

Rt Hon Andrew Tyrie MP
Chairman
Treasury Select Committee
House of Commons
London SW1A 0AA

13 November 2015

Dear Mr Tyrie

Retail banking market investigation: appearance before Treasury Select Committee on 4 November 2015

Thank you for the recent discussion with the Treasury Select Committee (the Committee) in connection with our ongoing investigation into the retail banking market and for your letter of 5 November 2015. In this letter, I respond to the outstanding questions from the Committee hearing of 4 November 2015 as well as to your letter.

The Enterprise Act 2002 as recently amended by the Enterprise and Regulatory Reform Act 2013 sets out the structure of the market investigation regime. CMA inquiry groups such as the one currently appointed to investigate competition in the supply of retail banking services to personal current account customers and to small and medium-sized enterprises are set up to be independent. We were happy to appear before the committee to discuss our provisional findings and initial list of possible remedies, but the inquiry group must form its own agenda within the bounds of its terms of reference and set its own timetable within the statutory requirements.

As we said in our provisional findings report notified on 22 October 2015, a number of building societies and smaller banks have expressed concerns about the bank corporation tax surcharge and the impact it will have on new entry and on their ability to expand. We said we will be considering further its implications in light of all submissions we receive.

As to timing, the Enterprise Act sets a statutory deadline for issuing our final report (in this case 5 May 2016) and a number of public consultation periods during our process. In order to comply with the statutory requirements, we will need to have a clear view of the barriers to entry and expansion (including any relating to the tax surcharge) at or before the time we publish our provisional decision on remedies, which is currently scheduled for February 2016.

You also asked us about whether any discussions took place between the CMA and Treasury about the timeliness and suitability of the CMA looking at the provisions of the Finance Bill. As you might expect, CMA staff who are not working on the retail banking market investigation are in regular dialogue with Treasury. However, the letter that was sent by the CMA to the Treasury on this issue, which indicated that the CMA inquiry group was considering analysing the potential effects on competition of the bank corporation tax surcharge in the context of the market investigation, was not amended as a result of any discussions with the Treasury.

You asked us a number of questions about banks' prices, costs and profitability. Each of these issues was considered in detail in our report. Some of the sections, covering these points, which may be of interest to you are listed in the attached annex.

As I emphasised during the hearing, our findings are currently provisional and our possible remedies are at an early stage of development. We welcome responses to the consultation which closes on 20 November 2015.

Yours sincerely

Professor Alasdair Smith
Chairman, Retail Banking Market Investigation

Annex

The following sections in the provisional findings cover the analysis undertaken by the CMA in relation to pricing, profitability and revenues of the banks:

- Summary – paragraphs 39 (PCA) and 71 (SME) – indicate which accounts are profitable and the relative profitability of different types of customers to banks
- Section 2 – paragraphs 2.35 to 2.75 – we considered how banks generate income and profits. This section is focussed on the sector as a whole rather than individual banks. Appendix 2.2. contains certain key financial metrics
- Section 5
 - paragraphs 5.25 to 5.35 – contain PCA revenue analysis. Further information on PCA revenue is set out in appendix 5.2.
 - paragraphs 5.36 to 5.51 – contain information relating to PCA financial performance including total PCA revenues by source
 - paragraphs 5.52 to 5.60 – contain analysis of profitability of PCA customers and products. Further information is set out in appendix 5.3.
 - paragraphs 5.61 to 5.69 – contain PCA pricing information. Further information, including price comparisons between banks, is set out in appendix 5.4.
- Section 6
 - paragraphs 6.47 to 6.59 – contain BCA and other SME banking products revenue analysis. Further information on SME revenues is set out in appendix 6.2.
 - paragraphs 6.60 to 6.74 – contain information relating to SME financial performance including total SME revenues by source
 - paragraphs 6.75 and 6.76 – contain analysis on SME profitability by customers and products. Further information is set out in appendix 6.3.
 - paragraphs 6.77 to 6.87 – contain BCA pricing information. Further information, including price comparisons between banks, is then set out in appendix 6.4.