



British Chambers of Commerce response to CMA MIR decision on SME banking

About the BCC

The British Chambers of Commerce (BCC) is an influential network of 52 Accredited Chambers across the UK, representing tens of thousands of businesses with millions of employees nationwide.

No other business organisation has the geographic spread or multi-size, multi-sector membership that characterises the Chamber Network. Every Chamber of Commerce sits at the heart of its local business community, providing representation, services, information and guidance to member businesses and the wider local business community.

We've been growing British business for more than 150 years, providing companies with practical support, useful connections and valuable access to new ideas and innovations. Even though we're not for profit, we're powerfully placed to help those who are.

Introduction

The BCC welcomes the opportunity to formally respond to the provisional decision by the Competition and Markets Authority (CMA) to make a market investigation reference (MIR) into SME banking. Banking services and in particular access to finance, is one of the biggest concerns for our members as far too many promising businesses struggle to get the finance they need to grow.

As things stand, our members fully support the provisional decision by the CMA to undertake a MIR into SME banking. The only acceptable outcome of this consultation for the SME community is confirmation that SME banking in the UK will be subject to a full market investigation by the CMA. The independent Business Banking Insight showed that many firms across the country feel that trust in the banking system has been damaged over recent years, with an unacceptably high level of dissatisfaction with the level of service they receive. Our members also believe that the proposed undertakings in lieu of a reference do not provide a comprehensive solution to the lack of competition in the SME banking sector. Anything less than a full scale investigation would skirt around the edges of businesses' concerns.

Our members also believe that the next UK government must commit to fully implement all the recommendations from the market investigation into SME Banking. Improving competition would mean better terms and conditions for business, better standards in banking and would in time drive down business costs.

CMA analysis of UK SME banking sector

Our members agree with the CMA's conclusion that persistent levels of concentration, relatively stable market shares, a market structure characterised by the close links between business current accounts and loans, and high barriers to market entry and the expansion into lending to SMEs give rise to competition concerns. They also agree with the scale of the suspected problem in the level of competition in SME banking identified is sufficient to merit an MIR.

Feedback from our members confirms that they believe that there is a fundamental lack of competition within the UK SME banking sector. This has been referenced elsewhere, including by the Independent Commission on Banking, which noted that 85% of SME accounts sat with the 'big four' high street banks. The expansion of SME lenders such as Handelsbanken, Aldermore and Metrobank is welcome news, as is the development of new peer-to-peer and alternative funding models, and the divestments from RBS and Lloyds Banking. However, these are niche players and SME banking in the UK is likely to continue to be dominated by the major banks for the foreseeable future.

The current account switching service is potentially very important because it removes an important barrier to switching financial institution. However, we believe that more should be done. For example, we are in favour of full bank account portability to allow businesses to take account numbers when switching between providers.

Also, our members still view the major banks as being "all the same" and so there may be a reluctance to move to a new bank even if the process for switching is made easier. This is reflected in the results from the first Business Banking Insight Survey which revealed very similar ratings achieved by the big four banks across a wide range of indicators. For example, for business current accounts, average satisfaction scores from small and mid-sized firms for the four major banks revealed that, on average, around a third of such firms are not satisfied with the level of service that they receive.

In addition to concerns over bundling, our members have told us that the slow speed of bank decision-making processes can be hugely detrimental and discourages demand for banking services. Problems arise when a decision takes months to occur. This also results in companies not effectively shopping around and testing the market for the best rates, as they don't have the time to go through this process with several banks. The process for accessing finance also remains a major issue. Apart from being arduous, time consuming and costly, each time a business goes through the process of applying for a loan they leave a 'footprint' which could affect their credit rating. This also discourages SMEs from shopping around.

Our members are also sceptical of the idea that banks are expanding credit availability - they have not seen a material difference yet. Feedback from our members suggests that banks are still avoiding lending to businesses based on their sector (such as construction and hospitality). Businesses are still experiencing a significant gap in short-term financing and solutions need to be found to allow companies to 'dip their toes' into the water and test out ideas. Our members are therefore particularly pleased that the CMA will be looking closely at SME loans.

Feedback from our membership suggests that a local presence with a defined market area is important, because local people who are geographically closer to their customers are more likely to better understand the needs of customers, rather than those operating in a central function of the bank. However, having a local presence does not necessarily mean having a branch network or regional banks as this could be achieved by using an existing local network.

In addition to those barriers outlined in the paper, there are other barriers to entry into SME banking that need to be addressed. For example, although there are currently 45 building societies with 21 million members in the UK who play a leading role in the personal finances, savings and mortgage

markets, they are largely absent from SME banking. This is highlighted in the new Business Banking Insight survey with just a few building societies appearing in the survey. More needs to be done to look at greater favourability in the capital rules for new non-bank SME finance providers such as building societies and better access to payment systems to help challengers compete with established lenders.

Proposed undertakings in lieu of a reference

Our members broadly welcome the proposals for UILs put forward by the four largest retail banks. The comparison website and loan portal, account opening standards and BCA annual summaries and stimulating SME engagement have the potential to play a helpful role in improving standards and level of service in SME banking.

However, feedback from our members confirm that the proposed undertakings in lieu of a reference do not provide a comprehensive solution to the lack of competition in the SME banking sector and should not stop the market investigation from taking place. The proposals do not deal with many of the barriers to entry outlined by the CMA as well as other issues such as access to, and cost of payment systems. While we believe that the Business Banking Insight (BBI) will become a vital tool for SMEs because it shines a light on how businesses are treated when they engage with banks, we do not see it as providing a 'silver bullet' solution to the lack of competition in the SME banking sector.

All of these proposals also all share a common flaw: they have emanated from the banks themselves. The financial crisis and the revelations of recent years, including mis-sold PPI and interest rate swaps, has eroded confidence in the banking sector. Therefore any investigation or proposed changes would need to be carried out independent of the banks. Our members believe that an independent investigation that brings about real change in the SME banking sector could help to usher in a new era of greater trust, better relationships and improved transparency, and improve the reputation of banks within the SME community.

The BCC remains keen to engage further as this review progresses. For more information please contact: Suren Thiru, BCC UK Economic Advisor.