

Competition and Markets Authority
Victoria House
37 Southampton Row
London WC1B 4AD

30 June 2016

Dear CMA

I write on behalf of [...] in relation to the response by Santander UK plc (*Santander*) to the CMA's provisional decision on remedies (*PDR*) to express our concern with their suggestion that they should be excluded from contributing to the funding of the Nesta Challenge Prize.

The CMA has provisionally identified that certain features of the SME banking market give rise to an adverse effect on competition for which no individual SME banking service provider is to be blamed. It flows from the CMA's provisional findings that the CMA is right to ensure that all SME banking service providers should, subject to a reasonable *de minimis* threshold, contribute to and share the burden of the SME remedies package aimed at (a) improving the transparency of the cost of and eligibility for SME lending, (b) facilitating comparisons of SME banking products; and (c) making business account opening easier and improve the switching process.¹

A significant departure from the CMA's proposed approach by excluding Santander from contributing to the funding of the Nesta Challenge Prize would, we submit, be unjust and place a disproportionate burden on those banks that are required to contribute to its funding. It would also likely result in unintended distortions to market outcomes by providing an unjustified competitive advantage to Santander. Given that this remedy is intended to address a market-wide AEC for which no individual SME banking provider is to blame, we consider there is no basis for affording Santander a special exemption from contributing to the costs.

Santander is clearly not below the *de minimis* threshold

In relation to the Nesta Challenge Prize, the CMA proposes that Santander (and 7 other banks) shall be subject to an Order to "*contribute, in proportion to their UK BCA share of supply, to the costs of the Nesta Challenge Prize process*", in addition to providing data and management support.²

Santander argues that it should be excluded from any funding contribution to Nesta on the basis that while it has a share above 5% in BCAs, it has a smaller share in the SME lending market.³ However, this argument is misconceived. The BCA product has always been a core focus of the SME banking comparison service envisaged by the CMA and a key aim of the CMA's proposed remedy is to enable customers to make more effective comparisons between the BCAs of different providers.⁴

Therefore, we consider it fair, reasonable and proportionate for the CMA to use BCA share of supply (subject to a reasonable *de minimis* threshold) as one of the key criteria for determining

¹ Para 6.3, PDR

² Figure 6.2, PDR.

³ Para 3.5(b), Santander's response to the PDR.

⁴ See paragraph 12.7(b) of the CMA's provisional findings report.

which banks should fund this remedy, regardless of the bank's market share in the SME lending market. The CMA's proposed approach captures the key BCA providers and by extension key providers of SME banking services.

Market share data and various other metrics show that the size of Santander's SME business is significantly larger than the next closest, smaller challenger bank and is in fact much closer to the top four providers. The CMA will have access to recent and the most up-to-date market share data (on BCA and SME lending) which can confirm this point, but we share below our observations from various sources of data by way of illustration:

- According to Charterhouse, the largest 5 providers (namely Barclays, LBG, RBSG, HSBC and Santander) have 93% of the share of the BCA market (for SMEs with turnover below £5 million). Santander's 2015 UK BCA share of supply as measured by the Charterhouse Business Banking Survey is 13%. This represents an increase from 9% in 2014 [...] (See **Table 1** below at Appendix 1).
- Indeed, a similar picture emerges from the share of start-up market share. As **Table 2** below at Appendix 1 shows, Santander (at 5th place) has 10% share of supply in the start-up market [...].
- The Charterhouse Business Banking Survey shows that in 2015, 20% of Santander customers in the £0-5 million turnover range said they had "applied to their main bank for finance" [...].

Furthermore, Santander's SME banking business has substantial scale. With 70 Corporate Business Centres and more than 700 Relationship Managers,⁵ the scale of Santander's commercial banking business (which comprises the significant portion of its SME business) is much more comparable to the top 4 SME banking providers than it is to the closest challenger bank. [...].

Given the next largest provider after Santander has only a 2-3% share of supply (see Tables 1 and 2), it is in fact more appropriate to consider Santander as one of the "Big Five" SME providers. We note that the CMA itself also considers Santander to be one of the "five largest banks" that operate throughout the UK and provide the full range of retail banking services, as distinct from the smaller banks.⁶

Allowing Santander to free ride would be unfair and discriminatory, and would distort competition

Santander notes that the requirement to be involved in, but also fund, the Nesta Challenge Prize is a significant diversion of their limited resources.⁷ Firstly, we note that Santander's parent company is Banco Santander, S.A., the largest bank in the Eurozone by market value and also one of the largest banks in the world in terms of market capitalization.⁸ Secondly, it is clear that the Nesta Challenge Prize will impose significant costs from a financial and resource perspective on all banks that will be subject to the Order.⁹ All banks subject to the Order - not just Santander - will have to juggle and manage their resources to run their businesses as well as to comply with a number of material regulatory changes over the coming years.

⁵ Figures as at 30 December 2015, see page 16 of Santander's 2015 Annual Report.

⁶ See para 14, CMA's provisional findings report dated 22 October 2015.

⁷ See para 2.8 of Santander's response to the CMA's PDR dated 9 June 2016.

⁸ Santander maintained in 2015 attributable profit of 5,966 million euros with a market capitalization of 65.792 million euros (From <http://www.santander.com>)

⁹ [...].

Given Santander is clearly one of the top 5 providers of SME banking services, it would be unfair and discriminatory for the CMA to expect only 4 of the top 5 providers of SME banking services to bear the substantial costs of the Nesta Challenge Prize whilst effectively allowing Santander to free ride. We note also that Santander has been one of the clear net gainers of BCA customers under CASS to date and also stands to benefit significantly from the SME remedies package. Any unfair funding advantage afforded to Santander could therefore give rise to unintended distortion to market outcomes by providing an unjustified competitive advantage to Santander.

We consider there to be no reasonable basis for excluding Santander from the funding requirement for the Nesta Challenge Prize, given Santander's substantial share of supply in the BCA market and solid position as the fifth largest provider of SME banking services. Santander's argument that it should be excluded from contributing to the Nesta Challenge Prize on the basis that it is a "challenger bank", rather than a larger provider, is inconsistent with the CMA's findings,¹⁰ unsupported by evidence, and would be unjustified and disproportionate.

Yours sincerely

[...]

¹⁰ See paragraph 14 of the CMA's summary of its provisional findings.

APPENDIX 1

Table 1. Main bank for business banking, SMEs with <£5 million turnover (Source: Charterhouse Research UK Business Banking Survey)		
	Main Bank for business banking, SMEs with <£5 million turnover (%)	
	2014 – Q4	2015 – Q4
RBSG	22	24
Barclays	21	22
LBG	20	19
HSBC	19	15
Santander	9	13
<i>Total of 5 largest</i>	<i>91</i>	<i>93</i>
Co-op	2	2
Yorkshire	1	1
Clydesdale	1	1

Note 1: Market share data is shown for the last 3 months of 2014 and 2015

Table 2. Main bank for business banking, share of start-up market share (Source: Charterhouse Research UK Business Banking Survey)		
	Start-up market share (%)	
	2014 – Q4	2015 – Q4
Barclays	24	26
RBSG	28 (23 (NatWest) + 5 (RBS))	23 (19 (NatWest) + 4 (RBS))
LBG	16 (15 (Lloyds) + 1 (BoS))	19 (17 (Lloyds) + 2 (BoS))
HSBC	13	13
Santander	11	10
<i>Total of 5 largest</i>	<i>92</i>	<i>91</i>
TSB	2	3
Metro	2	1
Co-op	1	1
Clydesdale	1	1

Note 2: Start-up is defined as a business that is less than 1 year old.