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Chairman
Competition and Markets Authority
Retail Banking Market Investigation
Victoria House
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London
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By email to; retailbanking@cma.gsi.gov.uk

3rd June 2016

Dear Mr Smith,

Re: CMA's provisional decision on remedies to improve competition in banking services for small businesses

FSB is pleased to see the progress and direction of many of the provisional remedies for small business consumers in the retail banking market, especially on current account switching. We would however like to see a much greater emphasis in the final report in the area of bank branch closures, which we suggest is undermining competition. CMA produced a working paper on this topic and our members would want to see this work reflected in the final report as a priority for market remedy.

Bank branch closures

According to the Campaign for Community Banking Services, which FSB is an active member of, nearly 681 local bank branches closed in 2015 alone. The pace of closures looks set to continue – and almost certainly increase – this year. Branch closures lead to reduced access to banking services and increase pressure on vulnerable small business customers, particularly those in rural areas who have to travel increasingly long distances to access basic services.

The CMA's 13th August 2015 working paper, 'Barriers to entry and expansion: branches', found that:

- i) Local branch convenience is the second most important reason for SMEs [...] in choosing who to bank with;
- ii) Around 84% of start-up SMEs open their first Business Current Account (BCA) in a branch;
- iii) After banks' websites (29%), branch visits or leaflets from branches were the most popular source for start-ups to obtain information on BCAs (22%).

Given the integral role of bank branches for small business customers in relation to opening, comparing and gaining more information about BCAs, we expect the publication of the CMA's final report to include specific remedies for the problems caused by bank branch closures.

In particular, we would encourage the CMA to consider whether APIs, prompts and alerts can be used to notify affected small business customers along the terms of the 'Access to Banking' protocol - the industry-wide agreement made between a number of retail banks, membership bodies and the Government - to work with customers and communities to minimise the impact of branch closures. It is encouraging to see that "closure of a customer's branch" will act as a trigger point for further information on switching. However, we ask the CMA to consider whether prompts and alerts could also be used to communicate more information to affected small business customers, when, for example, the following takes place:

- i) A bank initiates a consultation and/or community engagement on whether to close a branch;
- ii) How to access the published impact assessment on the effects of a relevant branch closure.

Current account switching measures

FSB welcomes the series of proposed measures, which look to address both the lack of awareness of the Current Account Switch Service (CASS) as well as some business customers' perceptions that switching current accounts is burdensome, time-consuming, and that something might go wrong.

With regards to undertakings to strengthen CASS's corporate governance, we would encourage recommendations that ensure stronger representation of small businesses on its management committee. We also hope to see specific detail on the inclusion of benchmarks included over small business switching. FSB would also be happy to work proactively with Bacs and others to support proposals for a long-term promotional campaign to raise the profile of and confidence in CASS.

BCA Standardisation

We support proposals for BCA providers to adopt a standard form, setting out a core set of questions and evidence requirements for opening a BCA. As this would be creating a 'minimum standard' we expect to see at least 70% of questions in the BCA opening process standardised. This would be a reasonable measure as most banks are likely to require similar basic account opening information.

FSB notes the CMA's provisional decision regarding the 'Outcome measure related to the length of the BCA opening process'. Whilst the CMA notes the practical difficulties in "prescribing an outcome measure or a target for average time it takes a bank to open a BCA", we ask the CMA to consider whether there is scope, in certain circumstances, to issue a prompt following a 'maximum' period of time. This could help address those business customers who have begun the opening process for a BCA, but may have since delayed or temporarily halted the exercise, because they do not understand a feature of the application process or require more advice.

FSB would also suggest that the CMA considers the extent to which guidance might be produced alongside both standardised and non-standardised questions included within the BCA opening process. Our concern is that a section of the small businesses community may not understand some of the language, terminology and product offerings used in the BCA opening process, leading them to abandon or delay the exercise. It is crucial to ensure small businesses understand what they are purchasing.

For example, the industry group taking this remedy forward might want to consider whether a 'hover and click' function could be incorporated into the BCA opening process so that the small business customer has more information about specific terminology and/or product offerings which are referenced. For those filling out a hard-copy BCA application, improvements to existing guidance should also be considered.

Price comparison websites

Given the CMA's emphasis on the provision of comparative information on service quality, FSB notes Business Banking Insight (BBI) is already providing such a resource to small business customers. FSB believes the BBI is the most comprehensive small business banking resource of its kind, with a new and improved website due to be launched this summer. The concept of the BBI was initially proposed to FSB by the Treasury, and in negotiations the British Chambers of Commerce (BCC) was added as a joint partner. So FSB must declare an interest on this.

We note the CMA's proposal to require, as a transitional measure whilst Nesta's 'challenge prize' is still being developed, that the banks which currently fund the BBI should continue supporting the survey that provides the material underlying the BBI. In order to maximise the value of the BBI's resource to small business customers, we would also ask the CMA to consider placing requirements on the banks to signpost existing customers to the website. This would further encourage small business customers to compare products and services quickly and effectively.

If the CMA decides to support Nesta's 'challenge prize' in its final report, it must be careful to ensure any subsequent development of new comparison services does not complicate or confuse the advice landscape for small firms. We agree with the CMA that small businesses would be best served by a 'one-stop-shop' and therefore encourage any final remedy to support a greater cohesion of advice.

APIs and Open Banking Standard

An open API banking standard will allow business customers to safely share their transaction history with other banks, helping to provide greater choice and empowering our members to switch. FSB agrees that "customer confidence in the effectiveness of the arrangements to protect data security is likely to matter at least as much as their technical efficacy." We are happy to provide advice and support to the CMA on this issue ahead of the publication of its final recommendations.

Account Number Portability

FSB notes the CMA's provisional preference for CASS over Account Number Portability (ANP). Whilst we recognise the cost implications of introducing ANP we do believe this process does offer the potential to increase confidence in the switching process.

We believe the introduction of some of the more cost effective options of ANP should actively be reviewed by the CMA and the Payments Systems Regulator if CASS fails to match future awareness and switching targets. Low levels of switching and customer engagement lie at the heart of this problem and radical solutions should be considered, particularly if improvements to existing measures are not effective.

If you would like to discuss any of the issues raised further, please contact me via my colleague Ben Baruch, Policy Advisor, on 020 7592 8126 or ben.baruch@fsb.org.uk.

Yours sincerely,

Tony Baron
Chair of FSB Economy, Finance and Tax Committee