

**LLOYDS
BANKING
GROUP**



LLOYDS BANKING GROUP PLC

CMA RETAIL BANKING MARKET INVESTIGATION

**The interaction between the CMA's SME remedies
and existing SME initiatives**

2 MARCH 2016

LLOYDS BANKING GROUP PLC

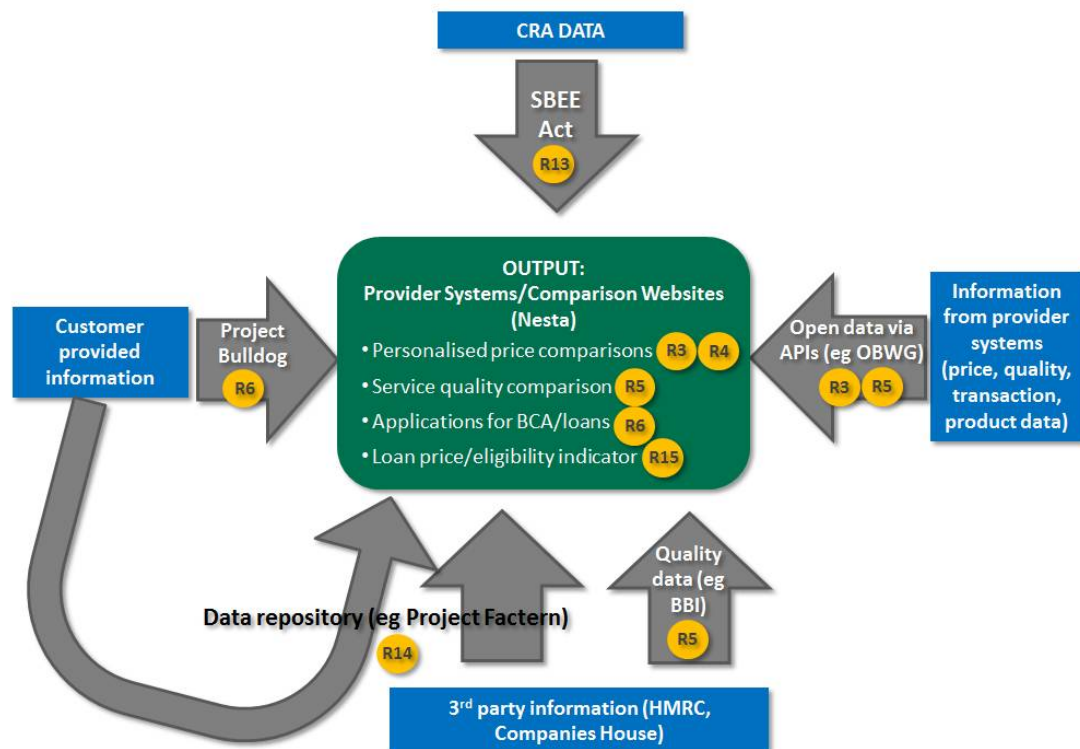
The interaction between the CMA's SME remedies and existing SME initiatives

1. INTRODUCTION

- 1.1 The CMA has received extensive submissions on the Notice of Possible Remedies ("**Remedies Notice**") from a range of stakeholders, and has requested additional information from providers. It must now consider whether, and if so, how best to implement them in order to effectively address the provisional AECs identified in a proportionate and timely manner. This submission describes the opportunity LBG believes exists for the CMA to work with the grain of a number of promising existing initiatives in order to deliver its SME remedies more promptly and effectively.
- 1.2 The CMA will be aware that a number of initiatives relating to BCAs and SME lending have been progressing in parallel to the market investigation, as providers, SME groups, Government and other key stakeholders seek to enhance the competitive environment for SMEs. These include the proposed Challenge Prize run by Nesta, the Factern common repository initiative, Project Bulldog (the Oliver Wyman common application form), BBI, Credit Data Sharing, OBWG and referrals of declined lending.
- 1.3 These initiatives are closely interlinked with each other, and with the following CMA proposed SME-related remedies¹:
- **Remedy 3** – facilitate price comparisons by making customer-specific transaction data more easily available and usable, including by PCWs;
 - **Remedy 4** – a PCW for SMEs;
 - **Remedy 5** – enable SMEs to make service quality comparisons between BCA providers;
 - **Remedy 6** – standardise and simplify BCA opening procedures;
 - **Remedy 13** – data sharing with credit reference agencies (CRAs);
 - **Remedy 14** – commercial open data and data sharing proposals; and
 - **Remedy 15** – require banks to provide a loans price and eligibility indicator.
- 1.4 Each of these initiatives is targeted at specific aspects of the SME banking environment, and is either an input (e.g. customers' transactional data), a customer-facing output (e.g. comparison services) or a standardised connection between the two (e.g. APIs allowing transaction data to be transferred between providers).
- 1.5 It is clear that the initiatives can deliver far more in combination than in isolation. There is real potential to create a dynamic ecosystem in which the initiatives work together to encourage the development of market-driven solutions to address the provisional AECs identified for BCAs and SME lending.

¹ LBG notes the importance of the CASS-related remedies (Remedies 8, 10, 11 and 12) to the SME sector and has responded to the CMA's proposals in this regard in its submissions of 20 and 25 November 2015. This submission focuses on non-CASS SME-related CMA remedies.

1.6 These dynamic interactions are illustrated below, and are capable of delivery in the foreseeable future.



1.7 This will create a virtuous circle in which:

- (a) increased availability of inputs and standardisation of connections will stimulate the development of comparison websites and improvements to providers' own systems. The initial development of comparison websites will be further catalysed by the proposed Challenge Prize;
- (b) improved comparison websites and provider systems will allow SMEs to shop around and switch more easily, which will increase SME engagement and activity; and
- (c) this in turn will stimulate competition to make further improvements to comparison websites and provider systems.

1.8 The CMA has a vital role to play in driving these initiatives (both now and in its final remedies package) to create these positive outcomes, by:

- (a) taking a holistic view of the initiatives and steering their priorities and scope to effectively address the provisional AECs;
- (b) strengthening the governance of certain initiatives (e.g. OBWG) by using its remedy powers and/or by participating in governance (e.g. the proposed Challenge Prize), and aligning and accelerating their timescales where appropriate;
- (c) mandating the participation of a wider group of providers to ensure the initiatives have critical mass;
- (d) encouraging the involvement of other stakeholders (including industry bodies, SME representative groups, Government and other regulators) in certain initiatives; and

- (e) "future proofing" any action it takes outside of these initiatives, by ensuring that they work with the grain of related market developments.

1.9 Moreover, the CMA has the opportunity to influence these initiatives and generate positive change in advance of implementing its final remedies. This is particularly important as the forthcoming timetable extension means that final remedies are unlikely to be implemented until the first half of 2017. In this connection:

- (a) there has been progress on a number of the initiatives since the Remedies Notice was published, and certain initiatives are likely to be more advanced by the time of the CMA's Final Report, due to the forthcoming extension to the CMA's timetable. By engaging with the initiatives now, the CMA can shape them and obtain a "head start" in addressing the AECs; and
- (b) there is a risk that the existing momentum behind a number of initiatives stalls due to uncertainty regarding the CMA's support for them, as stakeholders are concerned not to duplicate effort and investment in initiatives which may be inconsistent with the CMA's final remedies. This is a particular concern with the proposed Challenge Prize, as some providers are reluctant to commit funding until they are confident that the Challenge Prize initiative will be consistent with any CMA remedies that are adopted.

1.10 Section 2 of this paper provides a summary of each of these key SME-related initiatives, whilst Section 3 goes on to explain how each of the CMA's SME remedies can build on these initiatives to create a virtuous circle of self-reinforcing and sustainable remedies.

2. SUMMARY OF INITIATIVES

The proposed Challenge Prize

2.1 LBG has been engaging with the banking industry and the UK's innovation foundation Nesta to establish a challenge prize fund (the SME Innovation Challenge Prize) to incentivise and stimulate innovation in the development of comparison services for SMEs (which is closely aligned with Remedy 4).

2.2 The prize fund could also be designed to:

- (a) take advantage of the development of midata/APIs (Remedies 3 and 5);
- (b) enhance the effectiveness of Remedy 15, by incentivising providers to include a loans price and eligibility indicator; and
- (c) incorporate service quality (Remedy 5) as a key factor in the comparison process.

Open Banking Working Group ("OBWG")

2.3 The OBWG released the Opening Banking Standard in December 2015 as a framework for implementing open banking in the UK. The framework seeks to create: (a) an open API for data that is shared, including, but not limited to, customer data; and (b) an open data API for market information and relevant open data, such as customer service, branch locations and digital functionality. The CMA has recognised that these objectives are consistent with Remedy 4 (and, if achieved, will enhance Remedies 3, 5 and 15), and is considering whether the implementation process can be accelerated.² LBG considers that **the CMA can, and should, add momentum to the OBWG**, as explained below.

² Remedies Notice, paragraph 72.

Business Banking Insight ("BBI") research programme

- 2.4 The BBI initiative, which is supported by HM Treasury ("HMT"), examines the performance of individual banks by collating information from SMEs on their user experience (via telephone surveys), and makes the information publicly available via its website. The BBI results could potentially provide quality metrics for Remedy 5,³ potentially as an initial or default option. However, **the CMA should ensure that its remedies are not so prescriptive as to stifle the development of alternative quality metrics or improvements to the BBI itself**, both of which may be beneficial to SMEs.

Project Bulldog (the Oliver Wyman common application form)

- 2.5 LBG and a number of other banks are working with Oliver Wyman and the British Bankers' Association ("BBA") to standardise and simplify BCA opening procedures by developing a common application form. The initial stages have involved a number of BCA providers but **it is now important that, via the BBA, stakeholder engagement is widened to include smaller banks** so that the proposed solution has broad industry support. The CMA could seek to build on the progress already made by this initiative to accelerate the implementation of Remedy 6.

Project Factern common repository initiative (previously known as BDI)

- 2.6 Project Factern is an initiative which has been developing a data routing platform to enable SMEs to share their public and commercially sensitive data with counterparties in a controlled and structured format. This solution, or other similar such commercial data providers, would reduce friction in the SME CDD/KYC/KYB account opening process (Remedy 6) and **could be extended to facilitate SME lending from a wider range of finance providers** by allowing access to data and pre-filling certain information in application forms (consistent with Remedies 14 and 15).

Credit data sharing legislation with credit reference agencies ("CRAs")

- 2.7 The Small Business, Enterprise and Employment Act 2015 ("SBEE Act") includes provisions, which are expected to come into force shortly, that require designated banks to share credit data on their SME customers with designated CRAs, who must then provide equal access to that data to finance providers. It also enables the sharing of non-financial HMRC VAT registration data with CRAs, to assist providers in verifying SMEs' identities. The CMA has recognised that it could **work with HMT to use its powers under the SBEE Act to deliver Remedy 13.**⁴

Referrals of declined lending

- 2.8 The SBEE Act also contains provisions that require designated banks to refer SME customers that they reject for finance to finance platforms that can match the SME with alternative finance providers. Although these provisions were implemented in a different economic environment (of constrained credit), the finance platforms involved are a form of comparison site with loan eligibility functionality, and consequently there is some overlap with Remedy 15. **The customer journey for referrals could also be enhanced through the incentives created by the proposed Challenge Prize, which would encourage firms to innovate.**

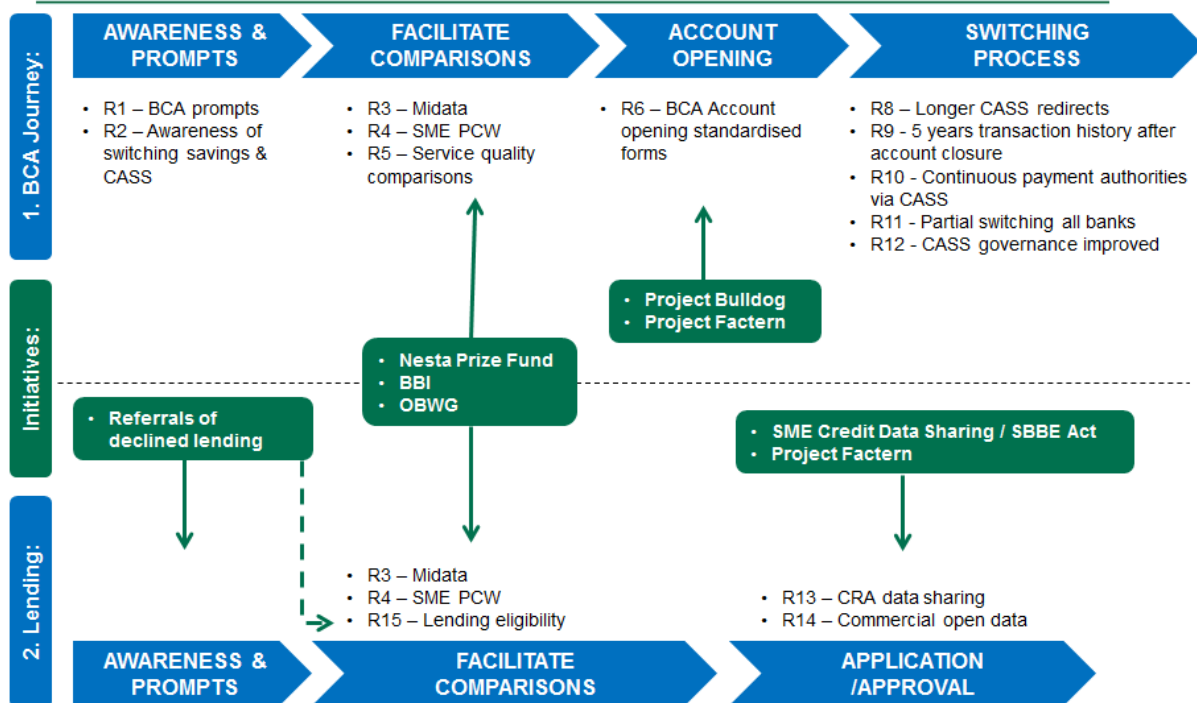
³ Remedies Notice, paragraph 86.

⁴ Remedies Notice, paragraphs 150-156.

2.9 The role of the above initiatives and the CMA's proposed remedies at each stage of the BCA and SME lending customer journeys is illustrated below.

SME CUSTOMER JOURNEY VIEW OF REMEDIES & INITIATIVES

1. BCA Customer Journey
2. Lending Customer Journey



3. HOW THE CMA CAN DRIVE AND HARNESS THE INITIATIVES TO ADDRESS THE PROVISIONAL AECs?

3.1 This section explains how each of the CMA's SME remedies can build on the initiatives outlined above to create a virtuous circle of self-reinforcing and sustainable remedies.

A. Remedies 3 and 4 (linked to the proposed Challenge Prize and OBWG)

3.2 Remedies 3, 4 and 5 relate to the provision of access to data allied to the development of SME comparison services, which LBG supports. Midata (customer transaction histories) transferred through APIs creates the possibility of easy-to-use, individualised price and quality comparisons for BCAs, as well as for business lending and, potentially, other important business products and services such as deposits. Price comparisons (Remedies 3 and 4) are considered in this section; service quality comparisons (Remedy 5) are discussed in Section 3B below.

3.3 As set out in LBG's previous submissions, there are two steps to achieving personalised price comparisons:

- (a) first, the creation of industry wide data and API standards; and
- (b) second, the creation of comparison services which use this data to compare the price and quality of BCAs and other key products as explained above.⁵

These steps can and should be progressed in parallel.

3.4 The OBWG (and its successors) can deliver industry-wide APIs. However, the scope of OBWG's framework is wide and includes savings and credit cards, as well as current accounts. As a result, it does not envisage APIs being delivered fully before Q1 2019. LBG believes that APIs and linked unredacted midata services, for price and quality comparisons, could be implemented market-wide for BCAs used by smaller SMEs within 12 months of the launch of the prize fund (with appropriate support from the CMA as set out in paragraph 3.18 below). This should be possible if, with the support of the CMA, their development and implementation is prioritised by the OBWG alongside implementation for PCAs.⁶ This would greatly assist those developing comparison websites.

3.5 This approach will not be inconsistent with OBWG's objectives, but rather would set priorities and provide a governance blueprint. It would also help build momentum for extension into other retail products (particularly credit cards, where similar thinking is already underway as part of the FCA's credit cards market study). The statutory powers of the CMA will be vital in ensuring rapid implementation, as OBWG's current governance lacks teeth.

3.6 LBG considers that a Challenge Prize methodology, as designed and proposed by Nesta will be the most effective catalyst for the development of a dynamic, integrated and sustainable eco-system (or market-place) of effective comparison services to meet the needs of SMEs. Nesta's work to date is consistent with the CMA's view that there is an opportunity gap for comparison services, and that there are a number of PCW operators and fintechs which are capable of delivering this, if appropriate initial incentives are in place. Moreover, the proposed Challenge Prize approach:

- (a) stimulates the development of multiple competing solutions, and rewards the most effective, rather than relying on a single pre-selected solution; and
- (b) results in market-driven solutions, independent of providers, which can evolve over time, thus minimising the requirement for future regulatory intervention. For example, a reward system could be created which offers a minimum commission level for every switch initiated by the comparison service(s) over a defined period.

⁵ The importance of APIs and midata is set out in LBG's submissions of 20 and 25 November 2015 and, most recently, in its "APIs and midata – an explanatory summary" submission of 5 February 2016 which also clarifies the distinction between the two.

⁶ This is despite the complexity of LBG's legacy IT systems, some of which is driven by mergers and divestments over recent years. LBG believes that its rivals have not faced the same complicating factors. In particular, new providers ought to be able to implement API-enabled midata at least as quickly as LBG could, as their IT systems are newer and less complex and have fewer legacy issues. Longer established providers should also be able to match this market-wide timetable on the basis that the complexity of their systems is likely to be of the same order.

What should the CMA do in its final remedies?

- 3.7 LBG considers that Remedies 3 and 4 should be implemented via an Order covering the following points:
- (a) an obligation on the largest providers, selected to ensure broad coverage of the SME market, to fund the proposed Challenge Prize (with contributions based on market share or an alternative metric). This will require combined contributions of c.£5 million (plus design and delivery costs);
 - (b) an obligation on a wider range of providers to work with Nesta to provide incentives for the creation of a market-place for effective comparison services within 18 months of the launch of the prize fund (with appropriate support from the CMA as set out in paragraphs 3.13 to 3.17 below). This would require the providers to:
 - (i) give access to relevant information and data in a "sandbox" environment to assist PCW developers test and trial their comparison services (e.g. product reference data); and
 - (ii) give approved PCWs and other Challenge Prize entrants the ability to list all of the provider's relevant SME products without charge;
 - (c) the CMA could appoint a monitoring trustee to monitor and report on progress, and/or appoint a representative to the governance body managing the proposed Challenge Prize competition;
 - (d) once in operation, the remedy could provide for review of the operation of the comparison services; and
 - (e) there should be sufficient flexibility within the final design of the remedy to facilitate minor variations to the operation of the comparison services to facilitate future improvements.
- 3.8 Whilst LBG expects the proposed Challenge Prize to be successful, if (b) above is not achieved, the Order would impose a backstop obligation on the largest providers to fund and establish an effective PCW (either by further developing the Nesta solution or separately) within a further 12 months, under the supervision of an appropriate approval body.⁷ The CMA would also have to define the criteria for the activation of the Order.
- 3.9 Consistent with the CMA's planned review of PCWs, an appropriate regulator could review the relevant PCWs. As required, the approval criteria would include the ability for the website to incorporate appropriate APIs when they are launched. The CMA could specify the appropriate approval body.
- 3.10 The CMA can also drive the development of APIs as an integral part of its final remedies by adopting an Order requiring:
- (a) all relevant providers to work within OBWG (or its successor) to develop APIs, linked unredacted midata services and relevant open data (e.g. customer service metrics) for price and quality comparisons of BCAs used by smaller SMEs within 12 months of the launch of the prize fund (with appropriate support from the CMA as set out in paragraph 3.18 below);

⁷ Similar to the Payday Lending Order.

- (b) providers to fund the appointment of an expert consultancy appointed by the CMA to oversee and monitor the development of APIs, to ensure that the end product is fit for purpose⁸; and
 - (c) providers to submit to the binding arbitration of the FCA (assisted by IT experts as appropriate) if any disagreements over aspects of the APIs threaten to delay the 12 month timetable for implementation.⁹
- 3.11 The suggested Order would be supplemented by a Recommendation to the OBWG and HMT that they prioritise the development of APIs, linked unredacted midata services and open data (e.g. customer service metrics) for price and quality comparisons of BCAs used by smaller SMEs, alongside PCAs, within 12 months.
- 3.12 LBG does not consider that a sunset clause would be appropriate for Remedies 3 and 4, although the effectiveness of the comparison tools could be reviewed by an appropriate regulator (consistent with the CMA's planned review of PCWs), and the website approval criteria adjusted accordingly. However, the requirement on providers to fund comparison tools would be limited to the one-off Challenge Prize, and (if required) the initial funding of the backstop comparison website.

What can the CMA do now?

- 3.13 LBG believes that:
- (a) the Challenge Prize initiative has the potential to make a material and positive difference to the existing level of transparency, comparability and engagement in the small business banking market in the UK; and
 - (b) therefore the industry should be encouraged to mobilise the implementation of the plans developed under the proposed Challenge Prize as soon as possible, so that small businesses can begin to enjoy the benefits sooner.
- 3.14 The CMA has the opportunity to accelerate the mobilisation and current funding needs of the proposed Challenge Prize initiative by publicly announcing that it provisionally considers that the Challenge Prize is the most suitable means of implementing Remedy 4. The CMA can also bilaterally encourage providers to support Nesta and commit funding to the proposed Challenge Prize, on the basis that the CMA is minded to Order this in any event. If the CMA were to take such steps shortly, the Challenge Prize could be announced, and significant progress could be made before the CMA implements its final remedies (likely to be in H1 2017, depending on the length of the timetable extension).
- 3.15 The CMA should continue to engage with the Challenge Prize initiative to ensure that the criteria for awards to be made are aligned with the CMA's objective of securing the creation of an effective eco-system of comparison services.
- 3.16 The CMA should also engage with providers, SMEs, SME representative organisations, comparison tool developers, information sources and Nesta to decide on the most appropriate price and non-price metrics to be included on any comparison services, as well as how business lending will be included within the scope of the Challenge Prize.
- 3.17 The CMA should also consider an ongoing involvement in the formal governance of the proposed Challenge Prize to ensure that both the strategic direction and the operational implementation of the initiative and the evolving solutions remain consistent with the CMA's Final Remedies.

⁸ This could run in parallel to the creation of the "sandbox" envisaged in paragraph 3.7(b)(ii) above.

⁹ NB The FCA is also considering midata remedies as part of its credit cards investigation and would be well-placed to co-ordinate these activities

3.18 As explained in Section 1 above, the CMA also has the opportunity to influence the direction and priorities of OBWG before these are finalised in the coming months, and can usefully engage with HMT regarding the prioritisation of PCA and BCA APIs. The CMA should also provide a clear indication that it expects APIs and linked midata and open data services to be implemented for PCAs and BCAs used by smaller SMEs as soon as possible, and that it is minded to involve the FCA in the governance of OBWG if significant progress is not made by the time of the CMA's Final Report. The CMA should engage with the FCA and OBWG in the meantime, to understand how it can further support the development of APIs.

B. Remedy 5 (linked to Nesta, OBWG and BBI)

3.19 As the CMA has recognised, service quality needs to be part of the comparison for customers to make good decisions. LBG agrees that price alone does not facilitate effective comparisons and that access to industry-wide agreed quality metrics is needed to complement the price comparisons described in Remedies 3 and 4.

3.20 Due to the close links between Remedies 3, 4 and 5, it will be more effective for the CMA to harness initiatives which span both price and quality comparison. The proposed Challenge Prize is ideally suited to this task, as it will seek solutions that will provide information on product features, customer experience and peer opinions as well as price.

3.21 Similarly, the OBWG's work could be adapted to encompass the development of APIs for sharing relevant service quality metrics.

3.22 As set out in LBG's response of 25 February,¹⁰ the CMA does not need to prescribe specific service quality metrics, but it will need to set out the governance for the effective delivery of these APIs. The CMA needs to ensure that the needs of price comparison tools are represented in the OBWG and that providers are compelled to provide relevant and proportionate data on quality facets that may not yet be in the public domain. As with price comparison and sharing of credit information, the development of these APIs needs to be prioritised by the OBWG.

3.23 Beyond providing this framework for the successful and ongoing provision of price and service quality data, there are two approaches that the CMA could adopt that could help these tools to emerge from their initial stages of development:

(a) **internal data:** the CMA could specifically require providers to share certain internal data on "service quality facets" with service comparison tool providers. This may help to create the right expectations for current account providers and comparison tool providers about the types of metrics that should be made available. This initial set of high-level metrics can then be evolved and developed by the OBWG (and its successors); and

(b) **external research:** the CMA could coordinate and secure funding from current account providers for the industry-wide collection of external evidence, through customer surveys and/or mystery shopping. This would provide emerging comparison tools with the ability to provide service comparisons without the set-up and fixed cost of collecting this information themselves. It would also mean that the CMA could ensure best practice in the design of any surveys/mystery shopping to avoid behavioural biases and to make the available data as objective as possible.

3.24 The CMA is well placed to ensure that effective governance for the delivery of service quality data is set up. However, regulators (such as the CMA), are not well placed to interpret or communicate this information to customers. The CMA should not calculate an

¹⁰ LBG's Response to Information Request on possible service quality metrics for Remedy 5, 25 February 2016.

'average' quality, decide on a short list of metrics, or make a judgement as to which metrics customers will find most useful. The data should also not be shared directly with customers. Instead, the CMA should ensure that all providers contribute to the process and let the operators of price comparison tools determine how the information provided is used to facilitate comparisons by customers.

- 3.25 Accordingly, the CMA should not permanently mandate specific sources of service quality information or specific means of delivery (e.g. the BBI website), as this is likely to stifle innovation. As comparison tools are developed and gain a critical mass of users, they will have commercial incentives to innovate and source their own service comparisons, such as through reviews from customers using the comparison tools. They may also be in a position to contribute to the costs of independent external research on service quality, and may choose not to use some or all of the internal data shared by providers. Any requirement for providers to fund the cost of external research or to provide specific internal data will therefore need to be revisited on a regular basis to ensure it is fit for purpose and proportionate.
- 3.26 However, the BBI is a credible initial candidate for service quality comparison data. It is already operational, and the largest providers have committed to fund it for 2016, with an agreed development and investment plan in place for 2016. The CMA should engage with the BBI and consider how the survey can be improved, to provide more robust results. If the CMA were to mandate providers to fund the BBI survey for an initial period, this should be on the basis that the underlying data is made freely available to other comparison websites approved under Remedies 4 and 5, with such data also being made available in the sandbox development phase of the Challenge Prize.

What should the CMA do in its final remedies?

- 3.27 As explained above, LBG considers that the CMA should make an Order covering the following:
- (a) an obligation on the largest providers, selected to ensure broad coverage of the SME market, to supply data to the Challenge Prize entrants to create an effective service quality component to the comparison services within 18 months (with appropriate support from the CMA as set out in paragraphs 3.13 to 3.18 above). This would also require providers to give access to relevant service quality information and data (e.g. digital functionality and reliability, NPS scores) in a sandbox environment to assist PCW developers and other challenge prize entrants test and trial their comparison services;
 - (b) a requirement that, in order to be approved by an appropriate regulator, comparison websites must include service quality comparison functionality (but without specifying the metrics to be used). This could include BBI survey results, assuming BBI had agreed to make these freely available to approved comparison websites;
 - (c) an obligation on providers to fund the BBI survey for up to three years, or such earlier date that suitable alternative service quality metrics are developed to a satisfactory standard;
 - (d) any obligation on providers to fund the BBI survey should fall away at the end of that period (BBI would need to become self-funded if it were to continue);
 - (e) the following provisions of the Order in relation to Remedies 3 and 4 above would be applicable:
 - (i) whilst LBG expects the proposed Challenge Prize to be successful, the remedy should include a backstop obligation on providers to fund and

develop a comparison website if the proposed Challenge Prize does not generate a commercially viable service;

- (ii) the obligations on providers relating to the OBWG and the development of APIs;
- (iii) the ongoing accreditation and monitoring by an appropriate regulator;
- (iv) once in operation, it may be appropriate for there to be regular reviews of the operation of the comparison services, and there should be sufficient flexibility within the final design of the remedy to make minor variations to the operation of the comparison services to facilitate improvements; and
- (v) the appointment of a monitoring trustee.

What can the CMA do now?

- 3.28 As explained above, the CMA can make progress on Remedy 5 now, by engaging with Nesta, BBI, OBWG, providers, SME representative groups and other stakeholders.

C. Remedy 6 (linked to Project Bulldog and Project Factern)

- 3.29 LBG supports making BCA opening procedures more efficient and easier for customers. There is likely to be significant commonality between providers regarding the data and information they require for BCA opening purposes. However, due to differences in application forms, terminology and processes, this commonality may not be apparent to SMEs, and may mean that BCA opening is more lengthy and onerous for SMEs than it could be.
- 3.30 As the CMA will be aware, LBG and other providers¹¹ are progressing Project Bulldog (co-ordinated by Oliver Wyman) to seek to standardise account opening forms. Good progress has been made in relation to the sole trader segment (which represents c.60% of all SMEs) and work is progressing on UK-domiciled limited companies and partnerships. It is envisaged that the output from Project Bulldog will be extended to include other providers via the BBA. Consequently, Project Bulldog has the potential to deliver Remedy 6 promptly and effectively.
- 3.31 The CMA should note that it will not be possible to fully standardise BCA opening requirements, as providers are responsible for complying with AML/KYC regulations. Providers must therefore be free to request additional information in individual cases. It would also be undesirable to mandate a common application form, as this would stifle competition between providers in the BCA opening processes.
- 3.32 Project Factern, or other similar such commercial data providers, also offers the potential to significantly reduce the burden of BCA opening for SMEs, allowing providers to obtain certain information directly from the common repository (instead of requesting it from the SME), and enabling the pre-filling of parts of on-line application forms. The application also offers the potential to enhance access to business lending (Remedies 14 and 15).

What should the CMA do in its final remedies?

- 3.33 LBG considers that Remedy 6 could be implemented by an Order or a Recommendation, covering the following points:
- (a) BCA providers to work together and with Project Bulldog to agree common application forms for specific types of SME within 3 months, with common

¹¹ Initially involving the direct participation of a number of BCA providers; now including a wider range of banks via the BBA.

application forms for further types of SME to be agreed within a further 3 months. Industry-wide implementation of the final common form would then take place within a defined period of time;

- (b) BCA providers would be subject to an ongoing obligation to co-operate with the Project as their BCA opening requirements change over time (e.g. due to legislation) to allow for the common forms to be updated; and
- (c) if desirable, the process could be monitored by an independent third party (e.g. a regulator or a consumer organisation) and/or SME representative organisations, who would approve the final forms, and any subsequent revisions or innovations.

What can the CMA do now?

- 3.34 The CMA should continue to engage with Oliver Wyman and the BBA to ensure that Project Bulldog is aligned with Remedy 6. It can then publicly announce that it provisionally considers that Project Bulldog is the most suitable means of delivering Remedy 6, to encourage wider provider participation. This will allow further progress to be made in the coming months.
- 3.35 The CMA should also engage with Project Factern, or other similar commercial data providers, to encourage the development of data services in a manner that supports streamlined BCA opening.

D. Remedy 13 (linked to SBEE Act, Project Factern and OBWG)

- 3.36 The SBEE Act already includes provisions, which are expected to come into force shortly, that require designated banks to share key indicators of business current account performance with designated CRAs.
- 3.37 The Remedies Notice (paragraph 154) appears to suggest that the scope of the data sharing proposals in the SBEE Act should be extended to include the sharing of "transactional data" to the CRAs, although this level of granularity was specifically rejected by the Government following consultation with banks and key industry stakeholders.

What should the CMA do in its final remedies?

- 3.38 The development of current legislation under the SBEE Act, which involves the sharing of key performance indicators with designated CRAs, is already likely to be sufficient to address the AECs identified by the CMA. Before deciding on whether to introduce a more intrusive remedy that involves the sharing of transactional data, the CMA should wait for the SBEE Act to take effect and evaluate its effectiveness (including obtaining feedback from lenders) before considering extending the data requirements further.
- 3.39 In this regard, in its final remedies decision, the CMA could make a Recommendation to either the FCA or another Government Department (such as HMT, which led on the consultation regarding improving access to SME credit data) to evaluate the effectiveness of the data sharing proposals in the SBEE Act, within a specific time frame, with a possible view to changing the scope of the legislation if it is not considered to be working effectively. Whilst LBG is wholly supportive of the credit data-sharing initiative under the SBEE Act, any change to the scope of the legislation must ensure that SME customers are able to obtain this data at no additional cost.

- 3.40 Moreover, there is clear overlap with the CMA's proposed remedy and the following initiatives, which would allow banks to obtain relevant information on SMEs without the cost and complexity of the CRA hosting the information:
- (a) the Project Factern initiative will allow SME data to be uploaded into a central repository, so that any provider would be able to drawdown and undertake their own bespoke analysis without having to go via a CRA; and
 - (b) the development of industry-wide APIs through the OBWG will enable the direct transfer of transactional data between an SME and an individual provider, or between an SME's existing provider and a new provider, without the use of a third party (such as a CRA).
- 3.41 Given the interaction and overlap between the data sharing proposals in the SBEE Act, the CMA's proposed remedies, and some of the other initiatives taking place, the CMA could also make a Recommendation (e.g. to HMT, the FCA and/or other Government departments) to conduct an overarching evaluation as to the effectiveness of these measures, at some specified date in the future (with a view to possibly streamlining the initiatives/remedies if they turn out to be duplicative).

E. Remedy 14 (linked to Project Factern)

- 3.42 There is overlap between the proposed remedy and Project Factern, which is in the process of developing a data routing platform and a common repository to enable SMEs to share their public and commercially sensitive data with counterparties in a controlled and structured format.
- 3.43 The key practical issues to consider at this stage are:
- (a) providers and SME representatives agreeing minimum standards covering the data to be included, in order to agree a core common set of questions;
 - (b) consideration of how best to encourage SMEs to share confidential data with providers (e.g. business plans and forecasts). SMEs may be reluctant to share certain types of confidential information with their provider particularly if it is to be disclosed more widely amongst other providers. The views of SMEs should therefore be sought as to how much information they would be prepared to share; and
 - (c) ensuring that the information requested is sufficiently broad to capture the different parameters on which banks base their SME lending decisions. This will require consultation with the various providers. It would also be important to consider the cost of having to adapt IT systems to cater for different types of data (and in different formats).

What should the CMA do in its final remedies?

- 3.44 Remedy 14 could be implemented either by Order or Recommendation to the FCA and BBA.
- 3.45 An Order would be more effective at remedying the AECs identified by the CMA if it applied to all providers, and would specify the following:
- (a) it would require all BCA and SME lending providers to commit to work towards sharing SME data using the common data routing platform and repository developed by Project Factern (or some other similar service which may be developed);

- (b) the date by which Project Factern should be operational, and the date by which all providers should be using the common standard and repository;
 - (c) the minimum standards that would be expected to be achieved by Project Factern (including the type and range of information to be shared);
 - (d) to ensure effective implementation, the Order could also specify that the remedy needs to be overseen by a monitoring trustee (or the FCA) until such time as the remedy is considered to be working effectively; and
 - (e) to the extent that APIs are required for this remedy to be effective, these could be adopted in the same way as referred to in relation to Remedy 3 above.
- 3.46 Alternatively, a Recommendation would specify that all providers should work with the FCA and BBA in order to develop a data routing platform and a common repository using Project Factern (or some other similar service), within a specified period of time.
- 3.47 The effectiveness of Remedy 14 will depend on whether there is robust governance, to ensure that data sharing processes evolve to meet changing customer demand over time. It may therefore be desirable to provide for regular monitoring (e.g. by the FCA) of the data sharing process and individual providers' compliance.

What can the CMA do now?

- 3.48 If the CMA's proposed remedy is to use a data routing platform and common repository such as that being developed by Project Factern, the CMA should:
- (a) announce its support for such initiative(s) and write to providers requesting confirmation of their support. This would help to remove the uncertainty that currently exists due to the possible duplication of Project Factern, and/or with other potential providers of similar services, with the CMA's proposed remedy;
 - (b) engage with SME representative organisations at the earliest opportunity, in order to consult on how much information they would be prepared to share;
 - (c) engage with the FCA in order to seek its support for the initiative, and gauge its willingness to undertake a monitoring role; and
 - (d) engage with the BBA so as to obtain input and support from the smaller providers in the process so that it enjoys broad-based industry support.

F. Remedy 15 (linked to Nesta, OBWG, BBI and referrals of declined lending)

- 3.49 LBG supports the development of improved SME loans price and eligibility checkers for smaller SMEs. Key issues for the CMA to consider in order to provide an "approval in principle" of sufficient accuracy to be useful to an SME include:
- (a) the complexity of the product;
 - (b) the functionality required of the checker; and
 - (c) the level of information required.
- 3.50 There is clear overlap between Remedy 15 and various initiatives already underway. These include:
- (a) the proposed Challenge Prize, which is stimulating innovation in the development of comparison services for SMEs, including the provision of business lending;

- (b) the OBWG, which will allow information relevant to loan pricing and eligibility to be accessed directly by providers using APIs;
- (c) Project Factern, which when developed can be used by eligibility checkers to pre-fill certain information to streamline the customer experience; and
- (d) legislation regarding referrals of declined lending to alternative sources of finance. This is relevant because:
 - (i) LBG has been developing an app internally to support this and the designated portals provide a comparison site with some loan eligibility functionality built in for use with a trigger (e.g. following a decline); and
 - (ii) the customer journey being mapped out could be enhanced through Nesta's work.

What should the CMA do in its final remedies?

- 3.51 LBG considers that Remedy 15 would be most effectively implemented by an Order setting out the minimum standards required for banks and other finance providers to develop their own loan price and eligibility checkers within a specified period of time. These could either be based on their own websites and/or have links to them on the SME comparison services to be developed under the proposed Challenge Prize.
- 3.52 Remedy 15 could be bolstered, and the incentives for comparison website development enhanced, if loan price and eligibility checkers for multiple providers could be accessed from common sites. The CMA can achieve this by including the following additional provisions to any Order:
- (a) oblige providers to work to develop an effective eligibility checker aspect to the comparison site(s) within 18 months of the launch on the prize fund (with appropriate support from the CMA as set out in paragraph 3.53 below); and
 - (b) the following provisions of the Order in relation to Remedies 3 and 4 above would be applicable:
 - (i) the backstop obligation on providers to fund and develop a comparison website if the proposed Challenge Prize does not generate a commercially viable service;
 - (ii) the ongoing monitoring/accreditation by an appropriate regulator; and
 - (iii) the appointment of a monitoring trustee.

What can the CMA do now?

- 3.53 As explained, in relation to Remedies 3 and 4, the CMA can engage with Nesta to ensure that eligibility checkers are included within the scope of the Challenge Prize. The CMA can also announce its support for the proposed Challenge Prize initiative and bilaterally encourage providers to support the initiative and commit funding to the Challenge Prize, on the basis that the CMA is minded to Order this in relation to Remedy 15 in any event.