

**LLOYDS  
BANKING  
GROUP**



**LLOYDS BANKING GROUP PLC**

**CMA RETAIL BANKING MARKET INVESTIGATION**

**Response to the CMA SME Comparison Sites Working  
Paper 2016**

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# LLOYDS BANKING GROUP PLC

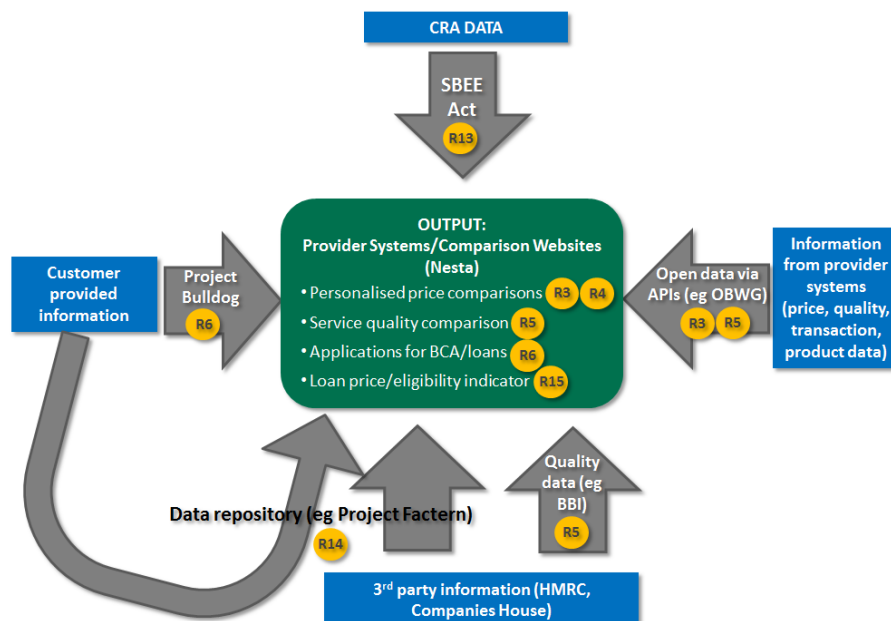
## Response to the CMA's SME Comparison Sites Working Paper

### 1. INTRODUCTION

1.1 LBG welcomes the CMA's current thinking as set out in its working paper of 7 March 2016 regarding "The role of comparison sites for small and medium-sized enterprises in addressing the adverse effect on competition" ("**the Working Paper**"). In particular, LBG is encouraged by the CMA's support for the proposed Nesta Challenge Prize Fund ("**Challenge Prize**"), which LBG fully endorses as the most efficient way of facilitating the design and commercialisation of an effective price and quality comparison service as envisaged by Remedies 4 and 5. As explained in LBG's submission of 2 March 2016 ("**LBG's SME Initiatives Submission**"),<sup>1</sup> LBG considers that

- (a) the CMA can work with the grain of existing initiatives to deliver real benefits to SMEs. These initiatives include the Open Banking Working Group, Project Bulldog (the Oliver Wyman common BCA application form), Project Factern (the common data repository initiative) and the Small Business, Enterprise and Employment Act 2015 ("**SBEE Act**");
- (b) comparison services delivered via the Challenge Prize will effectively address the provisional AECs identified in a proportionate and timely manner; and
- (c) the effectiveness of such comparison services will be further enhanced if it is linked to the existing initiatives referred to above. These initiatives (including the Challenge Fund) can deliver far more in combination than in isolation and are complementary to the Challenge Prize, rather than the Challenge Fund being dependent on them.

1.2 In this context, there is real potential to create a dynamic ecosystem in which the initiatives work together to make a genuine and sustained difference in this important market. These dynamic interactions are illustrated below, and are capable of delivery in the foreseeable future.



<sup>1</sup> ["The interaction between the CMA's SME remedies and existing SME initiatives"](#), 2 March 2016, .

- 1.3 The CMA has received a number of views in relation to the Challenge Prize and LBG is encouraged that many of these responses strongly support the Challenge Prize and/or the principles underlying it. The fact that the CMA has also publicly indicated that its current thinking is that the Challenge Prize is the most suitable means of implementing Remedy 4 is likely to boost further the already strong support for this initiative, particularly amongst those providers and other stakeholders who were reluctant to commit funding until they were confident that the Challenge Prize initiative will be consistent with any CMA remedies that are ultimately adopted.
- 1.4 With this level of support (including from many of the leading providers in the sector), the CMA now has an excellent opportunity to accelerate the mobilisation and current funding needs of the proposed Challenge Prize initiative by including it within its Provisional Remedies Decision in May 2016.
- 1.5 LBG notes that some stakeholders in the SME sector have expressed some differing views in relation to the Challenge Prize format. These have been outlined by the CMA in the Working Paper and are addressed by LBG in this submission. None of these differing views, either individually or collectively, should alter the CMA's provisional view that the Challenge Prize remains the most effective means of developing effective comparison services in the SME sector.
- 1.6 The remainder of this submission:
- (a) outlines the key aspects of the Working Paper which LBG supports; and
  - (b) addresses some of the other views raised by third parties.

## 2. **LBG ENDORSES A NUMBER OF THE KEY POINTS RAISED IN THE WORKING PAPER AND THE CMA'S "CURRENT THINKING"**

### **Scope of the comparison site**

- 2.1 LBG welcomes the general view that the comparison services envisaged by the CMA's Remedy 4 (and 5) would work best for smaller SMEs.<sup>2</sup>
- 2.2 LBG also agrees with the majority of respondents to the CMA's Remedies Notice that comparison services should include standard tariff BCAs.<sup>3</sup> However, in addition to standard tariff BCAs, as previously submitted, LBG considers that midata (customer transaction histories) transferred through APIs also creates the possibility of more powerful easy-to-use, individualised price and quality comparisons for small unsecured business lending and, potentially, other important business products and services such as deposits.<sup>4</sup> LBG therefore agrees that providers should be obliged to supply data for the proposed Challenge Prize "sandbox" in advance of the introduction of banking APIs.<sup>5</sup>
- 2.3 Whilst LBG recognises that there are mixed views as to whether the comparison services envisaged by Remedies 4 and 5 could extend beyond standard tariff BCAs, in LBG's view:
- (a) **material benefits can be realised by initially focusing on BCAs used by smaller SMEs, before including non-BCA products in the future.** This could be achieved by ensuring that the parameters required to win the Challenge Prize award are wide enough to accommodate entrants with broader propositions or

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<sup>2</sup> As previously submitted, larger SME businesses tend to have more complex needs, and are more likely to have dedicated advisors or internal experts. They are more likely to negotiate bespoke offers, and tend to make sophisticated decisions around their banking needs.

<sup>3</sup> Bespoke or more complex tariffs do not allow for effective comparisons.

<sup>4</sup> [LBG SME Initiatives Submission](#), paragraph 2.3.

<sup>5</sup> Working Paper, paragraphs 45-46

consortia of organisations covering wider needs. As comparison sites generate increasing traffic associated with BCA comparisons for smaller SMEs, this will create powerful commercial incentives and demand from SMEs for such sites to cover an expanded range of products; and

- (b) as set out in further detail in LBG's SME Initiatives Submission,<sup>6</sup> **comparison sites could be expanded to small unsecured loans as part of the CMA's current remedies package** if the loan price and eligibility checkers for multiple providers (envisaged under Remedy 15) could be accessed from common sites. LBG has already suggested that Remedy 15 could include an obligation on providers to work to develop an effective eligibility checker aspect to the comparison site(s) within a specified period of the launch of the prize fund.

2.4 LBG also agrees with the comments made by Danske Bank<sup>7</sup> - that for a comparison site to be effective, **a degree of standardisation of terminology would need to be used** by the comparison service in order to facilitate objective and effective like-for-like comparisons between providers.<sup>8</sup> This would apply to whichever products fall within the scope of the comparison services.

### The Challenge Prize as the best way forward

2.5 LBG is fully supportive of the CMA's "current thinking" set out at paragraph 53 of the Working Paper, which also reflects LBG's position - that the proposed Challenge Prize is the best way forward for achieving an effective price and quality comparison service, because it provides a market-led solution driven by competition rather than regulatory design.<sup>9</sup>

2.6 In this context, LBG notes that the CMA has raised three "issues" in relation to the Challenge Fund. LBG's views in relation to each of these issues are set out below:

- (a) **Confidence of providers' support:** The CMA has stated that "*we would need to be confident that providers of SME banking services would support the challenge to its conclusion, both financially and through the provision of data to enable the sandbox exercise*".<sup>10</sup> LBG has outlined in its SME Initiatives Submission how this can be achieved, i.e. by way of an Order that requires financial and data contributions from the leading providers. This would be preferable to a remedy in the form of undertakings, where negotiations could be long and inconclusive.
- (b) **Maintaining CMA involvement:** The CMA has expressed a preference for maintaining involvement with the Challenge Prize process after the inquiry has finished. LBG agrees that ongoing monitoring of some form would be required and has already suggested that this could take the form of:
  - (i) the CMA appointing a monitoring trustee, and/or appointing a representative to the governance body managing the proposed Challenge Prize competition;<sup>11</sup> and
  - (ii) if considered necessary or desirable by the CMA, an appropriate regulator approving and reviewing the relevant comparison services once launched.<sup>12</sup>

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<sup>6</sup> [LBG SME Initiatives Submission](#), paragraph 3.52.

<sup>7</sup> Working Paper, paragraph 14.

<sup>8</sup> As submitted in LBG's [Remedies Notice Response](#), 25 November 2015, paragraph 3.4.

<sup>9</sup> [LBG SME Initiatives Submission](#), paragraph 3.6.

<sup>10</sup> Working Paper, paragraph 54.

<sup>11</sup> [LBG SME Initiatives Submission](#), 3.7(c).

However, it is important that any CMA (or other regulator) involvement is kept to a monitoring role and that the proposed Challenge Prize judging process is left to determine the winner(s).

- (c) **Fallback provision:** Paragraph 55 of the Working Paper refers to "*whether a fallback provision is necessary*". Whilst LBG expects the proposed Challenge Prize process to be successful, LBG has already expressed its support for a backstop obligation on the largest providers to fund and establish an effective comparison service (either by further developing the prize fund solution or separately) within a specified time, and (if considered necessary or desirable) under the supervision of an appropriate approval body (similar to the Payday Lending Order).<sup>13</sup>
- (d) **Existing provider-supported services (such as the BBI) might be discontinued:** LBG considers that the BBI is complementary to the Challenge Prize proposal, not mutually exclusive as suggested by paragraph 56 of the Working Paper. In this connection, the CMA should not permanently mandate specific sources of service quality information or specific means of delivery (as this is likely to stifle innovation).<sup>14</sup> However, LBG has already submitted that it considers that the BBI is a credible initial candidate to supply service quality comparison data to be used in the winning Challenge Prize service(s) for an initial period.<sup>15</sup> BBI 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. LBG therefore supports the CMA's proposal to mandate continued support of the BBI for an initial period. Moreover, the BBI would be entitled to compete for the Challenge Prize itself and/or innovate further to compete or collaborate with entrants. In this regard, the CMA should engage with the BBI and discuss how the survey can be improved, to provide more robust results.

### 3. OTHER VIEWS RAISED BY THIRD PARTIES

#### Key issues raised in relation to the Challenge Prize

##### Impartiality

- 3.1 LBG notes that one respondent to the Working Paper (Business Finance Compared ("**BCF**")) raised concerns that a "*bank-funded site might not be truly independent*".<sup>16</sup> As general rule, LBG agrees that any investment by providers into any comparison service resulting from the remedies package would need to be at arm's length and independent. To the extent that the Working Paper raises this comment context of the proposed Challenge Prize in particular, LBG makes the following submissions:
  - (a) The Nesta "Challenge Prize Centre" was founded by HM Government as the UK's innovation foundation and acts as a hub for challenge prizes, knowledge and expertise. As an independent entity, not connected to or controlled by any of the providers funding the prize awards, Nesta is well placed to provide objective and impartial administration of the challenge, with responsibility for the governance and awarding of prizes via an expert judging panel. The SME service providers would merely be providing funding for the prize and would not play any part in the judging process;

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<sup>12</sup> [LBG SME Initiatives Submission](#), 3.9.

<sup>13</sup> [LBG SME Initiatives Submission](#), 3.8.

<sup>14</sup> [See LBG SME Initiatives Submission](#), paragraph 3.25 for further details.

<sup>15</sup> [LBG SME Initiatives Submission](#), paragraphs 3.26-3.27.

<sup>16</sup> Working Paper, paragraph 27.

- (b) moreover, as outlined above, LBG has already suggested the appointment of a monitoring trustee, and/or appointing a CMA representative to the governance body managing the proposed Challenge Prize competition. This would underline the independence of the Challenge Prize from its financial supporters; and
- (c) all providers and other interested parties are encouraged to contact Nesta to discuss and explore opportunities to engage in the Challenge Prize.

#### Leave the fintechs to it

3.2 A number of parties have observed that the fintech industry is already progressing in relation to comparison services and, accordingly, the development of effective comparison services should be left to market forces.<sup>17</sup>

3.3 LBG's response is that:

- (a) whilst LBG is supportive of market-led solutions, the sector's track record suggests that the market can be catalysed to launch an effective set of comparison tools within the same period of time proposed by the Challenge Fund.<sup>18</sup> The proposed Challenge Prize offers exactly that stimulant, whilst at the same time offering all the benefits of a market-led solution;
- (b) a laissez-faire approach provides less certainty of success compared to the proposed Challenge Prize for a number of reasons. This is because there would be no guaranteed financial reward/investment, nor the pooling of resources to develop, test and launch the product (such as the "sandbox" initiative and the ongoing access to customer data specifically tailored for the proposed Challenge Prize);
- (c) the proposed Challenge Prize approach also provides the scope for a robust level of governance, cross-sector coordination and engagement across various interested stakeholder groups. This will increase certainty compared with a laissez-faire approach, as well as providing greater credibility and potentially a higher profile amongst sector stakeholders and customers;
- (d) the proposed Challenge Prize will deliver a step change in the effectiveness of comparison sites. A CMA Order would ensure that:
  - (i) there is sufficient financing and a critical mass of providers mandated to be present on comparison sites resulting from the proposed Challenge Prize, which will generate the necessary network effects. This will not simply be "more of the same", and will address the Financial Services Consumer Panel's concerns;<sup>19</sup> and
  - (ii) the winning service(s) meet minimum standards required of an effective comparison tool, including standards to ensure fair and transparent comparisons. This is an issue that the CMA will be considering in parallel in its proposed markets work on price comparison sites, as set out in its 2016/17 Annual Plan;

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<sup>17</sup> Working Paper, paragraphs 27-28.

<sup>18</sup> As set out in [LBG's SME Initiatives Submission](#) (in particular paragraphs 3.7 and 3.27), LBG considers that if designed appropriately and with the support of the CMA, Remedies 4 and 5 can result in the operation of effective comparison services within 18 months of the launch of the proposed Challenge Prize.

<sup>19</sup> Working Paper, paragraph 33.

- (e) it is envisaged that such fintechs would participate in the Challenge Prize, and the possibility of financial rewards by winning Challenge Prizes will incentivise and accelerate fintech activity; and
- (f) the proposed Challenge Prize is likely to spur further competition in the provision of effective comparison tools.

### Other issues relating to comparison services

#### Data privacy/security

- 3.4 LBG notes that some respondents raised data sharing, privacy and data security concerns in connection with the development of comparison sites.<sup>20</sup> LBG recognises that these are important considerations and acknowledges that some work will need to be done to allay any residual concerns on the part of consumers and small businesses on this issue.
- 3.5 LBG has already submitted its views on this issue, which are summarised below:<sup>21</sup>
  - (a) LBG believes that an API-enabled comparison process will increase data security compared with the current upload-download midata system used for PCAs;
  - (b) these are issues that comparison sites are already expert in handling as part of their operations for similar financial services. Irrespective of the mode of transmission, API or otherwise, any entity (including comparison sites) holding or processing customer data will be covered by the Data Protection Act 1998, which provides strong legal safeguards against the misuse or misapplication of data; and
  - (c) as with CASS, LBG believes that marketing and advertising campaigns to enhance customer awareness and confidence should accompany the deployment of any API-enabled midata remedy.

#### Soft credit searches

- 3.6 The CMA has stated that the "*remedy on comparison sites may give rise to issues around the effect of multiple credit searches on an SME's credit rating since 'soft searching' is not an option for SMEs currently comparison site*".<sup>22</sup> The CMA is considering what, if anything, needs to be added as an ancillary to this remedy.
- 3.7 LBG considers that this is an important issue for the CMA to consider. A necessary implication of the provisional AECs being addressed is that SMEs will shop around more for BCAs and lending. This shopping around will result in multiple credit searches becoming more widespread, and it is important that this does not have an unwarranted negative impact on SMEs' eligibility for products. LBG expects that providers' eligibility criteria, including their interpretation of information from credit reference agencies ("**CRAs**"), will evolve over time to account for this increased shopping around. However, the CMA should explore the possibility of soft searching for SMEs by engaging with CRAs and other relevant stakeholders.<sup>23</sup>
- 3.8 Importantly, this issue is independent of the CMA's choice of remedy, i.e. it will arise whether shopping around increases due to increased use of providers' own application processes, use of regulator-mandated comparison services, or use of comparison services developed through the Challenge Prize.

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<sup>20</sup> Working Paper, paragraph 23.

<sup>21</sup> See, for example, LBG's submission "[APIs and midata – an explanatory summary](#)", 5 February 2016.

<sup>22</sup> Working Paper, paragraph 52

<sup>23</sup> This is an issue which overlaps to some extent with the implementation of the SBEE Act on wider sharing of credit data.