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Retail Banking Market Investigation  
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Dear Alasdair

CMA remedies to increase price transparency in SME finance via an APR are welcome but must be expanded to cover a wider range of commercial finance products

Please find enclosed a response from Growth Street with respect to the Provisional Decision on Remedies published by the Competition & Markets Authority as part of the its ongoing Retail Banking Market Investigation.

We are sharing this letter with the Treasury Select Committee and putting it in the public domain.

Yours sincerely,

James Sherwin-Smith  
CEO, Growth Street

Growth Street consultation response to the Provisional Decision on Remedies (PDR) as part of the Competition & Markets Authority (CMA) Retail Banking Market Investigation

1. Lending to limited companies in the UK is an unregulated activity. There is therefore no requirement for commercial finance providers to disclose the annual percentage rate (APR) on finance products targeted to small and medium enterprises (SMEs). This makes it difficult for SMEs to compare prices, reduces competition, and limits economic growth.
2. Growth Street started the APR4SMEs<sup>1</sup> campaign which is calling on government, regulators and industry bodies to make it mandatory for commercial finance providers to disclose the APR on the products they offer to SMEs.
3. The CMA's PDR proposes to make the disclosure of APR mandatory on all unsecured loans made to businesses for amounts up to £25,000 in an effort to correct for identified adverse effects on competition (AECs). This is most welcome: greater price transparency within the commercial finance landscape will undoubtedly improve competition and deter businesses from unknowingly entering into high cost finance agreements.
4. We note the CMA "consider that it would be beneficial for prices to be published for as wide a range of products as possible, so that price transparency would benefit a large number of SMEs". We strongly agree.
5. However the CMA suggests making APR mandatory for just one product class – unsecured loans up to £25,000. Therefore SMEs will not be able to easily compare prices across the range of finance options, e.g. asset finance, overdrafts, etc.
6. The CMA noted when it published its provisional findings in October 2015 that:  
*"It is difficult for SMEs to compare prices and other terms across banks. Prices are opaque and lending products are complex."*
7. However when publishing the PDR in May 2016, the CMA stated:  
*"We want to avoid requiring banks to publish representative prices for larger, or more complex, products where this could be misleading or impractical, and therefore ineffective in addressing the relevant AEC."*
8. No evidence has been provided by the CMA to explain why publishing representative prices is misleading or impractical in these more complex product classes.

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<sup>1</sup> <http://www.apr4smes.co.uk>

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9. Further, it is unclear whether the CMA has made any effort to examine the variation in prices and terms across invoice and asset finance products, despite the largest banks holding considerable market share, and the CMA finding that more than 70% of SMEs typically take this type of finance from their business current account provider. We think it is inappropriate that these types of commercial finance have been excluded from the CMA investigation.
10. We do not believe any research has been undertaken to identify the cost benefit analysis of introducing APR across the broader commercial finance landscape. Greater price transparency can only improve competition in our opinion.
11. We are concerned that the remedy as proposed has been designed for ease of implementation by finance providers, and the scope limited so that it has negligible impact on those that currently benefit from the identified AECs. We urge the CMA to propose a more comprehensive solution that helps SMEs more easily compare the cost of finance.
12. The CMA is actively seeking feedback as to whether £25,000 is the appropriate threshold for disclosure. Whilst it may be convenient to require SME lending to match the same price disclosure requirements used for personal consumer credit regime, it is worth noting the provenance of the £25,000 value. This was established in the Consumer Credit Act of 1974 and has not been revised since. Adjusted for inflation, this amount would be closer to £200,000 today. Most finance providers offer finance to SMEs, on both a secured and unsecured basis, for amounts greater than £25,000. We would therefore recommend that the CMA consider raising the threshold for disclosure. In setting this threshold, we recommend the CMA consider not just the volume, but also the value of finance.
13. The remedy as proposed will bring greater price transparency, but only to part of the SME banking market with the simplest products that is arguably least in need of intervention.
14. We urge the CMA to reconsider its position with regards to SME finance that falls outside the narrow definition suggested. Larger and secured finance products are the most complex, where the stakes are higher, and price transparency is needed most of all.

Growth Street, 6 June 2016