

## HSBC Response to the CMA's working paper on the role of comparison websites for SMEs in addressing the adverse effect on competition

### Executive summary

1. HSBC welcomes the opportunity to comment on the CMA's working paper on the role of comparison websites for SMEs.
2. As previously submitted, a comparison site as envisaged by the CMA under Remedy 4 has real potential to make it easier and quicker for SMEs to conduct cross-market price and non-price comparison of standard-tariff BCAs and SME lending products. In terms of how Remedy 4 can be implemented, HSBC remains of the view that the CMA's proposed package of remedies will incentivise and facilitate SMEs to shop around and switch, and as such provides the necessary infrastructure and commercial incentives for a market-led solution to emerge.<sup>1</sup>
3. We note from the working paper that the CMA currently appears to favour the Nesta challenge prize as the preferred approach to developing Remedy 4 further, rather than the alternative option it has identified of adopting measures to widen the scope of existing SME-focused websites or to mandate the creation of an industry-funded comparison website.<sup>2</sup>
4. HSBC understands the CMA's concerns regarding these other options<sup>3</sup> and agrees with the CMA that the competitive process of the Nesta challenge prize has the potential to provide a framework for a market-led and innovative practical solution to emerge that would meet the requirement of Remedy 4. However, in addition to the three key areas of risk with the Nesta challenge prize that the CMA has identified in the working paper, there are two fundamental issues concerning the challenge statement and prize statement of the Nesta prize that, if left unaddressed by the CMA, would undermine the ability of the Nesta challenge prize to identify solutions that address the full range of issues envisaged by the CMA's whole remedy package for SME banking.
5. *First*, the concept of the Nesta challenge prize was originally conceived in early 2015 and has been developing in parallel with the CMA market investigation, but ahead of the CMA's announcement of Provisional Findings and publication of the working paper in question. Due to its timing it was not originally intended with a specific remedy solution in mind and could not be developed as a means to address the issues that the CMA has provisionally identified in the SME banking market. If it were to be adopted as a remedy implementation framework, the "challenge statement" of the Nesta challenge prize (i.e. what's the problem?) needs to be fully aligned with the CMA's diagnosis of the issues in the SME banking market, such that solutions that will come forward will fully address issues the CMA has identified in the SME banking market.
6. *Second*, we are concerned that mandating the Nesta challenge prize as a means of implementing Remedy 4 only could jeopardise the effective implementation of the rest of the remedies package that reinforces and interacts with Remedy 4. The proposed remedies package is intended to work together as a whole. As such, if the Nesta challenge prize were to be adopted to provide an implementation framework, its scope (and "prize statement", i.e. the brief for prize challengers and the criteria for determining the prize winners) would necessarily need to be widened to ensure

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<sup>1</sup> Section 3, HSBC's supplemental paper on price comparison websites.

<sup>2</sup> Paras 5 and 53, CMA's working paper on the role of comparison sites for SMEs.

<sup>3</sup> Paras 47 and 48, CMA's working paper on the role of comparison sites for SMEs.

that it also enables the benefit of other SME-focused remedies that interact with Remedy 4 to be delivered to customers (including in particular remedies 3, 4, 5, 9, 14 and 15, many of which are underpinned by API solutions). This would ensure the Nesta challenge prize produces solutions that address the key components of the remedies package more effectively than if they were addressed separately. Further, it would also give the CMA the assurance it needs that the remedies package for SMEs (and not just remedy 4) will be delivered in a timely and effective manner.

7. We set out below in more detail our views on the concerns the CMA has identified in relation to the Nesta challenge prize, as well as additional issues that we think should be addressed if the Nesta challenge prize were to be adopted as the solution to Remedy 4.
8. Provided that the two concerns we have highlighted in respect of the “challenge statement “ and “prize statement” are addressed, we consider that the Nesta challenge prize provides an effective framework for developing market-led solutions that would satisfy Remedy 4, as well as other remedies in the CMA’s remedy package for SME banking.

#### **CMA’s concerns with the Nesta challenge prize**

9. The CMA identified three key areas of risk with the Nesta challenge prize that need to be managed. In order to adopt the Nesta challenge prize as the preferred way to develop Remedy 4, the CMA said it needs to be confident that:<sup>4</sup>
  - a) providers of SME banking services will continue to support the challenge prize process through to its conclusion, both financially and through the provision of customer data to help potential comparison site providers test their proposals in a “data sandbox”;
  - b) a suitable mechanism needs to be found to maintain momentum after the inquiry finishes to ensure that this process delivers the CMA’s objectives; and
  - c) in the meantime, services in particular the BBI, which currently offer SMEs comparative information and which are supported financially by the banks are maintained until the outcome of the prize is known.

***CMA concern #1: Support from providers of SME banking for the challenge prize through to conclusion, both financially and through the provision of customer data to enable the sandbox exercise***

10. For there to be financial and ongoing operational support from providers of SME banking, the CMA needs to ensure that the both the “challenge statement” and the scope / “prize statement” of the Nesta challenge prize is fully aligned with the CMA’s diagnosis of issues in the SME banking market and the package of remedies which are designed to work together as a whole to address those issues.

#### Alignment of the Nesta “challenge statement” with the CMA’s diagnosis of issues

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<sup>4</sup> Para 6, CMA’s working paper on the role of comparison sites for SMEs.

11. The concept of the Nesta challenge prize was originally conceived in early 2015 with a broad scope to, amongst other things, “*improve competition and transparency in the SME account market*”.<sup>5</sup>
12. Nesta engaged in further scoping of the design of the challenge prize between July and October 2015 in parallel with the CMA’s retail banking market investigation, during which Nesta reviewed the existing evidence base and tested the challenge concept with various stakeholders. This design phase produced a “challenge statement” (i.e. what’s the problem), highlighting that people who run small businesses often have limited time, small businesses are highly diverse with changing priorities and needs and that without easily accessible information about products and businesses, tailored comparison across providers is challenging.<sup>6</sup>
13. The CMA has since published its own provisional findings of issues in the SME banking market<sup>7</sup> in October 2015 following extensive engagement with stakeholders in the SME banking industry, including data and information requests, site visits, hearings and qualitative/quantitative research.
14. The refined “challenge statement” appears to be conceptually closer to the CMA’s own diagnosis of the SME banking market than when the Nesta challenge prize was first conceived. However, unless there is complete alignment between the CMA’s diagnosis of issues and Nesta’s challenge statement, there is a real risk that the solutions that will emerge from the Nesta process would not adequately satisfy the CMA’s requirements on the issues that need to be addressed or align with the remedies package.

Alignment of the scope and Nesta “prize statement” with the CMA’s package of remedy proposals

15. At its conception, the Nesta prize challenge was open-minded to the type and range of innovative solutions that could emerge to improve competition and transparency in the SME account market.
16. Following the design phase, the “prize statement” (i.e.: the brief for the prize challengers and the criteria for determining the prize winners) was refined further to correspond with the amended “challenge statement”, as follows: “*Prizes will be awarded for solutions which help small businesses to make informed choices about how best to meet their needs supported by innovative, secure use of data.*” Nesta is seeking solutions that not only “enable intelligent comparison, but also actionable insights and easy access/integration”. It is expected that the prize-winning solutions would utilise open API access to data needed for next-generation comparison service.<sup>8</sup>
17. The CMA has since published in October 2015 its own package of remedy proposals aimed at addressing the issues it has provisionally identified in the SME banking market. Remedy 4 is in many ways a key component of the CMA’s remedies proposals for SMEs though it forms only one part of the package. Remedy 4 is dependent on, and interacts with, other components of the CMA’s proposed package of remedies for SMEs, namely:

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<sup>5</sup> Presentation from Nesta to HSBC, 5 May 2015.

<sup>6</sup> Presentation from Nesta to HSBC, 15 January 2016. HSBC does not have sight of the challenge prize design report.

<sup>7</sup> CMA’s provisional findings, 22 October 2015.

<sup>8</sup> Presentation from Nesta to HSBC, 15 January 2016.

- **Remedy 3** – facilitate price comparisons by making customer-specific transaction data more easily available and usable, including by PCWs;
  - **Remedy 5** – enable SMEs to make service quality comparisons between BCAs;
  - **Remedy 9** – require banks to retain and provide ex-customers, on demand, with details of their BCA transactions over the five years prior to their account closure;
  - **Remedy 14** – commercial open data and data sharing proposals; and
  - **Remedy 15** – require banks to provide a loans and eligibility indicator.
18. Our view, which is also shared by the CMA and other banks including those in attendance at the December roundtable meeting,<sup>9</sup> is that the remedies package as a whole – in which the individual remedies interact and work with one another – has the greatest potential to make a material and positive influence to SME’s ability to access the information they need to compare offerings and switch if appropriate.
19. Based on feedback received from the CMA, there appears to be broad consensus on what an effective comparison site envisaged under Remedy 4 should cover, in respect of (i) the types of SMEs covered,<sup>10</sup> (ii) the products to be covered in any comparison site (though with more mixed views on lending products, linked with Remedy 15),<sup>11</sup> and (iii) the topics to be covered (linked with Remedy 5).<sup>12</sup> HSBC agrees that APIs are very important to help comparison sites to be effective (linked with Remedy 3/14), in particular in making transaction histories available (linked with Remedy 9) to enable bespoke analysis based on actual histories and usage preference.
20. As such, were the Nesta challenge prize be adopted as a means of delivering Remedy 4, the CMA should take steps to ensure that the entrants and eventual winners develop solutions with these broad objectives in mind. The scope of the prize competition would need to be adjusted to ensure that the entrants to the Nesta challenge prize challenge design their proposals in a way that enables the benefit of all six remedies to be delivered to customers. This will ensure that a cohesive, effective package comes forward that can be implemented as a whole rather than in individual parts (see further below).

#### Bringing the Nesta challenge prize winning solutions to market

21. Further, the winners would also need to demonstrate that the solutions will be commercially viable and can be implemented in a time frame that is acceptable to the CMA. There must be an obligation on the winners to work with participating banks to bring the solutions to market within a set time frame to be agreed with the CMA.
22. There will need to be clear understanding and acknowledgement from all relevant stakeholders that Nesta (and the eventual winners) will work with the SME providers to dedicate the Nesta challenge prize to implementing the package of SME-focused remedies. After the challenge prize winners have been identified, we would propose that the same group continues to work together

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<sup>9</sup> See line 23, page 124 of the Transcript of Roundtable Hearing with HSBC, Barclays and Santander on Tuesday, 1 December 2015; LBG also notes that “the initiatives can deliver far more in combination than in isolation” (Para 1.5, LBG’s submission on the interaction between the CMA’s SME remedies and existing SME initiatives.)

<sup>10</sup> Para 13, CMA’s working paper on the role of comparison sites for SMEs.

<sup>11</sup> Para 14-20, CMA’s working paper on the role of comparison sites for SMEs.

<sup>12</sup> Para 21, CMA’s working paper on the role of comparison sites for SMEs.

with the winners to implement the remedies package. We recognise that this may not be within the normal modus operandi of Nesta and therefore propose that a project management capability is hired to ensure delivery of the remedies package, or indeed a monitoring trustee be appointed by the CMA as proposed by LBG. This will give the CMA assurance that the remedies will be brought to market effectively.

23. The overall terms of reference for the Nesta challenge prize would need to acknowledge the alignment of the Nesta challenge prize with the CMA's findings and remedies package, as discussed above. HSBC considers this to be fundamental in garnering the support from SME providers that the CMA needs, both financially and also technically through the provision of customer data.

#### Participation of HSBC and other SME banking providers

24. We would expect all SME providers, including Santander and challenger banks (but not limited to larger providers), to participate and contribute to the Nesta challenge prize. This is because as previously submitted, remedies will be effective only if they apply in respect of all SME providers in the market: the AEC relates to the demand side as a whole, not to the customers of certain providers.<sup>13</sup>
25. On data, HSBC has already indicated to Nesta that it would be willing to provide customer data to help potential comparison site providers test their proposals in a "data sandbox". Indeed, we believe that the provision of this data will provide a very significant incentive for interested parties to enter the competition.
26. Subject to our concerns around the challenge statement and prize statement being addressed above, HSBC would be prepared to make a funding contribution to the challenge prize alongside all other SME providers with contributions based on market shares.

#### CMA's role to boost the adoption of APIs

27. APIs will be an integral part of Remedy 4 as well as a number of the other components of the remedies package.<sup>14</sup> We would urge the CMA to engage directly with the OBWG with the view to expediting the delivery of open APIs.

#### ***CMA concern #2: Mechanism to maintain the CMA's involvement with the challenge prize process***

28. We understand that the CMA is keen to stay involved in the challenge prize process through to its delivery and beyond as much of it will take place after the conclusion of the inquiry.
29. HSBC agrees it would be important for the CMA to continue to be involved in the Nesta challenge prize process and would be supportive of having a CMA nominated or approved representatives in the governance of the Nesta challenge prize.

#### ***CMA concern #3: Requiring providers to continue supporting the survey underlying the BBI for a period of two years after the publication of the final report.***

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<sup>13</sup> See para 4 of HSBC's response to the CMA's provisional findings report and notice of possible remedies.

<sup>14</sup> See for example, Section 4 of HSBC's supplemental paper on price comparison websites.

30. The CMA is concerned that adopting the Nesta challenge prize might create a risk of discontinuation of other services, such as BBI, which would cease the provision of service quality comparisons. HSBC does not see this as a risk.
31. As the CMA is aware, HSBC and other banks have already invested a significant amount for planned enhancements to the quality of the BBI survey and the profile of the BBI website.<sup>15</sup> HSBC has indicated its further financial and operational support for BBI for 2016. *[Redacted]*
32. The BBI project is dependent on the remedies package, not on the Nesta challenge prize. If the Nesta challenge prize is not part of the overall solution we would still see BBI as the obvious short term route to providing cross-industry service comparisons.
33. We would favour support of BBI for a two year period to enable it to be built into the remedies package in a steady state environment; while agreeing with other stakeholders that BBI needs to be continually improved throughout 2016 as already agreed. If the Nesta challenge prize were to be adopted to provide an implementation framework for SME-focused remedies, we would support a recommendation from the CMA that the BBI survey be incorporated into any solutions arising from the Nesta prize challenge. Given investments that have already been put into BBI and the potential for it to be improved, we believe efforts should be focused on building on groundwork already laid rather than considering other that other service quality metrics in the short term. We recommend that the CMA remains positive in its support for using BBI in order to remove any uncertainty in the short term.

#### **Other: the option of “soft-searching” for SME**

34. The CMA notes 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” and is seeking views on what (if any) needs to be added as an ancillary to this remedy.<sup>16</sup>
35. Although Credit Reference Agencies (**CRA**s) have different approaches to conducting searches on SME customers, “soft searching” is currently an option and is conducted by at least one CRA – Equifax. Equifax allows “soft” searches of its database of SME customers and is utilised by HSBC in its newly launched “decision in principle tool” to provide SME customers with an indication of their eligibility to borrow a specified amount (of up to £30,000).<sup>17</sup> Given the package of remedies will encourage SMEs to shop around, the CMA should encourage more CRA’s to offer the “soft” search option.

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<sup>15</sup> See para 104-105 of HSBC’s response to the CMA’s provisional findings report and notice of possible remedies.

<sup>16</sup> Para 52, CMA’s working paper on the role of comparison websites.

<sup>17</sup> See HSBC’s submission to the CMA’s additional SME data request, dated 15 February 2016.