

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

Non-confidential version

21 March 2016

Dear Sir,

The role of price comparison websites (PCWs) for SMEs

I write with respect to the working paper published by the CMA in respect of the above on 7th March 2016.

There is clear evidence that PCWs can help lead to increased competition and better value for customers using non-complex homogenous products. For example financially savvy customers already make extensive use of best buy league tables to inform which bank they choose to deposit their savings with. Whilst some products such as BCA's for the small business end of the market are homogenous in nature, a lot of products designed for SMEs do not lend themselves to comparison via PCWs. SMEs are hugely varied in their composition, behaviour, complexities, needs and requirements and operational and credit risks. The pricing of lending products to SMEs reflects these individual, rather than homogenous, natures of the borrower.

Conceptually it should be possible to create a PCW for products like BCAs but I do not support the notion that this should be extended to borrowing products. I note that the 'Too Big to Fail' banks that utterly dominate UK banking are broadly in favour of the creation of a PCW including lending products now or in the future. This should sound alarm bells at the CMA. These huge banks enjoy unassailable funding cost and capital requirement advantages. They would be the very clear winners in any environment where the principal decision is price driven – which is of course the whole point of a PCW. One can easily observe how these banks completely dominate the mortgage market exactly because of their funding cost and capital advantages. The CMA needs to guard against promoting well-meaning ideas which would perversely serve to create conditions that allow the dominant banks to control the SME market even more than they already do. A quick look at any PCW now will show how the big banks use price to dominate the best buys for mortgages and thus the vast majority of that market. I struggle to see how creating the same dynamic in the market for lending products for SMEs will help to foster broad scale competition.

I also believe it is untenable to expect banks which do not offer products such as BCAs to fund the creation of a PCW.

Fundamentally I remain firmly of the view that this proposed remedy is of very marginal benefit, if at all. I hope that as the CMA progresses its 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. The CMA needs to address these root causes and avoid falling into the trap of trying to treat symptoms.

Yours faithfully

Paul Lynam, ACIB, AMCT, Fifs
Chief Executive Officer