Submission to the CMA's provisional decision on remedies following the retail banking market investigation

From the Community Investment Coalition

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About the Community Investment Coalition

The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable financial services for families, businesses and communities.

CIC campaigns for:

- Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.
- Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products to households, individuals, communities and businesses.
- More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.
- Sustainable local economic growth with a greater share of locally generated income remaining within communities.
- Improvements in financial literacy for all sections of the community.

In June 2014, the Community Investment Coalition (CIC) launched its Community Banking Charter, which champions a fresh approach to banking in the UK so that every household, adult and business has access to basic financial tools, including access to a transactional bank account. Road-tested by community groups in low income communities, the Charter calls for everyone to have access to a basic package of financial tools. A video regarding financial exclusion by CIC partner Local Trust can be found here and a CIC animation on banking data disclosure can be found here.

Background to response

During the previous consultation round, CIC welcomed the investigation by the CMA, referring in particular to the focus on the lack of competition in the personal current account (PCA) and business current account (BCA) market, using new technologies to increase access to finance, and analysis into PCA switching. Accepting the three-stage theory of harm and explanation of the two main mechanisms unilateral market power, CIC highlighted a number of issues which were not adequately addressed at that stage.

CfRC centre for responsible credit

Local Trust creating lasting change

CCLA GOOD INVESTMENT

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- Alternative providers of financial services, such as credit unions, continue to suffer from a low level of membership and awareness despite 1.4 million unbanked individuals in the UK
- Greater transparency by banks on how they achieve their financial results would allow customers to better navigate the market and choose appropriate products
- Customers were paying too much for overdraft fees, contributing 34 per cent of total revenue from PCAs
    - This was as a result of a lack of understand of what is a borrowing facility that banks are not required to express as an APR percentage
    - Lower income customers were effectively paying a premium for their PCA relative to the amount of profit banks make in comparison to high income customers
    - This meant low income individuals were either disincentivised to open a PCA or became trapped in a debt spiral
- Banks need to direct their customer to the most suitable products and services as opposed to the most profitable, balancing what is beneficial for themselves and for their customers
    - Banks should increase customers' access to money management advice
    - Declined SMEs should be referred to alternative lenders such as responsible finance providers (formerly called community development finance institutions – CDFIs)
    - There needs to be far greater transparency in the terms of conditions for various financial products
- The 'free if in credit' (FIIC) model needs a thorough examination because evidence suggests it is detrimental to consumers, unsustainable and hampers competition by creating a barrier to new entrants
- Smaller business and newer businesses have low satisfaction levels with their main bank, but awareness of local alternative providers of finance, such as responsible finance providers, is low
- CIC urged that the CMA advocate a comprehensive, accurate, and up to date information system providers and lenders, so that SMEs are made aware as to what is available to them
- The asymmetry of information puts existing banking relationships at an advantage over competitors

Summary response

The CMAs provisional remedies fail to address the majority of the issues previously highlighted by CIC. The CMA has missed an opportunity to make a significant difference to supporting increased competition in the retail banking sector and so provide a better deal for consumers. The four leading banks have 85 per cent of the BCA market and the 'Big Five' (Barclays, HSBC, Lloyds Banking Group, Royal Bank of Scotland, Santander) have 80 per cent of the PCA market. Low income consumers and small businesses need to be made aware of the alternative options available to them other than mainstream finance and empowered with more information on the fees they pay and how the bank generates revenue on their particular product or service.

More substantial measures are needed to continue to support existing networks of organisations, such as responsible finance providers, that are serving parts of the market that will remain under-served by the main retail banks.

CIC welcomes the progress made in addressing unauthorised overdraft charges and FIIC products, but more needs to be done to ensure customers are directed not just to the cheapest product, but the most appropriate with the greatest long-term benefit, and are presented with complete information to inform their choice. Proposing to employ open-API to facilitate easier development of price comparison is a welcome step forward. But such steps are incremental and it is unclear how this will encourage consumers to use their power to drive change.

Reaching the unbanked: engaging with local communities and empowering the consumer by granting access to information

UK data on financial exclusion has been described by the Harvard Kennedy School of Government as "appallingly scarce". To adequately counteract socio-geographical imbalances in access to financial services, banks must be required to release anonymised data at the postcode level on how they are lending, so underserved areas can be pinpointed. This follows the same general principle of the CMA-suggested measure that comparable open-API data should be available on banks products and services, with the difference being the purpose: to identify underserved markets rather than price comparison. A New Economics Foundation study also pushed for bank data disclosure as a means to map out and address financial exclusion.

While geographical bank lending data is useful to those working to assess financial exclusion and expand financial inclusion, customers also need to be aware of the alternatives available and the relative benefits of other modes of finance. Smaller business and newer businesses have lower satisfaction levels with their main bank, but awareness of local alternative providers of finance, such as responsible finance providers, is low despite 1.4 million unbanked individuals in the UK. The asymmetry of information puts existing banking relationships at an advantage over competitors as many customers do not understand how banks achieve their financial results. Requiring this data to be released to the public domain would allow customers to better navigate the market and choose appropriate products.

CIC urged previously that the CMA advocate a comprehensive, accurate, and up to date information system of providers and lenders, so that SMEs and others are made aware of what is available to them. But this should be more proactive. Banks need to direct their customer to the most suitable products and services as opposed to the most profitable, balancing what is beneficial for themselves and for their customers. Banks should also increase customers' access to money management advice, and declined SMEs should be referred to alternative lenders such as responsible finance providers.

Referring to the potential for a comparison website focused on business finances, point 72 in the summary of remedial measures states, "SMEs would be best served by a 'one-stop-shop' that would enable them to quickly and reliably compare banks on price, quality of service and lending criteria across the whole range of providers." Alternative providers need to be included in this measure along with adequate signposting to them.

Hidden, unclear, excessive fees

The CMA reported in 2014 that overdraft fees were contributing 36.1 per cent of total revenue from PCAs. Customers are paying too much as a result of a lack of understanding of what is a borrowing facility that banks are not required to express as an APR percentage. Because lower income customers are more likely to pay towards unarranged overdraft fees, these customers are effectively paying a premium for their PCA relative to the amount of profit banks make in comparison to high income customers. This in effect amounts to low income customers subsidising the PCAs of higher income customers. The result is low income individuals are either disincentivised to open a PCA or became trapped in a debt spiral; leading them to be excluded from the mainstream finance system. Greater transparency on such financial products will allow easier comparison across the board, including with alternative finance providers, thereby increasing the market options for those on the margins of finance.

The decision not to carry forward the Which? proposal of Consumer Challenge Groups (CCGs) is disappointing. The CMA has chosen instead to focus on "the need to offer customers a better deal in a more competitive environment". In widely instituting the FIIC model, the industry has behaved monopolistically, instituting an unsustainable model which cannot be broken from for commercial competition reasons, even when some banks have expressed a desire to do so. Bringing scrutiny to bear on the FIIC model is a welcome development of the provisional decision on remedies, but it is on issues like this where CCGs could become the main agent for change, shining a light on practices which ultimately hurt the consumer and creating an environment which demands change without having to rely on the regulator to find a solution. CIC requests that the Which? suggestion will be reconsidered.

Costs and costing

Challenger banks have been vocal in recent years about the high cost of credit and regulation which works in favour of the Big Five impacting on the cost of services provided. The cost of capital is a cost ultimately passed on to the customer; responsible finance providers aim to provide access to affordable credit to those excluded by the mainstream, so cost of capital adds an additional challenge to do so. It is important that this barrier is addressed.

The Business Innovation and Skills Committee have been clear on the responsibility of the British Business Bank to be empowered to support responsible finance providers through signposting and funding, and Harvard Kennedy School have called for an Opportunity Finance Fund to add 25% to private funding for well-performing responsible finance providers to support growth in the sector.

Recommendation 91 in the provisional decision on remedies is a call for responding organisations to submit evidence as to the costs of proposals.

Organisations will have asymmetrical access to data, resources and expertise to provide costings, with the best positioned being retail banks. There should be an independent assessment of the costings which are submitted.

In the past 10 years, responsible finance providers have lent a total of £1.6 billion to 55,000 business charities and social enterprises, creating 68,000 jobs and helping to protect a further 41,000 jobs at risk. £0.595bn was added to the economy from responsible lending to businesses in 2015. Demand for responsible finance is growing; our research suggests potential annual demand of £6.75 billion.

Account Number Portability (ANP)

The proposed remedies rule out portable bank account numbers but successive enquiries have shown that this would make a significant difference (as happened with the mobile phone industry). It is a missed opportunity to not progress this, with the position being to opt for the lightest measures which will have the least positive effect for the consumer. In explanation of the decision, it is admitted that the FCA, Virgin Money, Bacs, the Bank of England, BGL Group and even the CMA's own research all pointed to ANP as either a better functional option than extended redirection or as having a better response from consumers. Only one organisation, the Social Market Foundation, believed extended redirection to be preferable to the consumer to ANP. CIC requests that the CMA revisits ANP with impact on the end user experience held in higher priority than cost of implementation.

Conclusion

Recommendation 92 makes the key point about seeking a balance between the potential costs incurred by banks if, for example, ANP is introduced and the benefit to consumers and the wider economy of more competition in the retail banking sector. This is an important point and the starting point of any final remedies should be about how best the needs of the broader economy and consumers can be met rather than the costs or convenience to the retail banks. An underdeveloped aspect of these proposals is considering how to expand financial access to underserved markets alongside improving existing markets and delivering greater benefits for small businesses and personal customers.

CIC's response is intended to highlight and suggest remedies to the particular challenges and needs of consumers on the margins of finance, who either do not have access to fair and affordable credit or are not made aware of alternative routes to finance. Bearing in mind the broader goals of the CMA investigation, we have highlighted a number of ways the responsible finance industry can be brought into mainstream finance through measures which expand financial inclusion while tackling standing issues around transparency and the lack of information in retail banking the investigation seeks to address.

For more information

For more information, please contact Jennifer Tankard, Director, Community Investment Coalition on 020 7014 4960 or j.tankard@responsiblefinance.org.uk.

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We do this by:

- Collecting and sharing evidence and knowledge through research, conferences and dialogue;

- Campaigning for a regulatory system which helps not hinders community investment;
- Speaking with a unified voice on issues facing the sector; and

- Building the capacity of the community investment sector through infrastructure and collaboration.

Partners include:

The Centre for Responsible Credit (CfRC) is a dedicated unit established within **the Centre for Economic and Social Inclusion** to: monitor the development of credit markets; research models of responsible provision and promote policy responses which protect the long term interests of households.

CCLA manages money for more charities than any other fund manager in the UK and we are owned by our not-for-profit clients. We engage with the banking sector every day on behalf of our charity and local authority clients, who are concerned with issues that may affect shareholder value, but also wish to see account taken of their ethical investment concerns**. CCLA** is ranked top manager of ethical and responsible investment funds in the UK by assets under management.

Local Trust delivers the Big Local programme with an investment of over £200m from the Big Lottery Fund. Big Local is happening in 150 communities across England over the next 15 years. It provides residents in each community with at least £1m and a range of other support and funding to develop ways of making their areas even better places to live.

Responsible Finance's mission is to support the development of thriving and sustainable community development finance (CDFI) sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.