

CMA Retail Banking Market Investigation Response to Bank 1 Letter

- 1.1 This is the response of Santander UK plc (**San UK**) to the letter dated 30 June 2016 published on the CMA's Retail Banking Market Investigation website on 15 July 2016 as Bank 1's response to the PDR (the **Bank 1 Letter**).
- 1.2 The anonymous Bank 1 Letter suggests that excluding San UK from the scope of any remedy based on the Nesta Proposal "is inconsistent with the CMA's findings, unsupported by evidence, and would be unjustified and disproportionate".
- 1.3 We are not seeking "special exemption" or attempting to "free ride" by arguing that the CMA should not pursue the Nesta Proposal or, if it does, that we should not be obliged to participate. As a scale challenger we have made significant investment in building our SME business,¹ and have every incentive to encourage the CMA to adopt remedies that will allow us to take advantage of that investment to win greater market share. However, we consider that the Nesta Proposal carries a material risk of being ineffective, is disproportionately expensive and would take too long to produce any solution. As such, we consider the Nesta Proposal should be abandoned or modified.² If the CMA does decide to pursue the Nesta proposal, we have further explained why we, and other challengers, should not be obliged to fund the Nesta Proposal.³ We do not repeat those submissions here.
- 1.4 However, some of the statements made by Bank 1 are inaccurate, misleading or irrelevant to the CMA's decision making. We would like to correct these below.
- (a) **Excluding San UK from the funding of the Nesta Proposal is not inconsistent with the CMA's findings.** The PDR at paragraph 171 suggests that the criteria for inclusion in the Nesta Proposal should be a "BCA share of over 5% in GB or NI **and** a share of over 5% by volume of SME lending in the UK." As such, the remedy seeks to include "leading" providers.⁴ As reflected in the Provisional Findings, our market share in SME lending is less than 5% and as such it is entirely consistent with the CMA's findings that San UK should not be obliged to fund the Nesta Proposal.
- (b) **It is incorrect to assert 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."** This reference to the Provisional Findings Report is neither specifically on the issue of SME banking, nor relevant to the funding of the Nesta Proposal. In the paragraph cited, the CMA rather notes the banks that provide a full range of services and that other large PCA providers, such as

¹ This has been made possible by the patient parent shareholding. However, it cannot be the case that our parent's activities in markets outside of the scope of this investigation could determine any aspect of the CMA's decision making, as the Bank 1 Letter suggests.

² See Section 2 of our response to the PDR.

³ See Sections 2 and 3 of our response to the PDR.

⁴ This follows the rationale given in 6.100 of the PDR, in which 5% thresholds are used in relation to the loan pricing transparency remedies.

Nationwide, have not entered the SME market. Critically, in the same paragraph that Bank 1 references, the CMA finds: “*The four largest banks (LBG, HSBCG, RBSG and Barclays) in Great Britain (GB) accounted for approximately 70% of active PCAs and 80% of active BCAs in 2014.*”⁵ The CMA considers BCA and SME lending market shares on a “big four” basis throughout the Provisional Findings.⁶ It is inaccurate to suggest that the CMA has addressed the SME market as one dominated by a “big five”: the same market the Department for Business, Innovation & Skills recently called “a 4-firm oligopoly”.⁷

- (c) **San UK is not “much closer” to the big four than to other challengers.** We have consistently described our unique position as a scale challenger. Our share in SME lending, although growing, is still below 5%.⁸ Our BCA customer base is largely made up of sole traders or micro-enterprises: other banks (such as Co-op and Clydesdale) have larger BCA market shares when the lowest turnover businesses are excluded.⁹ Our market share of BCA revenue is less than 5%.¹⁰ We do not benefit from incumbency advantages, such as capital allocation models.
- (d) **It is misleading to describe BCAs as “a core focus” of the Nesta Proposal.** The PDR is clear that the SME banking comparison tools envisioned by the CMA cover SME lending and BCAs, and does not suggest that BCAs are any more of a focus than lending. It is therefore not “misconceived” to suggest that the CMA should treat market position in both BCAs and SME lending as relevant.
- (e) **Excluding San UK from the funding of the Nesta Proposal would not “place a disproportionate burden on those banks that are required to contribute to its funding.”** Given our market share, the increase in funding required from any individual bank as a proportion of the cost of the project would be a few percentage points at most. We consider the cost of the Nesta Proposal is disproportionate: we cannot see how our exclusion would make any material difference to another bank, particularly as they support the proposal. We have proposed that the fund might be reduced by our contribution without affecting the viability of the Nesta Proposal.¹¹

1.5 We would encourage the CMA to continue to appraise the benefits and disadvantages of the Nesta Proposal, having regard to our serious reservations about the effectiveness, proportionality and timeliness of the proposed remedy. Across its remedies package, the CMA should address the matter of funding in a holistic way, giving consideration to the relative market position of each party.

⁵ Provisional Findings, paragraph 14.

⁶ See in particular, paragraphs 17, 6.38 and 6.121 and Appendix 6.

⁷ See the report “small and medium enterprises lending and competition: market comparison” published on 12 May 2016.

⁸ Provisional Findings, Appendix 6.1, Figure 13.

⁹ Provisional Findings, Appendix 6.1, Figure 5.

¹⁰ Provisional Findings, Appendix 6.1, Figure 4.

¹¹ See our Response to the PDR, at 2.14.