

## **CMA Market Investigation into Retail Banking: HSBC response to the CMA's Provisional Decision on Remedies**

### **Executive summary**

1. In broad terms we support all of the remedies the CMA is proposing, and address each of them in turn below, with the exception of the first foundation remedy regarding APIs. We comment on this remedy proposal in a separate submission.
2. We would however like the CMA to note that HSBC is going through a period of unprecedented change to its IT infrastructure, with a number of large scale projects (both regulatory and commercial) already running in parallel. The most significant challenge for HSBC in the UK is the implementation of the Ring Fenced Bank: this is unique in its nature, and far reaching in its remit, as it requires the careful separation and emulation of systems to support both the retail and non-retail banks. The Ring Fenced Bank must be implemented alongside other material regulatory changes such as PSD2, cheque imaging and the recently confirmed EU General Data Protection Regulation.
3. We agree with the vast majority of the CMA's proposed package of work. However we wish to highlight that it will be a challenge to schedule any significant change or testing to our core banking and payments systems whilst they are being adapted for the Ring Fenced Bank, without generating unacceptable levels of execution risk (which could crystallise in a range of forms, including payments system failures). On the basis of the level of detail set out in the PDR (and in the short time since its publication), we have not been able to assess accurately the nature and scale of the change that will be required in respect of certain remedies (in particular APIs), and how the changes can be managed alongside existing projects. Any comments about timescales that we make in the remainder of this response should be interpreted as being subject to this overarching point.
4. In our separate submission on open APIs, we set out certain challenges to delivering open APIs in the timeframe currently envisaged by the CMA. There are some interdependencies between the delivery of open API standards and certain aspects of the remedies package (most notably the SME comparison tool and the loan and overdraft price and eligibility indicator tool services, and, to a lesser extent, service quality indicators). Where there is a dependency on the delivery of APIs, the CMA will need to ensure that the implementation time frame retains sufficient flexibility to account for this.

#### *Service quality comparisons*

5. We agree with the CMA's proposals for core service quality indicators, in respect of both PCA and BCA providers. We consider that the BBA is best placed to manage the appointment of survey agencies.

#### *Customer prompts*

6. We welcome the CMA's proposal to recommend to the FCA that it undertakes a comprehensive Randomised Control Trial (**RCT**) programme.

7. We propose that some of the FCA trials should adopt an approach which divides the burden of customer engagement between (i) information provided by the bank to the customer, and (ii) information which the customer is made aware of through Bacs - managed CASS and/or PCW marketing campaigns. This would sit more comfortably with customer expectations as to what information they receive from whom. In particular, we consider that banks should not be required to provide customers with information about potential gains from switching, or to direct customers to price comparison websites.
8. Further, we do not see at this stage how it would be possible for banks to provide personalised potential gains from switching – this should be a task for PCWs, through the use of API interfaces with the customer’s incumbent bank and alternative providers.

*CASS*

9. We broadly support the measures proposed in relation to CASS. We believe that customers should be provided with transaction histories dating back five years, upon request. We consider that it is disproportionate to require banks to provide transaction histories on an opt-out basis, and that the CMA can achieve its objective of providing customers with the necessary assurance through effective awareness raising.

*PCA overdraft remedies*

10. HSBC supports the CMA’s proposed measures in respect of PCA overdrafts. Our only concern relates to the inclusion of standard overdraft interest in the Maximum Monthly Charge (*MMC*). We do not view the charging of standard interest on the unarranged portion of the total overdraft balance as being incurred as a result of exceeding the arranged overdraft. We urge the CMA to amend the MMC requirement so that interest charges included in the MMC should only include additional interest which is incurred as a result of being in an unarranged overdraft instead of an arranged overdraft.

*SME specific remedies*

11. HSBC broadly supports the design of the implementation plan for the remedies package for SMEs. Most aspects of the remedies should be capable of being delivered within the time frame specified by the CMA, with the exception of the loan price and eligibility indicator tool, which we have concerns regarding deliverability should the scope and output requirement be significantly broadened.
12. While HSBC is prepared to mobilise resources to meet the CMA’s implementation timeline, a number of the remedies (e.g.: standardised BCA account opening form, SME comparison tool) require industry or multi-bank consensus/collaboration. We therefore believe there is merit in one body, such as the BBA, having oversight of the progress of the implementation of the remedies package to ensure that all is on track and where necessary help unblock any problems.

**Foundation remedy one (APIs)**

13. Please see our separate submission on this foundation remedy.

**Foundation remedy two: service quality comparisons**

14. HSBC agrees with the CMA that access to uniform service quality metrics, in a standard format, should make it easier for customers to make comparisons between providers on the basis of service quality.

#### ***Core service quality indicators***

15. We agree with the CMA's proposals for core service quality indicators, in respect of both PCA and BCA providers. We agree that the collection of the core service indicators should be done through an independent survey agency. The survey agencies for both PCA and BCA data should have strong track records in the collection of this type of data.
16. We consider that the BBA is well placed to coordinate (i) the appointment of the agencies (i.e. manage the tender process); (ii) the research brief for the agencies to work to; (iii) the budget required to meet the survey goals. We do not have strong views on whether the same or different agencies undertake the research for PCAs and BCAs respectively. However, there are likely to be some agencies which specialise only in one sector or the other; this suggests two separate tenders will produce best results. The chosen survey agency should propose the questionnaire and associated metrics (for example sample size, geographic coverage, customer segments), based on their sector knowledge and expertise in customer satisfaction research.
17. In terms of how service quality data is presented by banks, we consider that it may be most effective for the survey agency to put together each bank's scores and ratings in a single presentation format. Banks would then be required to display the data prominently, in the format used by the survey agency, on their websites, in the manner specified by the CMA.
18. As regards timing, the CMA indicates a desire for parties to undertake certain tasks related to core service quality indicators prior to its final report. We are not clear on what these might be. The key step is the appointment of survey agencies, and this can only be done once the CMA has indicated which independent body it wishes to procure the relevant survey agencies (which we suggest should be the BBA).

#### ***Additional Service Quality Indicators***

19. We agree with the CMA's approach in respect of the additional service quality indicators. Banks will be the source of much of the data: we consider that the FCA will need to provide clear guidance on how banks should present these indicators. This will ensure a consistent presentation format, in terms of both substance and style, which will likely be important for PCWs and other third party users of the data.

#### **Foundation remedy three: customer prompts**

20. HSBC agrees in principle with the CMA's proposals in relation to customer prompts. We agree that more can be done to seek to engage customers, through the use of periodic and event-driven prompts. We welcome the CMA's proposal to recommend to the FCA that it undertakes a comprehensive randomised Control Trial (RCT) programme. We are committed to working with the FCA on the development of effective trials to test customer responses to different types and format of enhanced engagement.

21. The CMA suggests (at 3.225) that the FCA may wish to test a range of customer responses to prompts, beyond the obvious behavioural change of switching account providers or changing their primary account. The CMA also proposes that the FCA could assess the impact of trials on customer awareness of account usage and costs, and attitudinal change (such as willingness to search and switch).
22. In our experience of trials with the FCA to date, behavioural change has been the main measurement of the impact of a treatment on customer behaviour. It is effective as it measures actual behaviour, rather than stated preferences. It may be possible to assess customer awareness and attitudes, but such data is likely to be more difficult to collect in an objective manner; for example, it may need to be collected through surveys, where the very act of asking the survey question may cause customers in the control group to become more engaged than they were in the absence of the survey question.
23. It will be important to trial different styles and tone of customer engagement, to ensure that customers are not irritated by the messages (which may have an impact on service quality ratings). The FCA will also need to strike a balance between allowing individual banks latitude over style and tone, while ensuring that there is consistent messaging between banks. We look forward to engaging with the FCA on how to measure the effectiveness of different types of treatment.
24. We note the CMA's proposals for event or situation based prompts (at 3.235). In respect of overdraft charges, we understand the CMA's position to be that a periodic (i.e. not triggered by a specific charging event) prompt is likely to be more effective to encourage customers to consider their unarranged overdraft charges and their overall banking needs. We agree that customers should receive clear prompts as regards their cumulative overdraft charges (separate from the receipt of specific transaction-triggered real time alerts), on a periodic basis. We already send text alerts in respect of unarranged overdraft charges to both PCA and BCA customers. We do not consider such alerts are an appropriate time to prompt customers to assess their banking needs more broadly. We understand the CMA position to be the same.
25. We consider that annual summaries are the best vehicle for periodic prompts, especially in relation to cumulative overdraft charges. More frequent stand-alone prompts over a shorter period of time may be less effective.
26. We agree with the CMA that the annual summaries should be provided in a visually more "disruptive" format, and should include statements on the cost of the customer's overdraft, and the core service quality indicators. We consider that once a year is the right frequency.
27. The CMA notes (at 3.281) that in its qualitative research, customers were confused as to why their provider would recommend that they consider switching to an alternative provider. This is consistent with our own research, which we presented to the CMA in December 2015. We propose that the FCA should not concentrate solely on seeking to trial approaches which place the entire burden of engaging customers on the banks themselves.
28. We propose that some of the FCA trials should adopt an approach which divides the burden of customer engagement between (i) information provided by the bank to the

customer, and (ii) information which the customer is made aware of through Bacs-managed CASS and/or PCW marketing campaigns. This would sit more comfortably with customer expectations as to what information they receive from whom.

29. As regards (i), banks should provide the following information to customers periodically in annual summaries.<sup>1</sup> In respect of both PCAs and BCAs: the costs of their current account over the year (for example, overdraft charges for PCAs and BCAs, money transmission charges for BCAs); the benefits they have received (for example any credit interest, cashback, rewards); and the core service quality metrics for their current account. A reference could also be included to CASS. The information should be set out in an engaging and standardised format, designed to capture the customer's attention, and facilitate comparability between different accounts.
30. To go any further than a reference to CASS, for example to require banks to set out information in relation to potential gains from switching (whether generic or personalised), or to direct customers to a PCW, may confuse customers, rather than enhance engagement. Customers do not expect their banks to encourage them to consider leaving for another bank.
31. Separately, as regards (ii) customers should be made aware through marketing programmes managed by Bacs and (potentially PCWs) of how easy it is to switch through CASS, and how easy it is to use comparison services for personalised assessments of how much money they could save by switching, including through the use of API driven Midata files.
32. At this stage we do not see how it will be possible to provide personalised assessments of the potential gains from switching. A provider would need to start behaving more like a PCW if it was required to identify an appropriate benchmark for an individual customer. It would be a very complicated process, and would generate a conduct risk that providers give a false or misleading view to their customers. It would be more appropriate for PCWs to provide a personalised assessment on the basis of current account transaction data provided via an API.
33. We consider that potential gains could be expressed in more generic terms which would still provide a useful benchmark: for example, "customers who are regular overdraft users typically save £[x] per year when they switch from a more expensive overdraft current account to one of the cheapest current account products". This could be part of a general CASS marketing campaign (for the reasons set out above, we do not consider it would be appropriate for providers to offer this information).

### **Current Account Switching Package**

34. We broadly agree with the CMA's proposals. We briefly address each of them in turn.

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<sup>1</sup> It may also be possible to provide the information set out in this paragraph through event driven prompts. However, the costs and benefits of doing so may be different to the use of annual summaries. This will be something to explore with the FCA.

35. **Reforms to CASS governance** to provide those managing the service with stronger incentives to operate and develop the service in the interests of customers. We agree with the changes the CMA is proposing.
36. **Extending the length of the redirection period:** we agree with the proposal to extend the redirection period, so that payments will be redirected on an – in effect – perpetual basis (where a payment has been redirected in the previous 13 months). This should address all outstanding concerns customers may have around lost payments.
37. **Provision of transaction history:** we agree in principle with this remedy, however, we consider that it is disproportionate to require banks to provide transaction histories on an opt-out basis. This would involve the transfer of significant amounts of data to customers, which would only be required in a small number of cases. The transfer of data would either need to be between the old provider and the new provider, as part of a recognised switching process, or it would need to be sent to the customer in hard copy by post (at present we do not send this type of information to customers via email, for information security reasons). Either method is likely to require considerable resource to implement. We are keen to ensure that where considerable effort is required, this will be proportionate to the customer benefits generated.
38. The CMA considers that the principal benefit of the provision of transaction histories is to provide customers with assurance that by switching they will not lose access to those histories. We agree that this can be a concern, but we disagree that in order to meet this concern, transaction histories need to be provided on an opt-out basis. While customers generally will benefit from the assurance that they can access their account histories, in our view only a very small minority (especially in respect of PCA customers) will actually have cause to use those histories. We do not consider that customers would necessarily welcome automatically being provided with large amounts of transaction history (effectively, five years of monthly statements). Further, many account closures relate to accounts which may have been dormant for a long period of time (or in respect of SMEs, they may have gone out of business), and in these circumstances the customer is particularly unlikely to want their account history.
39. We therefore challenge the proportionality of an opt-out process. We consider that it is more appropriate for customers to be provided with the assurance that they can access their account histories. A consistent policy which is applied to all providers would facilitate this. New providers, Bacs (in its CASS marketing) and PCWs could all mention the availability of transaction histories from old providers as part of any campaigns to encourage customers to switch. Existing providers could publish their policies on their websites. It may also be worth considering the inclusion of such policies within the scope of bank data APIs.
40. We agree that this remedy should operate on a rolling basis (i.e. if a customer closes their account in 2012, and asks for the information in 2014, we will only be expected to provide transactional history from 2009).
41. **Measures to increase awareness of and confidence in CASS.** We agree that further marketing of CASS is necessary to increase customer awareness of the benefits of CASS.

42. We consider that Bacs and (in the future) PCWs and other third party aggregators should take the lead in marketing the benefits of CASS to customers. We agree that any campaign should be long term in nature, rather than involving one-off mass advertising campaigns through high cost media channels such as television.
43. While we can see the logic of an awareness target, in our view this should not become a strict target that must be reached irrespective of the costs of doing so: for example, if awareness is at 70 per cent, and increased spending on marketing does not increase this figure, we would hope that Bacs would be entitled to adopt a pragmatic approach to the costs and benefits of achieving marginal increases in awareness. Any target should also be viewed as a long term target – it takes time to build up awareness, and it may also fluctuate over time (especially in respect of SMEs, which experience high levels of churn). We also consider that a maximum annual cap should be agreed for each bank's financial contribution.

#### **Additional remedies targeted at PCA Overdraft Customers**

44. We broadly agree with the CMA's proposals. We briefly address each of them in turn.
45. **Unarranged overdraft alerts.** The CMA notes that we are the only PCA provider which automatically enrolls all relevant customers into an actual unarranged overdraft alert, where this is possible. We agree with the CMA's proposal for an Order for other banks to do the same.
46. HSBC would welcome an opportunity to participate in further trials with the FCA as regards how to increase engagement levels of overdraft customers. We agree with the potential work streams identified by the CMA (how to enhance effectiveness of alerts; which alerts should be subject to auto-enrolment; how to articulate the concept of available funds).
47. **Unarranged overdraft grace periods.** HSBC already provides customers with grace periods in line with the CMA's proposed measures.
48. **Monthly maximum charge (MMC).** The CMA proposes an Order requiring banks to specify a maximum total charge that a customer could incur in any given month as a result of exceeding or attempting to exceed an arranged borrowing limit. The CMA envisages that the MMC would include interest, monthly charges, daily charges, paid and unpaid item fees and all other fees incurred in exceeding any arranged overdraft.
49. HSBC currently sets a maximum limit for unarranged overdraft usage fees of £80 per month. This includes all fees and charges which are incurred as a result of the customer being in an unarranged overdraft (we do not have situations where customers are charged for attempting to go into an unarranged overdraft) – i.e. all the items the CMA envisages, with the exception of interest. We do not include interest in the £80 cap: this is because we charge the same rate of interest on the entire overdraft balance, irrespective of whether the balance is an arranged and/or unarranged overdraft balance. The purpose of the MMC is to show customers the maximum amount of charge they may incur as a result of exceeding their arranged overdraft limit.

50. We do not view the charging of standard interest on the unarranged portion of the total overdraft balance as being incurred as a result of exceeding the arranged overdraft. For example, a customer with a £1000 arranged limit will be charged interest at the same standard rate on their entire balance (currently 19.9 per cent for the Bank Account), irrespective of whether the balance is £800 or £1200 (i.e. £200 over limit). The interest charged is not incurred as a result of being over the arranged limit. For this reason we urge the CMA to amend the MMC requirement so that interest charges included in the MMC should only include additional interest which is incurred as a result of being in an unarranged overdraft instead of an arranged overdraft.
51. If the CMA order required HSBC to include the standard interest on the unarranged portion of the total overdraft balance in the MMC, this would render the process of calculating the MMC much more complicated. It may lead us to increase the total amount of the MMC from its current level, to accommodate interest charges (although these would likely be a very small proportion of the overall amount of charges). This could penalise customers with low overall balances but high unarranged overdraft usage. It may also require us produce different caps for different customer groups (for example, Advance customers may build higher unarranged balances than Bank Account customers).
52. **Measures to encourage PCA customers to engage more with overdraft features.** We look forward to working with the FCA in examining how to engage customers more in considering overdraft features at account opening.
53. **Measures to facilitate account switching and searching.** We agree with the CMA's proposal to recommend that FCA considers the application of overdraft eligibility tools within the broader context of open APIs. We agree overdraft eligibility indicators will be much more effective, once it is possible for customers to share their transaction history via open APIs, which will provide banks with more information on which to base indicate overdraft offers.
54. As regards a firm decision on overdraft limits and terms before switching, HSBC already does this.

## **Remedies targeted at SME customers**

### ***Publishing rates for SME lending products<sup>2</sup>***

55. **Use of APR / EARs for unsecured loans and overdrafts below £25,000.** The requirement to publish the rates in APR / EAR format offered to at least 51% of the SME customers will mean that lenders will not be able to advertise prominently the best rate that they could offer (for SMEs with the lowest credit risk). Notwithstanding this, if this order were to apply to all providers of sub-£25,000 unsecured lending and overdrafts (which we believe it should to aid cross-market comparison), the general design of this remedy can help to increase the general transparency and comparability. HSBC therefore welcomes the proposal to align the display and marketing requirements

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<sup>2</sup> Para 6.29 – 6.61, PDR.



with the existing (personal) consumer credit regime (which also has the same value threshold and requirement for the rate to apply to 51% of the customers).

56. HSBC considers it appropriate to set the threshold at £25,000 as standard rates are particularly useful for cross-market comparison where the product is virtually standard and readily comparable across a smaller number of parameters (such as amount and term). As the CMA notes,<sup>3</sup> the pricing of larger value lending beyond this threshold is more likely to be bespoke to the specific borrowing requirement and be dependent on other variables (for example, amount and value of security pledged, the judgmental assessment of risk by reference to trading accounts, cash flow forecasts, business plans; the type of assets/equipment involved for asset/equipment finance). As such, standard rates are less typical and would be of less use and relevance for SMEs looking for that level of borrowing. We therefore support the CMA's provisional decision against including more complex SME lending products (such as secured loans, invoice finance and asset finance) within the scope of this remedy as it could be misleading or impractical to do so.<sup>4</sup>
57. We agree with the CMA's proposal to apply the order to all SME lenders<sup>5</sup> as cross-market comparison is achievable only if all SME lenders adopt standardised presentation of pricing information.

***Loan price and eligibility indicator<sup>6</sup>***

58. HSBC is supportive of the principle of this remedy which is aimed at increasing transparency and comparability of prices for SME lending across the market. However, the proposal to extend the scope of the remedy design raises some concern about deliverability and also its utility.
59. As previously submitted,<sup>7</sup> HSBC recently introduced a "Business Lending Eligibility Checker"<sup>8</sup> which allows new-to-bank customers (i.e. with no existing commercial relationship) looking to borrow up to £30k (covering unsecured loans, overdrafts and commercial cards) to obtain an indication of likelihood of whether they would be able to borrow the requested amount ("likely", "unlikely", or "need further information") based on a small amount of information we request from them. HSBC indicated to the CMA that it [*Redacted*]<sup>9</sup>
60. The scope of the indicator tool that the CMA provisionally wishes to order banks including HSBC to build goes significantly beyond the specifications of HSBC's current tool:
- a. extends to secured loans (and not just unsecured lending and overdrafts);<sup>10</sup>

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<sup>3</sup> Para 6.42, PDR.

<sup>4</sup> Para 6.44, 6.48, PDR.

<sup>5</sup> See Para 6.58 – 6.59, PDR.

<sup>6</sup> Para 6.62-6.118, PDR.

<sup>7</sup> See HSBC's response to SME Lending RFI of 18 March 2016.

<sup>8</sup> <https://creditindication.business.hsbc.co.uk/>

<sup>9</sup> See Response to 7.1 of the SME Lending RFI of 18 March 2016.

<sup>10</sup> Para 6.78-6.81, PDR.

- b. introduces a higher borrowing threshold (for example, as mooted to £50,000k);<sup>11</sup>
  - c. more granular level of information that will require to be returned at a minimum<sup>12</sup>:
    - i. indicative eligibility to be displayed as a percentage indicating likelihood of specific SMEs being eligible for a given product at a given rate; and
    - ii. rate information in a representative APR/EAR format (for unsecured loans and overdrafts)
  - d. a requirement that 90% of SME customers receive an actual offer/quote that is in line with the indicative quote.<sup>13</sup>
61. We have a number of concerns regarding the extended scope, and subsequent impact on meeting the CMA's provisional implementation timeframe (i.e. within 6 months of the Order coming into effect).
62. **Proposed inclusion of secured lending and increase in borrowing threshold.** We do not consider it appropriate to extend the value threshold to £50,000 and the product scope to cover secured lending. As previously submitted,<sup>14</sup> we see benefit of focusing this remedy on unsecured lending products of up to £25,000 (including business loans, overdrafts and commercial credit cards) that are regulated by the Consumer Credit Act (*CCA*). The alignment with the *CCA* would provide a standardised framework in terms of documentation, terms and conditions and the way in which price is displayed, which would be useful for SMEs when conducting cross-market comparison. This would also meet the relatively simpler borrowing needs of the majority of SMEs (c. 70-80% by volume).
63. In our view, extending the value threshold and product scope significantly beyond sub-£25,000 unsecured lending products would be neither practical nor suitable from the perspective of both the lenders and the customers, and which is likely to lead to a sub-optimal customer experience:
- a. Higher threshold (e.g.: £50,000) – As the CMA notes, the pricing of larger value lending beyond £30,000 is more complex and frequently negotiated.<sup>15</sup> It is more likely to be bespoke to the specific borrowing need and may require different structures depending on the provision of security, the type of security available as well as the borrowing need/purpose (e.g.: whether for property purchase/investment, investing in research or development, for international trade) . The terms, structure and price of lending above this threshold is usually negotiated by a relationship manager, and is not suited to processing by a tool based on a few simple parameters as pricing is usually determined by the current and future value of the whole relationship (and not just the specific borrowing request). In practice, lending above this figure for existing customers is more likely to be

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<sup>11</sup> Para 6.82-6.83, PDR.

<sup>12</sup> Para 6.89-6.91, PDR.

<sup>13</sup> Para 6.92-6.98, PDR.

<sup>14</sup> See HSBC's response to the CMA RFI on SME of 29 January 2016.

<sup>15</sup> Para 6.42, PDR.

subject to judgmental underwriting [*Redacted*]. Lending to new customers above £30,000 is almost [*Redacted*].

- b. Secured lending – Security is usually needed for larger value lending above £30,000 [*Redacted*]. Pricing of secured lending depends on the valuation of the security, which as the CMA notes is not a straightforward process<sup>16</sup> and is specific to each lender. Also, an SME customer’s own estimated valuation of security they wish to pledge may well not match the individual lenders’ valuation. This will introduce an element of uncertainty that would make any indicative quote on eligibility and pricing challenging. Given the complexity it is also for this reason that secured lending is usually priced on a bespoke basis, using non-standard facility letters, as lenders would typically need to have discussions with the SME customer concerning valuations and to get an understanding of other variables (for example: different or alternative security; variation to the structure of the overall lending facilities; different term of the loan; revised amount of lending; provision of regular management information) that could impact on eventual pricing.
64. For these reasons, we believe the tool should be designed to aid cross-market comparison for simpler, unsecured borrowing requirements. Keeping the scope of the loan price and eligibility indicator tool to unsecured lending up to £25,000 will also ensure alignment with other aspects of the remedy package, (including the transparency measures and related marketing and display requirements, as discussed above, which the CMA considers complements this remedy<sup>17</sup>). This would make it easier to communicate to and raise awareness of SME customers and could also generate efficiencies from an implementation perspective.
65. **Proposed requirement that this tool should deliver a 90% match rate between indicative and final offer.** We understand this to mean that 90% of final prices offered should match or better the indicative price quote. We have some reservations concerning this even if the product scope were to be confined to unsecured lending and overdrafts under £25,000 – let alone if the scope were to be extended further to cover secured lending and to lending amount beyond £25,000.
66. Based on the data we have for the 13 weeks that our tool has been in operation (since 2 March 2016), HSBC’s checker is able to achieve [*Redacted*]. This rate is based on [*Redacted*] decisions processed, of which [*Redacted*] resulted in a loan application. For those [*Redacted*] applications, there was [*Redacted*] match rate between the eligibility quote and the final full application. We believe that achieving this level of match-rate [*Redacted*] for both eligibility *and* price [*Redacted*] – will be very challenging. HSBC agrees that it would of course be in SME customers’ interest that there is a high match rate between the indicative and final offer. However, to achieve a 90% match-rate lenders would need more information from customers, with the clear trade-off between this and the speed of decision/convenience. We therefore believe that 90% is not achievable or advisable for both eligibility and price quotes. HSBC believes that a more realistic and achievable match-rate that lenders should aim for in respect of both eligibility and price quotes is 80%. This is still a relatively high threshold that will be

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<sup>16</sup> Para 6.48(b), PDR.

<sup>17</sup> See Para 6.51, PDR.

attractive to SME's looking to conduct a relatively quick and hassle-free cross-market comparison.

67. **Level of information that will require to be returned at a minimum.** HSBC is also concerned with the proposal that a probability number is provided to individual SME customers. While HSBC agrees that customers would expect a degree of assurance that in most cases the indicative offer on eligibility and price will match the final end offer (i.e. 80% of indicative quotes will be in line with final end offer), tailoring this to individual customers such that each customer will be given a “*percentage indicating the likelihood of being eligibility for a given product at a given rate*”<sup>18</sup> presents a very significant technical challenge. The current design of HSBC's tool, which is [Redacted]. Indeed, there are challenges to offering even broad indication of eligibility. By way of illustration, based on the [Redacted] full applications received to date,<sup>19</sup> HSBC's tool returned the following results: [Redacted]. As we gather more data we aim to improve the functionality of the analysis and the accuracy of the results returned. Notwithstanding that, given the input is based on a narrow set of criteria (a handful of broad questions), there is a limit to how bespoke any result can be to individual SMEs. A balance needs to be struck between ensuring that tool is user-friendly and provides a near-instantaneous indication (by requesting a relatively small amount of input from SME customers) and one that requires more information to be provided by customers, and therefore takes longer but is able to offer an indicative customer-specific and near certain quote on eligibility and pricing that customers know will match the final offer with a high degree of certainty (for example, for 80% of all requests made).
68. **The CMA proposes that the tool should deliver indicative quotes on eligibility and price within 24 hours.** HSBC believes this is readily achievable if the scope is confined to unsecured lending below £25,000 with a broad indication on eligibility (“likely”, “unlikely”, “need more information”) and pricing (with an 80% match-rate between indicative and final end quote). HSBC's current eligibility tool returns a near-instantaneous answer on eligibility. Subject to further testing and development, we are hopeful that the tool can be built to return indicative offers on both eligibility and price quickly (considerably less than 24 hours).
69. As it currently stands, delivering the tool to this specification (with a more confined scope as described above) will already be challenging within the CMA's proposed time scales (i.e. within 6 months of the Order coming into effect). This is because we do not know to what extent we will be able to achieve [Redacted] match between indication and application on pricing – this is simply an unknown at this stage. We therefore think it is reasonable for banks to be given a further 12 months grace period beyond the launch of the tools to assess the extent to which it is possible to build to an 80% match rate (where the final end offer is in line with or better than the indicator offer).
70. In terms of giving third parties access, we note the CMA has set out 3 ways that banks could allow comparison sites access to their eligibility tool:

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<sup>18</sup> See Para 6.89(a), PDR.

<sup>19</sup> As at 27 May 2016.

- a. banks could disclose the algorithms which they use to determine price and eligibility offers to SMEs within the tool to these finance platforms and comparison sites so that these third parties could run calculations themselves;
  - b. banks could connect up their systems such that finance platforms and comparison sites could transmit information entered by SME customers on their websites to banks, which would then be required to run their algorithms and return the results to a platform or a comparison site to display; or
  - c. a third option would be for a ‘black box’ provider to sit between the comparison site and bank, and to run the bank’s algorithms on its behalf.
71. HSBC does not favour option (a) as this would require the disclosure of information protocols to third parties that is highly undesirable from a practical and commercial perspective:
- a. From an assessment perspective, each bank will want to use different algorithms and different data sources based on the information the customer has provided in order to make an indicative assessment. This algorithm is proprietary to the banks concerned. We would not want that algorithm to be shared and there would be a risk that that might be the case if they are hosted by a third party.
  - b. This algorithm would be used by banks not just for new customers acquired through PCWs and other platforms, but also for the bank's own public website and in other channels. When any update is made (as is frequently the case), all versions of the algorithm would need to be changes simultaneously or there is a risk that customers could get different answers depending on the channel they have chosen. Typically, any changes also require multiple versions of build and testing. If this is required on a number of third party sites, this would lead to unreasonable amounts of complexity and risk.
  - c. Lenders would want to retain full control over our ability to make (often rapid) changes to the algorithm itself based on our desire to continually refine the tool to improve customer experience. This could become much more difficult to do if it is hosted on a number of third party sites.
72. We prefer option (c) in the alternative because this approach could mitigate the very real practical risks and issues described above. With a “black box” provider, lenders would only be dealing with one, known external party. This would be more practical to safeguard the algorithm and lower the risk associated with frequent updating that the algorithm would require.

***SME comparison tool (and related transitional and ancillary measures)***<sup>20</sup>

73. HSBC supports the broad design of this remedy through the use of Nesta challenge prize as a way of creating one or more commercially sustainable SME comparison tools. In particular:

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<sup>20</sup> Para 6.119-6.211, PDR.

- a. Project Governance<sup>21</sup> – We agree that it will be necessary to maintain CMA involvement with the Nesta process in order to help ensure that the remedy work as intended. We believe that the CMA’s proposal to have a CMA-nominated representative on the Nesta Prize Committee would help ensure that there is alignment between the “Challenge Statement” with the CMA’s diagnosis of issue and the “Prize Statement” with the CMA’s expectation of appropriate remedial action.
  - b. Judging<sup>22</sup> – We agree that as part of the assessment criteria, the Nesta challenge prize winner(s) will be required to include comparisons of service quality (with input to be derived from the CMA’s service quality remedy). HSBC does not have strong views as to whether having the CMA on the judging panel is necessary or desirable.
  - c. Project Management<sup>23</sup> – We support the CMA’s provisional decision requiring Nesta to provide or procure suitable and sufficient project management resource and expertise (e.g. a consultancy or professional services firm) in order to bring the necessary discipline to the process and its successful conclusion. We welcome the CMA’s plans to review Nesta’s project plans as HSBC would also be keen that the process operates as efficiently as possible and to give it the greatest chance of success.
  - d. Providers in scope<sup>24</sup> – HSBC supports the CMA’s provisional decision requiring HSBC and 7 other banks<sup>25</sup> to ensure there is a good coverage of the market and agrees it is reasonable to include only those banking groups with a BCA share of over 5% in GB or NI and a share of over 5% by volume of SME lending in the UK.
  - e. Funding<sup>26</sup> – We are also supportive of the provisional proposal requiring the 8 providers in scope to make a funding contribution to the costs of the Nesta challenge prize process that is proportionate to their UK BCA share of supply.<sup>27</sup> HSBC believes there needs to be robust governance around the costs arising from project delivery to ensure that they would be reasonable and proportionate, and we firmly support putting a cap on the overall project cost (which we note the CMA estimates should not exceed £10 million in total).
74. In respect of the CMA’s proposal for a safeguard remedy,<sup>28</sup> HSBC considers the two trigger points outlined by the CMA to be broadly sensible, namely:
- a. Trigger one:<sup>29</sup> if Nesta failed to produce a winner that met the assessment criteria; and

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<sup>21</sup> Para 6.183-6.188, PDR.

<sup>22</sup> Para 6.179-6.180, PDR.

<sup>23</sup> Para 6.189-6.191, PDR.

<sup>24</sup> Para 6.169-6.172, PDR.

<sup>25</sup> The banking groups are RBSG, LBG, Barclays, HSBCG, Santander, Danske, BOI and AIBG, Para 6.172 of the PDR

<sup>26</sup> Para 6.198, PDR.

<sup>27</sup> See Fig. 6.2, PDR.

<sup>28</sup> Para 6.195-6.197, PDR.

<sup>29</sup> Para 6.197(a), PDR.

- b. Trigger two:<sup>30</sup> if the CMA's review of the winner(s) (12 to 18 months after commercial launch) revealed that they were not operationally or commercially viable at the time.

75. We set out below our further views on the transitional / ancillary measures:

76. Transitional measures (1): Within one month of the publication of the Order and for a period of 3 years, the funding banks will (a) make available through 2 or more of the finance platforms designated under the SBEE act certain SME product details and (b) prominently display hyperlinks on the websites to the finance platforms on which the SME banking products are listed.<sup>31</sup>

HSBC supports this transitional measure.

77. Transitional measures (2): Existing supporters of BBI are to continue funding to ensure that the BBI continues to collect and publish survey information which permits comparison between providers on the basis of service quality.

The funding banks have committed to supporting BBI to the end of 2016 and it is likely that this will be the point at which BBI will be replaced by the new service quality research. HSBC previously noted that it would favour support for BBI for a two year period to enable it to be built into the remedies package, in the context where the BBI survey were to be incorporated into any solutions arising from the Nesta prize challenge<sup>32</sup> and effectively be the provider of research information for the remedy relating to service quality comparison. HSBC wishes to clarify that it does *not* support the CMA's proposal to continue funding for BBI for another two years, as the CMA seems to suggest at para 6.164 of the PDR, as the CMA's foundation remedy proposal on service quality indicators will replace and obviate the need for BBI going forward. HSBC considers that to continue funding the BBI (for a two further years after the end of 2016) whilst at the same time supporting the CMA's foundation remedy on service quality indicator would be unnecessary and disproportionate.

78. Ancillary/safeguard measures (3) – CMA to propose to BIS that it works with the British Business Bank and professional associations such as the ICAEW to explore ways in which their members can channel advice on choice of providers and sources of finance to SMEs. CMA expects the HMT to start to undertake this work shortly after the publication of the report in August 2016.<sup>33</sup>

HSBC is supportive of wider industry efforts to explore ways to enhance SME customers' access to information on choice of providers and sources of finance to SMEs [**Redacted**]. HSBC though considers that if professionals were to give advice to SMEs, there needs to be a regulatory framework that takes into account potential conduct risk around the provision of advice to ensures that (i) any advice is free, impartial, transparent and reflects the best interests of SMEs; (ii) the advice / recommendation of one provider over another is not driven by any financial incentive paid by the "winning

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<sup>30</sup> Para 6.197(b), PDR.

<sup>31</sup> Para 6.178, PDR.

<sup>32</sup> See para 31, HSBC's response dated 21 March 2016.

<sup>33</sup> Para 6.203, PDR.

provider”; and (iii) draws on and is based on the information derived from the SME from various information and transparency measures included in the remedies package, so that advisors are at least opining on a consistent and trusted data set.

***Standardise BCA opening procedures***<sup>34</sup>

79. HSBC agrees that the standardisation of BCA account opening should focus only on activities which relate to the BCA opening form and evidence requirement, but not of the subsequent process and account onboarding process.<sup>35</sup> The “Project Bulldog” working group (with representatives from Barclays, Lloyds, RBS, Santander, HSBC as well as the BBA) is close to agreeing a core set of circa 55 questions, comprising a sufficient set of questions regarding financial crime and money laundering for standard due diligence to be fulfilled and enable the BCA to be opened in the vast majority of cases.
80. The CMA envisages that the remedy should be adapted to reflect different types of SMEs.<sup>36</sup> HSBC agrees with the CMA<sup>37</sup> that the BBA (with FCA observer) is best placed to propose the coverage and applicability of standard BCA opening form and evidence requirements, including on making a recommendation to the CMA on segments that ought to be taken out of scope of the remedy.
81. The “Project Bulldog” working group is of the view that the core set of standard questions will cover the vast majority of BCA applications by different types of SME (regardless of what type they are). As a matter of broad principle, we do not support variations of the content of this core set of questions either for different groups of SME, or as between BCA providers as this would take away the customer and pro-competitive benefit that standardisation would bring. From a financial crime compliance perspective, it is though recognised that a “non-standard” approach would need to be taken in respect of certain types of BCA holders (e.g. pension funds, charities and non-bank financial institutions, solicitors’ clients’ accounts). These “non-standard” types (which each bank should publish and make clear to prospective customers) would be dealt with by each bank in line with their own procedures. We agree with the CMA’s proposal for the BBA-convened industry group to present the recommendation as to which SMEs ought to be taken out of the scope of this remedy.<sup>38</sup>
82. Regarding financial crime checks, it is anticipated that “Enhanced Due Diligence” (**EDD**) is needed only in a small minority of cases, [**Redacted**]. Where EDD is required the applications would also fall outside of the standard approach and individual banks retain discretion to determine.
83. Since the publication of the PDR, HSBC has continued to engage with Oliver Wyman and other major banks involved in Project Bulldog to consider the implementation of this remedy. In light of the further detail around the design of this remedy that have now been published in the PDR, Oliver Wyman laid out a revised “Project Bulldog” work plan on delivering the industry “proposal” that the CMA expects within one month

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<sup>34</sup> Para 6.247-6.312, PDR.

<sup>35</sup> Para 6.262, PDR.

<sup>36</sup> Para 6.277, PDR.

<sup>37</sup> Para 6.278, PDR.

<sup>38</sup> Para 6.278, PDR.



of the final report. This includes, amongst other things, clearly defined workstreams between now and September, the sharpening of the governance of the decision making process, inclusion of the smaller/challengers banks and the support from the BBA. HSBC does not support the alternative proposal made by certain banks that a “code of conduct” governing the information / evidence requirement for BCA opening will suffice. In our view, this will not improve the customer experience, or generate efficiency or pro-competitive benefits that a standardised, core set of questions would bring.

84. HSBC is of the view that the work plan produced by Oliver Wyman to meet the CMA's timelines can be achievable provided there is industry support, and is very keen to move forward this project at pace.

***Increasing the sharing of SME data to reduce incumbency advantages [para 6.212]***

85. We support the CMA's decision not to adopt a remedy that imposes additional data-sharing obligations on SME lending providers, given the commercial, technological and regulatory initiative that are in-flight to facilitate the greater sharing of SME information.<sup>39</sup>
86. We believe two years from the final report is perhaps the soonest that the CMA would want to ask HMT to conduct a review given that the industry will need some time, after publication of the final report, to implement the CMA's remedies package. We would query whether the time frame should be four years so as to allow some of the developments to properly bed in. If a review is conducted too soon there is a risk that it would be difficult to conduct a balanced assessment of the impact of the various significant and inter-related commercial technological and regulatory developments.
87. Finally, we believe there is merit in one body having oversight of the progress of the implementation of the remedies package. The CMA has asked various entities to be responsible for the implementation of discrete parts of the remedies package. In our view, a central body would ensure that all is on track; that the interrelationships of the individual parts are working in harmony and where necessary help unblock any problems. The BBA would be best placed to fulfil this role.

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<sup>39</sup> Para 6.233, PDR.