Secure Trust Bank
One Arleston Way
Solihull
West Midlands
B90 4LH T 0121 693 9100

Secure Trust Bank
Simple, straightforward banking

Project Manager,
Retail banking market investigation,
Competition and Markets Authority.

Non-confidential version

11 March 2016

Dear Sir,

Corporation tax surcharge and bank levy

I write with respect to the working paper published by the CMA in respect of the above on 26th February.

I agree with the CMA's view that taxation policy is a matter for government and it is not the CMA's role to evaluate policy objectives. I also note that on 5th November last year the Right Hon Andrew Tyrie MP wrote to the CMA asking it to consider whether the Bank tax Corporation Charge is acting as a barrier to competition.

I have reviewed the submissions published on the CMA website. As one might expect the submissions all seem to be accurate. However I note that some of the information provided whilst in isolation factually correct, does not really support the assertions made being made when considered in the broader market context.

When explaining the introduction of the bank levy in 2010 Mr Osborne said: *"This was a crisis that started in the banking sector and the failures of the banks imposed a huge cost on the rest of society*". The Treasury's papers and comments from government officials at the time noted the huge benefits the systemic banks enjoyed from the implicit support of the UK taxpayer and this was used to justify the imposition of the levy on those banks with balance sheets of £20bn or more. Indeed in the same year the Bank of England estimated that the 'Too Big To Fail' banks had derived over £100bn of benefit from the implicit UK government support. See link below. More recently the IMF estimated that banks in Europe had benefitted by up to $300bn because they were deemed too big to fail and thus derived huge economic benefit via implicit sovereign guarantees which allowed these banks to fund themselves more cheaply than their standalone ratings would merit.

http://www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs_paper15.pdf

http://www.imf.org/external/pubs/ft/survey/so/2014/POL033114A.htm

The big banks continue to enjoy an implicit funding subsidy worth billions of pounds per year. For example, I note that the 2015 RBS Annual Accounts contains the following statement; *The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings and, to a lesser extent, on the rating of the UK Government.*

Secure Trust Bank
One Arleston Way
Solihull
West Midlands
B90 4LH T 0121 693 9100

Secure Trust Bank
Simple, straightforward banking

The salient points here are;

a) The smaller banks did not cause the financial crisis and did not impose any huge cost on society which is why they were excluded from the banking levy in the first place.
b) Obviously small banks did not and do not receive any form of financial benefit from being deemed too big to fail.
c) Smaller and Challenger banks were hugely important in helping the economy recover after the crisis as they were demonstrably increasing their net lending into the real economy at a time when the Too Big to Fail banks were shrinking their balance sheets.

The Challenger Bank cohort has consistently said it has no objections to being put on the same footing as the dominant banks with respect to tax, provided it has the same ability to compete on a truly level competitive playing field. This is not the case and none of the recommendations from the CMA thus far will result in the creation of such a level playing field.

The small banks continue to be hugely disadvantage relative to the biggest banks. They need to hold disproportionate capital relative to the big banks for like for like lending. The big banks also enjoy huge funding cost advantages arising from their dominance of the free if in credit current account market, incumbency advantages that allow them to treat long term savings customers in the manner highlighted by the FCA this January and the enormous subsidy enjoyed on the back of the UK government implicit guarantee. The net result of having the lowest capital requirements combined with much lower funding costs gives the dominant banks an unassailable position across most of the UK lending market. The 5 biggest banks and Nationwide control almost 80% of the mortgage market. This means they have the lowest risk assets to offer up as collateral so they also benefit enormously from explicit UK government schemes to reduce funding costs, The latest data shows that Barclays, Lloyds, Nationwide and Santander account for 76% of the usage of FLS. The challenger banks added together, save Virgin, use less than 5% of FLS.

The recent tax changes only serve to make the competitive playing field more biased towards the dominant incumbents. The CMA's findings are consistent with my own calculations. The combination of the introduction of the bank corporation tax surcharge and the phased reduction in the bank levy means that the difference in effective rate of tax paid by the largest banks and the smaller banks will get reduce over time. It is illogical to suggest this is in any helpful to the smaller banks and by definition cannot help them compete more effectively with the incumbents.

In summary, the situation that now exists is that the taxpayer is subsidising the dominant banks funding costs and the small banks are subsidising the costs of reducing the banking levy.

I welcome the CMA flagging that the government should keep the tax regime under review and trust that any review will examine the broadest market context. I hope that as the CMA progress their deliberations it will recommend genuinely radical remedies that will address the fundamental barriers to effective competition in particular disproportionate capital requirements and a lack of access to lower cost funding. A genuinely level competitive playing field obviously justifies a level tax regime.

Yours faithfully

Paul Lynam, ACIB, AMCT, Fifs
Chief Executive Officer