

## **Metro Bank Response to CMA Consultation:**

### **Personal current accounts and banking services to small and medium sized enterprises**

The UK banking sector is lacking in competition and, as a result, innovation and real choice for personal and business customers. There has been some progress, including several consultation requests from the Government, regulator and other groups to improve competition in the market. However, as the CMA identifies in the July consultation, there is still significant work to be done to create the level playing field needed to generate real choice for consumers and businesses.

This is most clearly illustrated through the very real fact that, despite competition rhetoric and small shifts in policy, Metro Bank is still the only new high street bank to have successfully navigated the regulatory processes and framework to launch in more than 100 years.

Our response to the CMA is clear: we strongly support its initial assessment of the PCA and SME banking sectors. Competition is heavily distorted and many of the factors that have been identified, for both PCAs and SME banking, are ones with which we agree.

We believe there are several key points to be made:

1. Actions speak louder than words: Rhetoric without action is pointless, so we need to see tangible results in order for a Market Investigation Reference (MIR) to be deemed a success
2. Competition is driven by differentiation – not price comparison, switching initiatives or simplicity
3. PCAs cannot be assessed in isolation – the whole customer experience must be investigated in order to improve competition
4. Homogenisation will stifle innovation, rather than improve competition

In the pages that follow we will explore these points in more detail, looking at suggestions and solutions that we believe will have an impact on competition in the banking sector.

#### **1. Actions speak louder than words**

We agree with the CMA's assessment that both the PCA and SME banking sectors should be investigated through an MIR, and we do not think that the undertakings in lieu of a reference (UILs) proposed can go far enough in the long term, or be deemed the right courses of action, without an MIR. However, as the report rightly states, an MIR will take significant time and resource for the banks and other organisations involved. For smaller and challenger banks, such as Metro Bank, an MIR will have a disproportionate impact on our resource in comparison

to large banks. Therefore while we support an MIR in principle, the CMA must be able to guarantee banks that the benefits will outweigh the costs. The results of its investigation must have a tangible impact on competition in the sector, so we would suggest including metrics to gauge success.

## **2. Competition is driven by differentiation**

The banking sector does not function as a competitive market should: as the report references, large banks are leaving customers unsatisfied and yet retaining large market share. To increase competition we need more entrants with differentiated models, creating choice for consumers and businesses. Until this happens, obvious questions arise about why customers would bother switching and, more importantly, where they would switch to. Banks must show customers that they are worthy of their custom and that they can bring something interesting to the table. While choice and variety in the market remain low, it is inevitable that switching levels will remain anaemic. The Current Account Switch Service (CASS) facilitates switching but can only be truly effective in an already competitive market. In addition, in order for it to be a true success, we believe it needs more appropriate communication among consumers and businesses.

Related to this, we do not agree that the close linkages between PCAs and business products is a competitive issue. If customers make a choice to do their business banking where they do their personal banking, this is entirely at their discretion. In fact, it seems fair and understandable that businesses may look for one person to manage all their banking relationships. The larger issue at play is that many SMEs do not know where to look for banking services outside of their personal bank, as there is not enough choice, competition or education about options in the market to support a change.

On the topic of education, there is no doubt that as an industry we need to work together to educate customers about how to choose a banking partner that suits them and their needs. For business customers and personal customers we would support the CMA reviewing the introduction of an information source that enables them to make informed decision about their banking. We would urge the CMA to investigate the different forms that this could take in order to ensure it is useful, rather than opting for a straightforward comparison table.

For PCAs, overdrafts are repeatedly mentioned as one cause of confusion – both in terms of language used and charging structures. Looking first at language, the regulatory framework that dictates to banks how they can communicate borrowing to their customers must be reviewed. For example, at the moment as part of their regulatory obligation, banks need to

provide EAR whenever a rate is mentioned, and this can complicate communications to customers who may not know (and probably don't need to know) what this means. Looking at the standardised text that banks must comply with when discussing overdrafts with customers would be beneficial for the whole industry. However, while we believe this is important to improve banks' relationships with customers, we remain unconvinced that simplicity alone will encourage competition and choice in the market.

With regards to charging structures on overdrafts the report suggests that customers cannot easily compare or understand costs on accounts, and that this presents a barrier to switching and competition. The consultation implies that giving customers the ability to download their data, through initiatives like MiData, to enable them to compare charges on comparison sites may alleviate this. However, we have concerns about this and believe this should be investigated more fully as part of an MIR. In our view giving customers the ability to download their current account data to compare the real costs of their banking may meet a transparency objective, but we believe it falls short in terms of improving competition. Why? Because it places charging structures at the centre of the debate. The problem with this is that it encourages banks to compete purely on price, and as a result, all initiatives are driven towards achieving this goal. This is a major issue as it discourages banks from focusing on other goals, such as a providing good customer service and achieving fair outcomes for customers. Pricing may drive some switching but if we want a truly competitive market, then customers must be switching for differentiated offerings, rather than just price. We believe that an MIR should look at how fair pricing can work alongside other factors, e.g. service and different models, to achieve the best possible outcomes for customers. This will encourage innovation in the industry.

### **3. PCAs cannot be assessed in isolation**

Current accounts alone do not accurately represent the whole customer banking experience. To incite real change in the competitive landscape, we must look at wider issues relating to all aspects of personal banking. For example, one major issue in the personal banking sector is the cross subsidisation of personal banking products, a particularly pertinent practice in the savings product market. Effectively, existing customers receive lower savings rates than new customers as existing products are replaced with new ones that offer better rates and terms. This saving allows banks to cross subsidise higher rates for new customers, which provides them with cheap deposit funding from their less active loyal customers, creating a huge barrier to entry in the market for challenger banks. The incumbent banks are able to use this cheap deposit funding to drive down the cost of lending. Challengers, with much higher funding costs, are therefore forced to compete at an unfair price for lending, and in some cases take on

higher risk lending in order to compete. This is anti-competitive and cannot be ignored by the CMA if its aim is to encourage competition in banking.

In addition, in a competitive market customers should be offered the best products for their needs. However, many banks make it extremely difficult for customers to move their money to 'better' accounts, and would never consider auto-upgrading customers to the best products. This is surely an unfair outcome, and one that we believe needs to be investigated.

#### **4. Homogenisation will stifle innovation**

The CMA consultation makes some suggestions that in our view fall under a broad heading of homogenisation. The aim of these suggestions is to offer a more standardised experience for customers, which we believe goes against a broad competition objective.

One example is the suggestion that banks must have an extensive branch network to be competitive. At Metro Bank we strongly believe that there is a place for a branch network in 21<sup>st</sup> century banking. The proliferation of technology for both personal and business customers is an extremely important development but there is often no replacement for a face to face conversation. That's why Metro Bank offers a full banking service through every channel – whether it's face to face, by telephone, online or by mobile – and our customers choose to bank with us because all of those channels are important to them. However, as we discussed previously, competition should be about banks offering different models to customers; some will take an all-channel approach (like us) and others will choose different strategies. As a result, we do not think this should act as a barrier to competition – banks must choose models that suit them and their customers, concentrating on differences and choice rather than more of the same.

The report also discusses the possibility of creating a common account opening process (NB we accept that this has been suggested by the Big Four banks as part of a UIL and therefore may not be supported by the CMA). Banks must have differentiated models and ways of operating in order to provide choice for customers. Creating a common account opening process would remove some of these differences and discourage innovation. This does not seem to have an obvious benefit to the customer, and may in fact have an adverse effect on competition.

The goal of increased competition in the banking sector must remain high priority. As an industry we need long term solutions that encourage and generate true competition. These must be more than just words in order for the investigation to be a success. A competitive

market is one where we'll see entrants with a variety of different models offering different things to customers; it recognises that customers have independent needs and therefore banking solutions must reflect this. In order to review this thoroughly, we strongly believe that the CMA should use this opportunity to review the entire banking experience; the conversation must run wider than just current accounts if it is to incite real change. Ultimately, conquering competition issues across the board will result in better outcomes for customers, and this must always be the industry goal.