



Retail Banking Team,  
Competition and Markets Authority,  
Victoria House,  
37 Southampton Row,  
London,  
WC1B 4AD

Dear Sirs

**COMPETITION & MARKETS AUTHORITY – Market Study of PCAs & SME Banking**

Clydesdale Bank PLC (the Bank) is pleased to have the opportunity to respond to the Competition & Markets Authority's (CMA's) consultation on its provisional decision to launch an in-depth market investigation into the markets for personal current accounts and SME banking.

Clydesdale Bank welcomes competition across the banking market. We are committed to delivering the choice and quality of service that our customers want and we believe that this should be at the focus of efforts to increase competition.

The Bank is a small full service clearing bank and this is a unique position versus our competitors. However this position can also be a challenge when overall industry solutions are onerous to implement because we lack the scale that our larger competitors enjoy.

In this context we believe that CMA should consider the risk of unintended consequences of any potential market solutions on a small full service bank such as Clydesdale and that any proposals are subject to appropriate cost/benefit assessment across a range of different sized providers.

We would also ask the CMA to recognise that a number of initiatives are already under development by the UK government that are designed to generate additional competition in the SME market, and that these should be given the opportunity to take effect before further interventions are made.

The attached appendix details our response to the specific questions raised in the consultation

We look forward to engaging further with the CMA in the weeks and months ahead.

Kind Regards

Mike Hart

## ANNEX 1

### Response to the CMA Consultation Questions

#### Background

##### Clydesdale Bank PLC

Clydesdale Bank PLC offers a range of banking services for both personal and business customers through retail branches, Business Banking centres, direct banking and brokers. It is the retail and commercial banking business in the United Kingdom of National Australia Bank Limited ("NAB"), with its immediate parent being National Australia Group Europe Limited ("NAGE"). It operates under both the Clydesdale Bank and Yorkshire Bank brands - Clydesdale Bank was established in 1838 in Glasgow and has a proud history of innovation and support for Scottish industry and communities. Yorkshire Bank, which has a strong personal customer base and an extensive business capability in the North of England and the Midlands, was founded in 1859 in Halifax, West Yorkshire.

All of the comments below apply equally to both our Clydesdale and Yorkshire Bank brands.

**1. Do you consider that the CMA's analysis of the suspected features of concern in the market for PCAs is correct (see paragraph 3.6)?**

The CMA categorises a number of factors as suspected features of concern for the personal current account market. The Bank would make the following comments on these concerns:

- The Bank has been very supportive of the introduction of the Current Account Switch Service (CASS) and we believe it is delivering a good service to customers. However, it has only been in operation since mid-September 2013 and, it is too soon to draw any firm conclusions on whether it will sufficiently increase levels of competition within the current account market.
- We believe that one of the measures for assessing the performance of CASS should be its success in reducing the dominance of the big UK banks via increased competition. Currently, there is evidence that larger banks are making significant investments to help win new current account business via marketing and/or the offer of incentives to new switchers which cannot be matched by smaller banks with limited resources.
- The Bank also believes that any move to introduce 'account number portability' should be driven by clear evidence of customer demand. The Bank does not see a compelling customer case for taking account number portability further given it is uncertain that it will result in a material change to existing levels of account switching.
- Within the CMA's PCA report, Clydesdale Bank (relative to its competitors) sees a lower-than-average level of complaints adjusted for its size. Clydesdale Bank is also pointed out as being comparatively expensive for customers using an unarranged overdraft as per the standardised industry scenarios. Fees & charges is the number 1 source of customer complaints and the Bank has been working for some time on a new charging structure for unplanned borrowing and unpaid transactions; details of this were announced in late August 2014 ahead of the new

structure taking effect on 1/12/2014. The 'go to' position will see the costs of unplanned borrowing / unpaid items fall significantly, addressing the high comparative cost highlighted in the CMA report and, over time, contributing to a further reduction in current levels of customer complaints.

**2. Do you consider that the CMA's provisional analysis with respect to the exercise of its discretion to refer the PCA market is correct (see Chapter 4)?**

In reaching its final decision on whether to exercise its discretion to refer the personal current account market we would request the CMA considers the following:

- As a relatively small full-service bank, the Bank faces cost disadvantages versus those much bigger competitors that benefit from economies of scale. Most of the infrastructure that is needed to provide banking is required whether a bank has 2m or 20m accounts and this places the Bank at a competitive disadvantage versus competitors with much bigger current account bases. This point also applies to the cost of delivering mandatory change – e.g. the costs that CYB faced for developing and launching CASS are believed to have been significantly higher than those of the major banks when adjusted for market share.
- In addition, the CMA is requested to be aware of the risk of the unintended consequences of any potential market solutions on a small full service bank such as Clydesdale by ensuring that any potential remedies are appropriately targeted, are realistic in terms of their potential impact and are subject to rigorous cost/benefit assessment applied to a range of different sized providers across the market.

**3. Do you consider that the CMA's analysis of the suspected features of concern in the SME banking sector is correct (see paragraph 3.3)?**

There are a number of key points that the Bank believes should be taken into account in considering the overall SME market and the appropriateness of a market investigation.

- We would ask the CMA to note the long history of the regional structure of CYB and that this traditionally gives rise to a greater level of market share within these regions e.g. Scottish market.
- Whilst there is establishment of capital relief for new entrants to the banking industry consideration should be given to the impact of the differing capital regimes at play in the currently established market. As a Standardised bank competing against others operating on an Advanced Internal Rating Basis there are differing measures of acceptable return when undertaking a comparison against the market in relation to SME lending. This can lead to challenges in being able to support SMEs in a competitive situation despite the overall appetite to provide facilities.

- With respect to the points the CMA has identified in relation to the linkage between PCAs and BCAs it should be noted that SMEs gain the benefit of a relationship with the Bank that supports both their business and personal banking needs. In many instances particularly in relation to micro / owner operated businesses there is little distinction between the operation of personal banking and business. All borrowing customers within the Bank have a named relationship manager with the interaction ranging from being telephone based to face-to-face depending on the size of the business and its specific needs.

**4. Do you consider that the CMA's provisional analysis with respect to the exercise of its discretion to refer SME banking is correct (see Chapter 4)?**

- Please see our response to Q2 above.

**5. Do you consider that the features which the CMA has identified that may prevent, restrict or distort competition, are capable of being effectively and comprehensively remedied by UILs (undertakings in lieu of an MIR) given by the banks (see the features in paragraphs 3.3 and 3.6)?**

The Bank believes that, in principle, Undertakings in Lieu are preferable to an MIR. Should the CMA believe that UILs are a realistic option to effect change in the UK PCA market, then it is important to be realistic about the impacts of these and ensure that the UILs are targeted very carefully at large players rather than being simply applied across the market to all providers.

- We believe that the CMA should consider carefully how, what it considers high levels of 'customer inertia', could be dramatically reduced by UILs and, indeed, how UILs could have a significant impact in growing volumes of account switching through the CASS service.
- There is already significant traction with new entrants to the PCA market and their impacts will need time to become evident.
- With regard to branch networks, we do not believe that this is a crucial issue given the rise of remote channels and the availability of the Post Office transactional banking service.

**6. Do you have any views on the CMA's provisional analysis regarding proposals for possible UILs being offered in principle by the four largest UK retail banks in relation to SME banking, particularly on the appropriate-ness, effectiveness and deliverability of such UILs (see paragraphs 4.58 to 4.71 and Annex A)?**

- The Bank is not in a position to comment on the effectiveness etc. of the proposed UILs, however we would need to be reassured that any UILs from the largest banks did not have adverse consequences for smaller ones. In particular we would be concerned if any undertakings related solely to pricing matters to the detriment of an overall relationship approach to SME banking.

7. Do you consider that a potential solution to any competition concerns identified may need to consider alterations to the structure of the markets in addition to (or in place of) remedies focused on increasing customer engagement?

In considering changes to the structure of the PCA or SME banking markets, the CMA should consider the following points.

#### PCAs

- The UK personal current account market offers customers free-if-in-credit banking, the costs of unplanned borrowing / unpaid transactions are falling and external data shows that the vast majority of consumers are satisfied with their existing provider. If customers are not satisfied, however, there is significant competition within the market and the ability to switch banks quickly and hassle-free via CASS.
- However, the UK personal current account market favours those players with major scale and, in this sense, CYB (as a smaller challenger) faces a significant competitive disadvantage in terms of maintaining the full infrastructure required by a full-service bank and remaining compliant with the various relevant legislation / regulation.

#### SME Market

- The spread of businesses captured by the SME definition is extensive with the requirements and expectations equally reflective. Any potential investigation requires to recognise the diversity of the SME segment and should consider the full spectrum of customer needs.
- Consideration should also be given to the ability of established providers of banking services to cross subsidise the cost of providing full service banking to small businesses i.e. off-setting the cost against other income driven from either other business types or against the personal portfolio. This may necessitate a review of the wider business market rather than narrowing to SME.
- Current HM Treasury led initiatives, which form part of the recent Small Business Enterprise Bill, are being developed to encourage transparency and generate an easier route for SMEs to approach alternative providers. The timing of any potential market investigation should reflect that these initiatives are in progress.