real game changer will be competition outside of banking, rather than kind of competition inside, so actually finding the right type of investor or lender with the right risk appetite for the right business, to be fair, like, these are good, but they are probably not going to solve those kinds of issues.

Q. So even the open data initiative is not going to open that up?

A. (Mr Bateman) It is different. So an equity adviser needs different types of information about your business. You know, they obviously want to look at that data, but equally they are probably going to make more of a decision on your growth story, the opportunity that you have identified, rather than your kind of serviceability of a loan, which is what that data is most useful for, I think.

A. (Ms Flood) I think if you are going to be looking at the history, there could be an API that will go broader, to help build that extra data to say the business has got a good track record or that the business owner has been working or written papers on X, Y and Z, which shows they have got a really good understanding. There could be a broader range of information pulled in by the APIs, but, again, it is about waiting for those things to happen.

A. (Mr Chidley): And I think what Toby says is right about, you know, alternative providers being crucial to access issue, because, you know, there is no question that the smaller you are the harder it is and, when we are talking about lending, there is a credit decision being made about the provider here and effectively it can decide whether it is an appetite for lending to small businesses for example, and there is evidence that even before the crisis, banks were moving away from lending to this particular sector which they find complex, difficult, hard to really get under the skin of and so I think -- you know, there is -- these are good things, but they will not address what is, I think, a continuing and quite critical problem of access to finance for these small businesses.

A. (Ms Flood) Except, though, our latest data is showing that it is easing a little bit for the larger of the small, but there is still a substantial issue for the smallest of the small and the start-ups - not necessarily those that venture capital investors are wanting to get involved in, but a basic type of start-up that does not have that history behind them. Businesses can improve the service quality through having an investor ie they're going to want the business to succeed, they are going to give their business acumen as well as extra support. So it is more than just the money that comes through to businesses who use equity finance.

A. (Mr Thiru) Yes, I mean, I think there are structural issues, SME lending, that's gone pre-dates the financial crisis. This was first picked up by the Macmillan cap in the 1930s. I think that is still a huge issue today. It is been exacerbated by the financial crisis, with niche lenders moving out of the market, and we have often been of the view that the banks never really provide this type of finance to young companies. These are firms that do not have a bad credit history, but they have a little credit history and there is a gap there and we believe very much to be that the business banks should be playing a greater role in this area and doing more, filling in those gaps in the market, where the market still doesn't provide that type of finance at this stage.

Q. (Ms Mansilla) What about the start-up loans company, where they are playing an active role, particularly in that area, of finance where for young businesses starting up they provide that finance where, say, private markets (inaudible 12:01:10) together, so is that sufficient?

A. (Mr Thiru) That is a step in the right direction. A lot of the work that the business bank are doing now is more a step in the right direction, but it is very small scale compared to the funding gap in the market at the moment.

A. (Ms Flood) The start-up loans are really important for some particular businesses as they make sure the business proposition is sound. They are targeting a certain type of business, in the same way as responsible finance, which used to be the CDFIs, they have also got a really good role to play. We were talking before about having a very broad type of market and there is plenty of room out there for a lot more finance, a lot more growth, a lot more investment, to take place. The uptake of finance in itself is quite low and that in itself is an issue in the market. Some of businesses would not need external finance, they would be quite comfortable using their savings, or they do not want to grow and they are chugging along nicely. But the extent to which there is a lack of uptake of external finance shows there must still be a group of businesses that are either using the wrong type of finance or they are not reaching their own potential.

A. (Mr Chidley): Or still don't trust banks.

A. (Ms Flood) Or, you know, it is just quicker and easy to use their personal credit card. That is going to cost them more, they are not going to get the business services they need, it is not going to help them put their business on a secure footing.

A. (Mr Hewitt) There is international comparison to other banking sectors in other countries across the G7 which shows that countries which have more diverse banking sectors and which have a strata or local banks or a lot more co-operative banks and mutuals or just different business models who have different aims for their business in terms of supporting the local economy over the long term and perhaps just returning to shareholders. Those banks in every single G7 country not only lend a high portion to the real economy to small businesses, they also in most cases kept that lending going through the credit crunch of 2007/2008. So there is a real business model out there which is tried and tested in lots of other countries which we just simply do not have in this country.

THE CHAIRMAN: And the new entrants that we have seen coming into the lending market providing invoice finance and other forms of secured finance --

A. (Mr Hewitt) I mean, that is the closest we have. So I suppose, yes, the PSB lending market is a new business modelling, and that is a funding circle, was third in the league table of funding for lending support for SMEs. Two big banks above them, but they were third this month. So that is a new business model which is coming into the market, but there is nothing to compare to the Sparkasse in Germany, to the credit co-operatives in France, to the credit unions and the community finance you get in Canada and the States. In most other developed countries, every other developed country, there is that strata of banking which we simply have not -- it was demutualised in 1980, so it has disappeared, or that was mostly there for the housing market. So there is a structural issue there, which I am not saying it is easy to fix, but all these other issues that we talking about will be a lot less important if that structural problem is addressed.

A. (Mr Parry) Just going back to the credit rating agency and open data, that sort of thing, we would just like to see the opportunity for businesses to actually talk about the data within its context and we have still not -- as Erin said, some businesses are still in recession and not quite out of recovery and actually understanding the local contention behind the figures are very very useful. Particularly for the smallest types of businesses, there may be other issues there. There is a cross over between certainly microbusinesses and the businesses with under five employers where personal impacts can have a big business impact at the same time and you might not get that from the data and in fact I might suggest that the company is not ready for growth when it might well be actually this is the perfect time, because they have got over a real series of barriers that the bank do not know about and the owner does not want to mention at all.

Q. I mean, I am not forgetting the structural issues that have been raised, and we are going to come back to them, but since you are all generally positive about the credit rating agency central remedy and the open data central remedy, let me ask three quick questions about them. One, is there any anxiety that making credit rating agencies, giving credit rating agencies a central role in opening up the lending market putting them in too strong a position, given that there are a relative small number of moves and given general anxieties about people owning their own data and transferring it? Is that an issue?

A. (Ms Flood) Yes. There is a limited pool of credit reference agencies that are going to be designated. This is going to be almost giving them a competitive edge, because they are going to have this information. It really does come down to the processes, having robust strong frameworks within which they work to counter any sort of imbalance of power that then takes place -- because the last thing we need is to then compound the issue. So it is around having much stronger frameworks and processes to cover it.

Q. Okay. Second question, the credit reference agency central remedy is provided for the Small Business Employment and Enterprise Act. The open data type of remedy is arising out of existing open data initiatives. Is there anything for the CMA banking inquiry to do in this area or do we just say what is going on in fine and you all approve of it and it is going to happen anyway, so we do not need to do anything, or is there a role for the CMA, this inquiry, to push for more rapid progress in any of these areas.

A. (Ms Flood) The outcomes are only going to be as good as the data and comparable data is absolute. That is going to go some way towards helping with comparison websites and everything else. If there are similar definitions, banks talking about similar things in similar ways and comparability, it would be beneficial to smaller businesses.

A. (Mr Thiru) I think the CMA could play a role here in actually ensuring the check and balances are in place, because we obviously think it is going to do it on the surface, but assuming the checks and balances are in place, it almost does not move too quickly, make sure the resources are in place to actually achieve what we want to achieve with this thing, because, if it is something that becomes an issue in the whole credibility of API with businesses will go down rapidly.

Q. My third question on this is we have had SME undertakings which aim to tackle this issue by making it easier to share information. The two SME remedies, as far as we can see, and I am looking at Bill, who knows more about it than I do, seem not to have much of an impact. What are we trying to do now that is going to work that did not work 13 years ago, or seems not to have work in the intervening 13 years?

Q. (Mr Roberts) These, to be specific, were the portable credit histories that the bigger banks undertook to give to SMEs on demand and they recover both their transaction history and their credit history as regards overdrafts or loans. There is been virtually no take up of these by SMEs. We are curious why.

A. (Mr Chidley): Because they do not know about it.

A. (Ms Flood) They do not know about it, yes. The banks hold the information and it is how they promote it, how enthusiastic they are -- are they making it available, easy to understand --

Q. (Mr Roberts) Can I just check, how many people knew about that, that undertaking from too?

A. (Mr Chidley): Well, I did, because I happened to be at a bank at the time, but --

Q. (Mr Roberts) So it is awareness, it seems to me, that is the issue.

A. (Ms Flood) Yes, and small businesses have got a bank account as well and -- again, it is just lack of awareness. They do not know what they do not know.

THE CHAIRMAN: That is a very interesting and pertinent observation we have made here, then.

A. (Mr Chidley): I think to some extent that is the tip of a bit of an iceberg and I think there is a general issue about the way in which SME customers are treated by banks. I think there are pricing issues. I think that the terms and conditions that apply to those accounts are pretty impenetrable for most of them and there are real issues about forbearance when they give us difficulties. So they are not a well looked after group, particularly the smaller end and I should say that I am probably mainly speaking about micro enterprises in terms of the sort of EU definitions. But they are a Cinderella. They are deemed to be sophisticated at some level because they are in business, but I am sure we could find plenty of these SME customers that you would not really call sophisticated users of financial services products. So they do fall badly between the stalls here and I think they struggle with the access, they struggle with the right kind of product. You mentioned invoice financing. I mean, debt factoring has been around for years, but it was also the entirety grubby end, when you literally could not find any other way of getting your money. So it has got a dodgy history and the terms and conditions that apply to that are all scandalously one sided in favour of that.

So for historic reasons, you know, they have become a badly supported group, which is a shame when there are so many of them and when they have such an important potential, you know, to drive our economy. So I think -- sorry, that is because I think that particular issue is -- you know, it is a tip of an iceberg, that, you know, following Cruickshank, people will think things were done and certainly things were done, but -- and it may well be worth reviewing both the 2002 and 2008 undertakings to see what's happened, but I think you will find that by the sound of it they are there but useless.

Q. (Mr Land) But if these measures are unknown by the people in this room, then they cannot be of much impact. So, whatever we come up with this time around, everyone in this room is going to have a role to play.

A. (Mr Chidley): We would certainly like you to -- I think in our formal response we certainly would like you to review both sets of undertakings, yes. You said you were doing so.

A. (Mr Hewitt) Can I ask a question of some of the small business organisations, that do you feel that anyone in the financial system is competing for your members business? Do they want your members business? Are they trying to get it?

A. (Mr Thiru) And some do. I mean, I guess one of the ones we hear about is Handelsbanken, because they offer something different. Again, it is in relation to they can sort of select who they lend to. But the fact that they do something slightly different in the way they manage their customers, it is very much the sort of local branch of the bank, is their sort of slogan. I think that sort of presents quite well with our members, because they often talk about sort of the bigger players do not necessarily have the understanding of how the economy works that they work in operates and how the business operates.

A. (Mr Hewitt) Anyone else?

A. (Mr Parry) Yes, I mean, we found -- again, like Suren said, it is foreign banks coming over to the UK who have that infrastructure already in place. We have been quite impressed by a Spanish bank who took over a couple of building societies and there is a company which is quite regional in the black country, an investment scheme, I think it is, or bank, they do some very good work as well. But they are completely different models from what we are seeing from the main high street banks and they're bringing something slightly different into this country which, you know, by coming up with innovations and ways to group and help support businesses. But it does depend a lot on the industry we are talking about.

THE CHAIRMAN: Can I just park that for a moment, because before we leave the lending remedies, you are touching on a wider issue, which I do want us to explore a bit further before the session ends. But the one other lending remedy in our list, which is the idea that banks should be required to provide a loans price eligibility indicator. So a small business could go to a bank's website and plug in details about it, possibly even plug in its banking history and get an indication of availability and cost of loans. Do you think that is a worthwhile avenue to pursue?

A. (Mr Bateman) I guess if it does not show up again on your credit history, that you have searched for finance, because that was already mentioned before as something that can look bad. I mean, yes, if it makes it easier and it is a conversation starter, again, you cannot -- you know, it is a bigger conversation to have before you enter into a credit agreement. I think, just an interesting observation that we had from our members was actually we have already talked about it actually, but price is obviously a part, but it is more service quality that they care about and actually they're much more price elastic than you would imagine, especially when it comes to lending, if they think they are getting service for that. So, no, I think it is probably a good idea, but you have to put it into the context.

A. (Mr Parry) I think we would like to see it more expanded to alternative providers as well, because we found people telling us, oh, I went to my bank rather than looking at, you know, peer to peer lending or a crowd funding scheme because the crowd funding schemes are more expensive, even though you can look at some of the websites and see the crowd funders are lending at 8 per cent and the bank lends to them at 9.9 per cent or something like that. So it is very much a perception there, that banks provide finance, alternatives provide a more expensive option.

A. (Mr Thiru) We certainly would say this is a useful tool. One of the ways that we can broaden that a little bit further, because one of the things we often about from banks themselves, which we tend to agree with, is some businesses are not quite ready for finance, they do not have necessarily their business plan in place. It may resonate further down to the small end of the business size. So if this tool can be pointed out, it would help get ready to have that finance, business plan and advice, that sort of thing, so make it the whole process. So when they actually go to formally get a loan, it makes it a much more easier process for doing so.

Q. At various points in the discussion during the morning, various of you have raised issues falling outside the range of remedies that we have discussed, remedies notice for example. Mark, you talked about requiring banks to have a duty of care towards the customers. There has been discussion -- well, I think you suggested we should have taken a firmer line on break-up of banks and left it on the agenda or should it back on the agenda, and I think it is a fair characterisation of our approach to opening out competition in this market, that the focus is on getting the customers more engaged, providing the customers with more information, make it easier for customers so it is on the demand side of the market that a remedies package is largely focused. So I would like to give you further opportunities to say actually we should have been looking at things more on the supply side, on the structural side, things that would bring in more competitors into the market. Are we getting insufficiently ambitious in the overall approach that we are taking?

A. (Mr Thiru) Yes, I would agree with that. I mean, I guess our viewpoint is that this investigation is a once in a generation opportunity to getting that real change in the market. So we are coming at it from that perspective, that nothing should be off the table. One thing we are quite interested in is looking at barriers for non-bank potential SME finance providers and looking at the barriers for them. In particular, one area we are looking at is building societies and the role they could play in making it more competitive and also improving things like service quality as well, I think, given their reputation in personal banking. So one of the things that we have -- and, again, it is probably beyond the scope of this review, but something the CMA could push the government to look at is sort of capital requirements that building societies have to hold which essentially prevents them from moving in any significant way to SME lending. So I think that is something that could be looked at. Clearly it has to be done in a safe way. You know, we do not want to be in a situation where we create unsustainable lenders, but I think is an area that can be looked at.

A. (Mr Nikolaidis) I think just a general point is that it is really hard to get to B if we do not know what it looks like, to get from A to B. I am not sure I have a clear understanding of what good looks like. How do we measure the success of these remedies? Is it increased rates of switching? Is it defuse of market share across more banks? Is it more lending? Where are we trying to get? When in five years' time we are assessing the success of this review, how do we know what we are judging on? What are we comparing it to?

A. (Mr Parry) I would go further. I would actually say that what we need to do is look at it as a holistic type of view. We need to be looking not just at the areas that we have discussed today, but things like endorsement. As we have mentioned, businesses with more than ten people suddenly do not have access to the financial Ombudsman and it would be nice to get a lot of organisations together in one room and actually sort of break down some of the siloism(?)(12:21:57) that is going on and look at SME lending, for instance, alongside, you know, late payment and cash flow issues, those sorts of areas. Then we can start to look at what sort of banking do SMEs really want.

A. (Mr Nikolaidis) So what is the timescale? Are we looking at three years, five years, ten years, 20 years?

A. (Mr Bateman) I mean, on lending, we brought together about 20 of our small business members with finance providers in membership and we did actually say what do you actually expect out of a lending relationship and they kind of debated we put it down into, like, one document. So we do have a position on what small business membership thinks about that, but that is specifically on the lending side. That does not necessarily help on the kind of current account or anything, but it has slipped my mind whether that was an internal document or an external. If it is external, I am very happy to share that. If it is not, then I probably can summarise it and send it off.

Q. Yes. I was going to say, if it is not, then perhaps you could distil some wisdom from it and --

A. (Mr Thiru) But, no, that was quite an interesting exercise, so see what both sides of that relationship thought and what they expected. So I think more of that. I think we definitely -- and it is used in pretty much every policy debate, but that holistic view is true again here. You know, the late payment issue is definitely linked to all of this, so, yes, we had be supportive of more than that, I think.

A. (Mr Nikolaidis) And just think in general I think most business groups around this table agree that there is something missing here, there is something that is not game changing in that we have a market here that basically functions different from any other, that banks do not have to work hard enough to get customers. If you do not have to work hard enough to get customers, there is not enough competition and you end up with a suboptimal product. So it is the same thing I said in the beginning in terms of aligning your incentive rights. Banks are like any other business, and it is normal, they are not going to push you towards their competitor. It is against their interest, it is against their business model, that is perfectly understandable. So you need an outside force to force them to do that, to force them to take the directions where you want the market to be heading. They are not going to do it themselves, nor can SMEs just with more information be able to do better customer choices if the choice does not exist. So, for example, from our view, barriers of entry to challenger banks is really important, because we have had a lot of good feedback from challenger banks that actually try to get a customer. We have had a lot of manufacturing members that a challenger bank came in, they proposed to go into the factory, to see what kind of finance they need, is it supply chain finance, is it asset finance, for particular plant machinery. That is the kind of relationship we need to see across the market.

Q. And you think there are barriers to entry by challenger banks that are significant.

A. (Mr Nikolaidis) Well, I think it is apparent from the evidence, the fact that market shares have not moved for the last decades, it is sufficient evidence of that.

A. (Mr Bateman) Yes, I think it is less barriers to entry and more kind of barriers to scaling up is a challenge now. So, to be fair, the Treasury deserves credit. You know, Charles Roxburgh has set up a group that will meet quarterly with CEOs of challenger banks. You know, we would like them to look more at capital requirements, you know, potentially extend FLS out as a cost of funding point. So I think they are looking at it, but, again, it is like everything, what is the timescale, you know, how is this going to flow through, and I am not sure if building societies are part of it, but maybe that could be one route, because that is obviously a kind of treasury initiative to look at that.

A. (Mr Hewitt) I think this is the point about business models actually, diversity of business models is really crucial. So I go back to the evidence from other G7 countries. The banking sectors in those countries are not all shareholder owned and they are not all big and they are not all shareholder owned. Remember that the challenger banks have to be good but actually they are mostly the same business model, they are mostly shareholder backed institutions. What you see with the Sparkasse in Germany and you see with some of the co-operative models in other countries is a business model which is much more about supporting both the customer and the shareholder and the businesses which are in their local economy and it is that vision which informs the lending decisions which they take in the SME sector and it is been true to the Macmillan commission that the UK finance sector does not fill that gap. So the evidence is there, there is a market failure and it is the supply side to market failure, but I am sure there a demand side issues as well. But there is the fundamental problem in this country is the supply side one, and I think what would be fantastic to see the competition market authorities saying is that you want to see a finance system which has a diversity of business models to enable the sort of function cost of the economy to be carried out properly, because the banks are just another sector, they are providing finance for the bedrock of job creation and business growth in this country. The reason I asked that question earlier about who is competing for your business, it really sounds like the vast majority of the business banks do not want you as their customers, they are just simply not fighting for it. They are not bothered. They have some. They might have to deal with it, but they are not actually actively trying to seek out those customers. That is a huge market failure. So this is why the structural issues just have to be addressed if the problems are going to be settled.

Q. Mark, you have been trying to come in.

A. (Mr Chidley): Well, I think we have come on really to the things you have already indicated you're not minded to pursue, like that, and I think the other thing which -- you know, let's assume that there were some worthwhile people to move your banking arrangements to, I still do not see how you can work out value in terms of what things are costing when you still have this free credit banking model which involves all manner of vertical and horizontal cross subsidies. So, again, I was just surprised, and this is a personal comment, not a panel comment, but I was surprised that a competition regulator felt that that was just something that -- I know it is huge, but can you just ignore it.

Q. (Mr Land) Is that an issue for SMEs? Is that an issue for delay, or is that just a --

A. (Mr Chidley): Well, only that I think anything that you have said you are not going to do must impact on all of the people who might otherwise benefit from your work which includes SMEs.

Q. (Mr Land) And on the structural question, I suppose what we have essentially ruled out or provisionally ruled out is more divestitures from within the existing banks, so we now have TSB from outside Lloyds TSB. There is obviously a similar process going on in relation to the RBS and we have not proposed a mini Barclays or a mini HSBC, at least not to date, and I am just quite interested to understand whether what you are seeking would have been more of these types of divestiture or whether you are actually looking more in terms of making sure that we focus on barriers to expansion and allowing sort of diversity of business models, it was just to -- because obviously there is a variety of structural measures and I suppose --

A. (Ms Flood) I think the point Chris made earlier was around the fact that it has been taken off the table a little bit early. Hopefully you would not need to, but at least keeping it on the table that there might be a future look in five years' time, there is still something there. This has worked well in the insurance industry, where the Government has been happy for the industry to address X, Y and Z, and if this does not happen then Government will review whether legislation is required. That is quite a common approach to have, but at this point, to have actually just removed it completely is -- it just seems a little bit premature.

Q. (Ms Kent) I mean, we have not removed it completely. We have said we are not minded to pursue it, but obviously we only have the power to do anything at the end of our final report in 18 months. So it does not prevent us in five years' time having another review of the retail banking market or SME banking, if that is considered appropriate and for the purposes of this investigation we obviously need to indicate what remedies this investigation is minded to do in the statutory time frame that we have. So I think that is where it has been positioned at the moment, is that for this investigation we were not minded to, but we are consulting on that and I think, as Adam's highlighted, there are differences. Are we talking another mini Lloyds or another mini Barclays in the structural remedy, or are there other structural remedies that might be more effective than a breakup of the banks, which is the main structural remedy which we said we were not minded to pursue. It does not exclude other structural --

A. (Mr Hewitt) Can I just try and answer that question in two ways. One is I think there is merit in saying that the international evidence shows that, a diversity of business models. So it is not just a set of different facts, a diversity of business models has a tangible effect on lending to an economy and so in a sense that is the long term vision. We want to return the UK finance system to one which has more diversity of business models and there are obviously ways of doing it. There are ways of helping the building societies grew, they are ways of getting more challenger banks into the system, peer to peer lending et cetera, all those are slow and organic as a matter of definition. There is one other route which is probably not within your power to say anything about, and you would slapped on the wrist by the Treasury if you did so. You on obviously the state has a huge stake in one particular bank, RBS, which it has now said it wants to sell back to the private sector in the same form of bank which it was before, the same form of bank which we know has been failing the SME sector quite dramatically and the RBS in particular has its own specific issues around foreclosure. But I think there is merit in saying, until -- we should not be selling that state stake of a major bank back into the system until we have had a proper review around the structure of the banking system as to whether different business models might support the real economy in a better way. That is something which to my mind has not been done by the Government. They have just gone straight to we need to get this back into the private sector as quickly as possible. That might be the answer to the question, but they do not seem to have asked the question what the wider economy which this is serving. So there is an option to deliver that diversity more quickly. I am not saying it is easy, but I think that question should be looked at in a serious way.

A. (Mr Bateman) I do not want to pre-empt what other organisations and their policy development processes are, but we have a standing committee to sign off on our small business policies, it is called the enterprise forum. There are about 40 to 60 members at any one time businesses across the UK that come to that and meet and sign off on our policy on this stuff and we did specifically put to them do you want to see more banks broken up and they said no, just because they have seen the divestment process is going on and dragging and I think for them that was not what they wanted. So I think as a CBI view, we would not support that, but I do not know if you have spoken to other small businesses that would like to see that.

A. (Mr Thiru) I mean, from our perspective, I think our members are wholly in favour of market solutions rather than direct interventions, such as breaking up the banks and, as you say, creating similar banks, but just smaller. I think your point about the diversity of business models was the key one, I think. It is given businesses a choice, which means looking at barriers to other type of providers entering the market.

A. (Ms Flood) And ours is that ideally you do not have to. What other sort of impetus will there be for the banks. If you take this off the table, what else are you going to use to drive change when there needed to be legislation to get the sharing of credit data, legislation to get the referral through to other alternative platforms. Market led would be the ideal, but the market is not going to necessarily do this -- what will be in place to help push the market to change, to develop. That is the bit that seems to be missing from the remedies.

Q. (Ms Kent) That was my original question, because obviously we have the order making powers, so we can require the banks to do X, Y and Z, but we wanted to try and build in measures and targets and incentive, which was my original prompt question around that, that we build into the order or whatever remedies that we have now to achieve those sorts of incentives.

A. (Mr Nikolaidis) I think in terms of our members, they will not have a strong view on either way of which of these structural remedies will work better. They do not have the expertise to assess that. So, even if they express a view, it will not be, well, yes, I do not like the banks, so let us break them up. But I think the point is to have a proportionality in terms of your analysis and in terms of the actions. If we all agree that this is not a demand issue, I mean, demand is cyclical, the economy is growing above 2 per cent, the needles are not moving in terms of SME lending and all these behavioural remedies I think we most agree are nice to have and good steps forward, but are they going to fundamentally change the market, and that is where structural remedies come in. We cannot recommend which structural remedy will have the biggest impact. We think that perhaps breaking up the banks might not be the best way of doing that, perhaps some form of lowering barriers to entry for challenger banks or making it easier for them to scale up would be a better solution. It is just it feels like a structural remedy is needed to deal with a structural problem and that behavioural remedies will not be enough.

Q. (Ms Mansilla) Can I ask -- so you kind of mentioned quite a lot about some of the different models that are done in different countries. So this is just a general question. My understanding of some of those models, particularly in Germany, is that they have got a different state system behind it, so you have got regional development agencies that are there and become and provide finance in a way that for the UK does not have that sort of state agency to sort of support that different business model. So I guess there is some fundamental difference in term of government support and financing. Is that correct?
A. (Mr Hewitt) Ultimately there is, yes. I mean, the Sparkasse go back a century, so they are publicly -- they are owned in public true, they are not a mutual, but they are not also state owned. They cannot be sold off, if you like, and there is a network -- they work as a network, so their sort of back offices, if you like, is one big national network, and there are links to the Landesbank and the KFW all the way through that.
Q. (Ms Mansilla) And they kind of flow through individuals.
A. (Mr Hewitt) Yes, there is, but I think it is exactly business model which has supported the real economy better in Germany than as in the UK and I know those are political decisions, I am not saying you can recommend any of that sort of thing. I think what you can say is that the structural questions have not been properly addressed yet in this market and, as Erin was saying, urge the government to keep those structural questions on the table in order to address the UK situation.
THE CHAIRMAN: I understand what you are saying and I think I would draw a distinction between different kinds of structural measures on the table. We have taken the view provisionally in our report that a central problem, as you, George,

have articulated is that banks do not have to compete hard enough for the customers and that breaking up to the banks so that we had a larger number of banks that does not have to compete hard for the customers would not address the fundamental issue and that the kind of divestment we have had or are still happening for 2008 has been a very expensive process. So launching an expensive process of breaking up banks to create banks, did not have to compete very hard for the customers and they are all still shareholder banks, to pick up what you said, Tracey, does not seem to be addressing your problem with spending vast amounts of money not addressing the problem, and keeping a remedy that in itself does not have very strong attractions on the table in the hope that that is going to pressure people to do things we had like them to do in the end, in some ways keeping something that you want to do on the table as a threat, as a credible threat. Keeping something that you do not have a very strong case for doing on the table is not a very considerable threat.

Whereas a different kind of structural remedy that you have been raising has been having banks with a different kind of ownership structure. Well, keeping that kind of option on the table for discussion possibly has more credibility, because that might bring about more fundamental changes. So I would not -- I would say let us not put all structural remedies in the same box, because structural remedies that you might want to pursue in the long run might have more credibility than ones where you do not see the case for pursuing the long one.

A. (Mr Parry) Sorry, I am picking up very much on what you were saying. Basically our members, when we looked at this a few years ago, wanting the banks broken up like a hole in the head. They wanted financial stability. However, what I would be interested in finding out, if this area Mark was talking about, about cross subsidising of variation financial products and services and accounts and that sort of thing, whether that could be looked at as part of this process, because it strikes me that some of the risks for businesses that are starting up is potentially challenger banks or providers of innovative financial products are almost starting up as a situation for, when they got to a certain scale, one of the big boys would buy them up or would copy exactly what they did and therefore the viability or sustainability of the organisation would be limited.

A. (Mr Chidley): I mean, I know that Adam thought it was not necessarily specifically relevant to SMEs, but I do think the whole cross subsidisation that goes on -- the fact that banks cannot tell you how much they make out of the various lines of business and products that they sell, it seems to me that, if you don't address that, I don't see how your behavioural remedies work notwithstanding that I do not think your behavioural remedies are sufficient anyway. That is the concern.

Q. Well, in fact, we do plan to do some further work on looking at the profitability of different lines of business within current account banking, to sort of recognise that there are questions about that.

Colin, is that --

Q. (Mr Garland) I think I have probably got to the end of the things I wanted to ask about. So thank you very much for all your contributions. Just to recap, there is a slight error on the first bullet there. So this is the final round table that we have had. So we will be taking the learning that we have taken from the variety of round tables that we have, digesting those, developing our remedies thinking further, we have had a lot of useful and insightful contributions from all these meetings. We will be publishing the provisional decision on remedies in February next year and then working towards the final report in May. The PDR will be a consultation, so we will very much welcome your further responses to that. So thank you very much.

Q. (Ms Kent) Can I just sort of add, obviously are you aware that it will be transcribed and the plan is to publish the transcript, but we will circulate to people before doing so for any corrections and amendments. I shall also mention that we will be publishing or likely be publishing a minute or writing to parties on alternative remedies the parties have put forward to us as part of these consultation process. Most of those are in the personal sphere, but there is a lot of read across for BCAs, in particular for SMEs, so I would encourage you to check our website. We will send an email around, but we will be interested on your views on those.

THE CHAIRMAN: Finally just another word of thanks. This has been an extremely good discussion this morning from our perspective. I hope it is been an interesting discussion from your perspective and we are very grateful to all of you for taking the time to come and participate in this discussion today and for the presenting input we have had from all of you, which I hope will continue for the rest of the inquiry. Thank you very much.

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?