



**Competition and Markets Authority Consultation:
Provisional decision on market investigation reference
in relation to personal current accounts and banking
services to small and medium-sized enterprises**

**Response on behalf of Barclays Bank PLC
17 September 2014**

1. INTRODUCTION

- 1.1 Barclays welcomes the opportunity to comment on the Competition and Markets Authority's ("CMA") Provisional Decision of 18 July 2014 to make a Market Investigation Reference ("MIR") comprising a review of both personal current accounts ("PCAs") and small and medium enterprise ("SME") banking.
- 1.2 The comments provided below are not intended to address in detail each of the points raised by the CMA in its Provisional Decision and associated documents (although Barclays may wish to make representations on such points at a later stage and therefore reserves its position accordingly). Barclays has focused its attention on those areas where Barclays is concerned that the CMA may not have taken full account of market developments and customer behaviour. Barclays remains committed to working with the CMA and cooperating fully with any review of the market. It would be happy to discuss in more detail with the CMA any of the comments raised in this response.

2. OVERVIEW

- 2.1 Barclays' view is that an MIR is not appropriate at this time - various developments, innovations and stimuli are changing the competitive landscape in relation to both PCAs and SME banking and these must be given time to mature.

2.2 MARKET DYNAMICS

Barclays considers that there is no straight link between levels of concentration and competition. In any event, there has been substantial new entry to the PCA and SME banking sectors in recent years, with new entrants winning market share from incumbents in specific targeted segments (see section 4 for more detail). Furthermore, the importance of a traditional branch network is clearly dwindling¹ and will continue to do so, as competitors (new and existing) seek to utilise alternative formats and physical distribution models, and as customers rapidly adopt new, often digital, ways to bank.

Barclays also considers that the CMA may not have taken sufficient account of collaborative technological innovation, which benefits all customers and provides new opportunities for competition (see section 7 for more detail).

2.3 SWITCHING

¹ The BBA set out a detailed discussion of this trend in its June 2014 report "Promoting Competition in the UK Banking Industry", noting for example that "*the trend away from branch usage is accelerating*" (p.23); "*technology is changing the role of the branch and reducing the need to have so many*" (p.35); "*the larger banks are reducing their branch networks at the same time as investing in digital services as customers change the way they bank*" (p.26).

Barclays' view is that engagement and switching should not be pursued as absolute aims in themselves. 'Low' switching does not mean an absence of effective competition; it is the credible threat of switching that acts as a competitive constraint. To this end, Barclays notes that switching is easier as a result of the Current Account Switching Service ("CASS"). The critical measures from a competition perspective are that customer awareness of, and confidence in, CASS are both high – rather than the absolute volume of switches. Recent Payments Council statistics have confirmed a 19% lift in customer switches in the first year of CASS, awareness of the service has reached 70% (and growing), plus confidence in the service is also very high (see further section 5 below). In addition, there has been a significant increase in the level of PCA proposition innovation, further reinforcing the competitive dynamics regardless of the absolute level of switches.

Barclays also considers that the CMA should take proper account of multi-banking² and customer churn (see section 5 for more detail).

2.4 TRANSPARENCY AND CHOICE

There are a number of recent initiatives in place where Barclays can see positive customer outcomes as a consequence of timely and clear information. Barclays successfully operates a number of useful PCA transparency programmes, such as provision of clear annual summaries, a recent restructuring of overdraft charges to make fee information clearer to customers, and offering text alerts to customers.

HM Treasury's Midata industry-wide proposal could improve transparency, comparability and drive customer engagement if expanded further, beyond cost and price, to enable broader customer comparison of banking services and features (see section 6 for more detail). Furthermore, bringing together initiatives that are embedding (Annual Statements, CASS), and due to launch (Midata), into a single annual account review is a natural extension to the current solutions that could deliver material benefits to customers.

Barclays does not consider that any adverse inference should be drawn from the fact that PCA customers may choose their PCA provider for their BCA or other products, and that SME customers may choose their BCA provider for other SME banking products. In Barclays' view, these links reflect the exercise of customer choice, taking into account a number of factors important to the customer (including convenience and relationship), and do not produce reasonable grounds to suspect a restriction of competition.

2.5 CONCLUSION

² In this response Barclays uses the term "multi-banking" to refer to instances where a customer obtains the same type of product from more than one provider (for instance, a customer holding a PCA at Metro Bank and a PCA at Barclays would "multi-bank").

To the extent that the CMA remains minded to make an MIR, it should consider fully:

- a) *Scope* - it is important to ensure that the scope is appropriately defined (in terms of products and customers);
- b) *Duplication/conflict* - any MIR must avoid duplicating or conflicting with ongoing regulatory and legislative measures; and
- c) *The role and effect of the free-if-in-credit ("FIIC") banking model* - see section 3 for more detail.

Barclays is of the firm view that structural remedies would not be an appropriate solution to any competition concerns that may conceivably be identified.

3. GENERAL COMMENTS

An MIR is not appropriate at this time

- 3.1 Barclays' fundamental view is that intervention in the form of a market investigation and the possible imposition of remedies is not warranted at present. Many of the broad concerns identified in previous regulatory reviews are now being addressed by market developments and regulatory initiatives which have not been given sufficient time to flourish. PCA and SME banking in 2014 are characterised by collaborative and competitive innovation, improved customer outcomes, measures to promote switching, new credible entry and expansion, churn, targeted regulation and supervision and stronger competitive dynamics (albeit that some of these measures are still bedding in). Competition in the retail banking sector is on a clear upwards trajectory: the developments, innovation and stimuli referenced above are beginning to produce real results and must be given time to take effect. Accordingly, Barclays does not consider that the time is right for further intervention, especially a wide-ranging and intensive market investigation.

If an MIR were to be made, the CMA should limit the SME product scope

- 3.2 Barclays nevertheless recognises that the CMA is provisionally minded to make an MIR. The CMA's proposal to investigate both PCAs and SME banking is a significant undertaking. Barclays is concerned as to whether detailed examination of all areas within these categories would be desirable or feasible within the statutory deadlines. In particular, Barclays has concerns with the CMA's proposed definition of SME banking as "*services including but not limited to general purpose loans and liquidity management services, including business current accounts and overdrafts*".³ In contrast, the SME market study report only appears to examine and reach material conclusions on BCAs, loans and (to a lesser extent) overdrafts.
- 3.3 Barclays is concerned that any market investigation should be proportionate and focused only on areas that have been carefully reviewed and properly identified as potentially problematic. Accordingly, Barclays proposes that the product scope of any market investigation into SME banking be limited to the core products of BCAs, overdrafts and general purpose business loans (in line with the CMA's market study), taking account of market developments impacting on those areas.

³ CMA, Consultation: personal current accounts and banking services to small and medium-sized enterprises – Provisional decision on market investigation reference ("**Consultation**"), Annex B.

If an MIR were to be made, the CMA should limit the customer scope (or account for the fact that competitive conditions are not uniform)

- 3.4 The CMA defines "SME" as a business with turnover not exceeding £25 million. Barclays agrees with the CMA's findings at several points in the SME market study⁴ that certain groups of SME customers face different conditions or challenges to others. The CMA should keep in mind that market dynamics and any alleged competition issues are not the same across the SME spectrum. Accordingly, if the CMA were to carry out a market investigation and find that remedies were warranted (which, for the avoidance of doubt, Barclays considers would not be appropriate), those remedies should be tailored to the relevant segment and not reach further than is necessary to alleviate the perceived competition issue for that segment.
- 3.5 In relation to PCAs, Barclays understands that products offered to high net worth individuals have previously not been considered in scope in the OFT/CMA's PCA work. Barclays agrees that high net worth individuals are a distinct niche segment within the retail banking sector with very different characteristics.⁵ Barclays' Private Banking clients are generally financially sophisticated individuals with complex banking needs involving less emphasis on day-to-day transactional requirements. Private Banking clients generally engage with Barclays via private bankers, telephony relationship channels in the Isle of Man, Glasgow and Singapore, an online platform and, to a lesser extent, the sole full service Barclays Private Banking branch in Mayfair. At present, Barclays notes that the definition of "*retail banking services*" in relation to PCAs could be read to include these customers;⁶ Barclays considers that the CMA should make clear that these customers are excluded from the scope of any MIR.

Many of the CMA's concerns are already being addressed by regulatory and legislative action

- 3.6 Many of the areas analysed in the PCA and SME reports are already the subject of ongoing regulatory scrutiny. As such, Barclays is concerned that there is a risk that the CMA might duplicate the work of other regulators (many of which have a competition mandate) and that intervention in these areas would be inappropriate, inefficient/costly, and risk creating confusion.

⁴ CMA and FCA, Banking services to small and medium-sized enterprises – a CMA and FCA market study ("**SME MS**").

⁵ Barclays requires that the individual holds at least £500,000 with Barclays and generally focuses on clients with various investment holdings.

⁶ See Consultation, annex B.

- 3.7 For example, the FCA/Payments Regulator will soon have the power to regulate access to payment services and will examine account number portability.⁷ Barclays is happy to engage with the Payments Regulator, and considers the payment sector will benefit from the Payments Regulator delivering on its objectives (in particular supporting the industry to deliver further innovation and improvements for users while safeguarding the security and stability of the payments systems themselves). Any concerns about difficulties (or perceived difficulties⁸) in relation to payment systems therefore should not be targeted by the CMA.
- 3.8 Alternatively, to the extent the CMA considers that it must examine these areas, it should be mindful of the need to cooperate carefully not only with the Payments Regulator but with other regulators and stakeholders (such as the Bank of England), to obtain a holistic view of the unique nature and function of payments systems. Barclays refers the CMA to its previous correspondence on this subject.
- 3.9 Similarly, the FCA's competition team is already examining the cash savings sector⁹ (and its consumer credit team proposes a review of personal overdrafts¹⁰), so to the extent that the CMA were minded to investigate concerns in this area it should not seek to duplicate the work of the FCA.
- 3.10 Some of the CMA's arguments cover difficulties or perceived difficulties in relation to capital and prudential requirements, which fall under the remit of the PRA and are generally the subject of ongoing review or draft legislative proposals.
- 3.11 Aside from regulatory reviews, there are various Government-backed initiatives in which Barclays has been involved and which are set to address many of the CMA's concerns.
- (a) Barclays is working with HM Treasury on its proposals to improve access to SME credit data shared through credit reference agencies. It is

⁷ The UK Government announced that it plans to implement several major recommendations of the Parliamentary Commission for Banking Standards' final report, Changing banking for good, including "asking the new payments regulator, once established, to urgently examine account portability and payments system ownership" (see The Government's response to the Parliamentary Commission on Banking Standards, July 2013, paragraph 1.6 <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211047/gov_response_to_the_parliamentary_commission_on_banking_standards.pdf>).

⁸ See, for example, SME MS paragraph 5.115, which suggests that "*the widespread perception of the costs and challenges associated with accessing all necessary payment systems represents a significant barrier to entry*".

⁹ See <<http://www.fca.org.uk/news/cash-savings-market-study>>.

¹⁰ See <<http://www.fca.org.uk/firms/firm-types/consumer-credit/consumer-credit-research/overdrafts>>.

expected that by 2015 this will result in a greater number of providers gaining access to credit information.¹¹

- (b) Barclays is also involved with the HM Treasury-sponsored referrals programme, whereby lenders are required to share (with the SME's consent) details of SMEs they reject for finance, so those businesses can be approached by alternative lenders.¹² The Government has decided to proceed with legislation for this proposal through the Small Business, Enterprise and Employment Bill.
- (c) As part of the Government's Midata initiative, HM Treasury has announced that from 2015 onwards, current account holders will be able to download a year's worth of their transactions in a single file. Consumers should then be able to process the file using online comparison tools to make it easier to see which current account might be best for them (although Barclays considers that there is scope for the Midata proposition to be a more valuable tool – see paragraph 6.13 below).¹³

3.12 Finally, Barclays notes that EU regulatory developments, including in particular the Payment Accounts Directive ("**PAD**"), will help improve conditions further in the PCA market. The PAD requires the use of standard form documents and standardised terminology in account-related documents, contains provisions regarding the unbundling of information on packaged account services, introduces an obligation on EU Member States to ensure there are price comparison websites available to consumers, and establishes a harmonised system for account switching. The PAD will facilitate access by UK customers to non-UK providers (and allow non-UK customers to open accounts with UK providers). The PAD will therefore have implications for transparency, comparability, switching and new entry.

3.13 It is important that any reforms proposed by the CMA do not conflict with or otherwise duplicate these legislative changes (which in any event are in Barclays' view likely to alleviate many of the CMA's stated concerns). Similarly, any reforms should take full account of existing obligations on banks in Northern Ireland arising from the Competition Commission inquiry in 2007.

¹¹ See <<https://www.gov.uk/government/consultations/competition-in-banking-improving-access-to-sme-credit-data>>.

¹² See <<https://www.gov.uk/government/consultations/sme-finance-help-to-match-smes-rejected-for-finance-with-alternative-lenders>>.

¹³ See <https://www.gov.uk/government/news/government-to-make-it-easier-to-check-that-youve-got-the-right-bank-deal> and <https://www.gov.uk/government/news/online-current-account-comparison-moves-a-step-closer>.

Structural remedies are not appropriate

- 3.14 The CMA has asked whether 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.¹⁴ Barclays considers that structural remedies of any kind would not be effective, desirable or workable (as illustrated below).
- 3.15 In particular, branch-based remedies would be unlikely to have a sustained long-term impact given the diminishing importance of branches (see paragraphs 2.2 and 4.3 et seq. below). Barclays considers that effectively requiring customers to undergo forced switching – regardless of their preferences – would constitute a poor customer outcome. It would also be theoretically possible for customers who wish to stay with their existing bank to simply switch back, thereby circumventing the remedy.
- 3.16 In addition, there are examples where competitors have been successful in taking market share with a telephony and online model, achieving strong customer satisfaction in the process.
- 3.17 Barclays would also be concerned at the potential for unintended adverse consequences of structural remedies. As the CMA is aware, the banking sector is unique and competition policy and intervention must be carefully aligned with various regulatory requirements and prudential objectives. For example, the CMA would need to consider the interaction between any mooted structural remedy with ongoing structural reforms (i.e. the proposed ringfencing arrangements) and seek input from stakeholders such as the Bank of England as to the potential impact on UK financial stability.
- 3.18 Barclays also considers that forced divestments of any kind would be disproportionate. Structural remedies would be extremely costly and burdensome for the businesses involved and such cost may well outweigh any potential benefit. Clearly it would not be sound for the CMA to assume that branch divestments are an effective means to increase competition in retail banking, simply on the basis that they were required in the RBS and Lloyds EU State aid rulings.¹⁵
- 3.19 Indeed, Barclays would draw the CMA's attention to those cases as a warning of how protracted and unsatisfactory the divestiture process can be, both for the divestment of branches and of SME business. There is no guarantee of the CMA being able to find a ready and willing buyer in a timely manner, as is evident from the failed sale of Lloyds branches to the Co-operative Group.

¹⁴ Consultation, paragraph 1.8.

¹⁵ As implied in Consultation, paragraph 4.49.

PCA: the significance of FIIC banking

- 3.20 As a general point, Barclays is of the view that if the CMA were minded to make an MIR, it is crucial that the investigation examine closely the role and effect of FIIC banking. As the CMA is aware, the FIIC model is almost unique to the UK, with banks in other countries providing a combination of management and transaction based pricing. FIIC is at the heart of the UK PCA sector and key to understanding issues including entry and expansion, transparency, customer engagement and switching, as briefly outlined below.
- (a) Barclays recognises that FIIC banking is a relevant factor for those considering entry to the market. As the CMA is aware, some entrants to the retail banking sector accordingly choose to specialise in other products (e.g. credit cards, loans, mortgages, savings accounts).
 - (b) The CMA states the PCA market is affected by "*significant customer inertia*".¹⁶ As standard PCAs in the UK are free, consumers may have less of an incentive to spend time evaluating their choice of provider compared to energy, mobile phone contracts and mortgages, for example.
 - (c) Furthermore, while PCA providers compete on price and cost factors such as interest rates, overdraft charges and one-off switching incentives, arguably if PCAs incurred a flat monthly fee or transactional charges there may be more opportunity for providers to differentiate their offerings. This might drive customer engagement (and could lead to an increase in recorded full switching figures, as a result of switching customers having more reason to close their old accounts rather than choosing to multi-bank).
- 3.21 Accordingly, if the CMA were to conduct a root-and-branch examination of the PCA market, Barclays considers that the impact of FIIC banking is a critical area for review.

Switching undertakings

- 3.22 Barclays notes the CMA's finding that there is a realistic prospect that the CASS represents a change in circumstances that may mean the switching undertakings are no longer appropriate as far as they relate to smaller SMEs.¹⁷ Barclays has previously written to the OFT with a detailed explanation of the compatibility of CASS with the 2002 undertakings [...] Barclays therefore considers that a review to vary the undertakings (or at least confirmation that the CMA does not intend to take action against non-compliance in this regard) would be helpful.

¹⁶ CMA, Personal current accounts – Market study update ("**PCA MS**"), paragraph 4.73.

¹⁷ SME MS paragraphs 1.38, 11.6, 11.10

4. MARKET DYNAMICS

Concentration is not a concern per se

- 4.1 Barclays is of the view that there is no straightforward link between concentration and competition, and does not consider that relatively stable market shares restrict competition. In particular, with reference to paragraph 7 of the Consultation and section 131 of the Enterprise Act 2002, it is not clear to Barclays that relatively high and stable market shares should produce reasonable grounds to suspect that features of the SME banking and PCA sectors restrict or distort competition.
- 4.2 Indeed, the CMA acknowledges that the Herfindahl–Hirschman Index for PCAs in the UK in 2013 was 1,838, below the CMA's threshold of 2,000 which would denote a highly concentrated market.¹⁸ In Barclays' view this figure is likely to have fallen further throughout 2014, with the continued growth of recent entrants,¹⁹ and should continue to decline (see paragraphs 4.10 et seq. for more detail on new entry). Moreover, there are many other industries that feature relatively high concentration and strong competition (e.g. groceries, digital TV, fixed line and broadband – the latter three of which have similar, albeit slightly higher, switching levels to BCAs²⁰), which suggests the present level of concentration is not necessarily evidence of a malfunctioning market.

Branches are of diminishing importance

- 4.3 The CMA has provisionally concluded that branches are still an important part of the PCA and SME banking landscape, and that they represent a barrier to entry (with ownership of a branch network a prerequisite for any significant presence in PCA, BCA or full service SME banking).
- 4.4 While branch networks are still important to some customers, there is no question that their significance is in decline. Other methods of interaction between customers and their banks, e.g. mobile banking, internet banking and telephone banking are supplanting the traditional branch network:
- (a) For example, Barclays Mobile Banking app is a successful initiative that allows customers to perform a variety of functions including checking balances and transactions and paying bills; Barclays Pingit allows customers to send and receive payments using just a mobile phone number; and text alerts notify customers when large payments enter or leave their account and when their account balance reaches a customer-defined limit; Barclays is also engaged with HM Treasury on its

¹⁸ PCA MS, paragraph 2.6.

¹⁹ As the CMA notes, Santander, Halifax and Nationwide are all making net gains (PCA MS, paragraph 4.69).

²⁰ PCA MS, paragraph 4.58.

consultation on cheque imaging, which Barclays strongly supports (and has launched an image-based paying-in pilot via smartphone);

- (b) in relation to internet banking, Barclays is introducing an instant online lending process to allow SME customers to make credit applications quickly and conveniently without having to visit a physical branch. Early customer feedback has been very positive; and
- (c) Barclays is transforming how its telephony channel connects with customers, providing functionality beyond that of the traditional call centre and enabling customers banking online or using mobile banking to interact virtually with a customer services agent in real time via Barclays' Skybranch.

4.5 Additionally, the nature of branches is changing. Barclays is already testing various new branch models that are designed to give our customers more flexibility and options based on their changing needs, as well as new technologies designed to bring convenience for day to day transactions. One such example is replacing all but one or two of the branch's traditional counters with machine-based assisted service counters ("**ASC**"). The ASC programme has been rolled out in around 50 branches so far. The initial results indicate that customers still carry out a similar number of transactions overall as they did previously, but with fewer transactions carried out in branch (i.e. customers are carrying out even more transactions through non-branch channels). [...]

4.6 Barclays is also trialling relocating branches to other retail destinations: it has branches offering PCA and SME banking services in eight ASDA stores nationwide.²¹ These branches are accessible during ASDA store opening hours (i.e. up to 24 hours). Branch staff are available into the evenings and weekends; even outside these times the branch can still be used to deposit cash and cheques, make withdrawals, pay bills and transfer money between accounts. As traditional standalone single-branded branches become less relevant, innovative outsourcing or in-house arrangements are likely to continue to grow in importance. Examples include:

- (a) where the banking provider already has a brick and mortar presence, basing branches in those premises, e.g. M&S opening branches in M&S retail stores;
- (b) entering into branch partnerships with third party independent retailers (as with Barclays and ASDA);
- (c) entering into arrangements with the Post Office, which is open to any new entrant or smaller bank. [...]

²¹ See <http://www.barclays.co.uk/Helpsupport/BarclaysEssentialsdoyourbankinginAsda/P1242673687193>.

The CMA does not take into account points (a) and (b) above in its examination of alternative physical means to distribute banking.²²

- 4.7 The survey data cited by the CMA generally indicates that branches are important. However, the YouGov figures quoted by the CMA²³ show that 70-80% of SMEs actually conduct more than half (and 42-49% conduct all or nearly all) of their business online. This reflects the movement by SMEs – and their customers – towards digital payment methods and is inconsistent with the CMA's emphasis on the importance of branch networks. In relation to PCAs, [...] Barclays believes significantly more evidence on the claimed importance of branch networks would be needed before conclusions may safely be drawn (including as to remedies).
- 4.8 Barclays does not accept the CMA's view that none of the major banks has engaged in a large-scale branch closure programme.²⁴ The CMA will be aware from general press coverage that most banks are indeed closing UK branches because customers are visiting them less.²⁵ For example, data from the BBA indicates that at the end of 2011 there were 10,061 branches in the UK; by the end of 2013 there were 9,514 (a decline of 5.4%).²⁶
- 4.9 With each passing year issues relating to branch networks become less relevant. Accordingly, Barclays' view is that the CMA should not assume branch networks are a critical area for scrutiny or potential remedies.

Recent and potential entry to the sector should not be ignored

- 4.10 Barclays is disappointed to see that the CMA has given limited weight to the level and impact of new entry in the SME sector over the past few years.²⁷
- (a) The CMA's papers essentially only acknowledge Metro Bank as a substantial new entrant.
- (b) Despite describing Santander in detail as "*in many respects, an effective competitor*" and noting that its market share has quickly grown beyond that of its component brands,²⁸ the CMA swiftly concludes that it does not appear to constrain the major competitors.

²² SME MS, paragraph 5.69 et seq.

²³ SME MS, paragraph 5.74.

²⁴ SME MS, paragraph 5.70.

²⁵ See, for example, Financial Times, "UK account holders flock to Swedish bank's 'church spire'", 25 August 2014, <<http://www.ft.com/cms/s/0/ff11a4c0-2a2e-11e4-a068-00144feabdc0.html>>.

²⁶ At the end of 2008 there were 10,354 branches, meaning a decline to the end of 2013 of 8.1%.

²⁷ For example, new entrants are not expressly referenced in the summarised list of developments in the SME sector (SME MS, paragraph 1.10).

²⁸ SME MS, paragraph 5.6.

- (c) The CMA also appears to largely dismiss niche entrants or providers.²⁹ For example, the entry of Handelsbanken is considered in only six lines,³⁰ despite the fact that it is a successful and growing entrant: in H1 2014, its UK household and corporate loan book grew 13% and its UK deposits grew 139% year-on-year³¹). The reality is that Barclays considers banks like Handelsbanken, Aldermore and Shawbrook to be clear competitors that provide genuine competitive constraint. Barclays is concerned that the CMA has not examined in sufficient detail its assumption that only banks offering a BCA can be considered serious contenders to the SME banking sector.
- (d) Finally in relation to SME banking, Barclays is concerned that the CMA has not taken sufficient account of alternative finance platforms, particularly peer-to-peer lending (as well as other types of finance provided by banks, such as sales finance (factoring and invoice discounting) and asset finance (finance leases, operating leases and hire purchases). Although the CMA has stated that the share of SME lending held by platforms such as Funding Circle and Market Invoice is currently low,³² they remain evidence of successful new entry to the sector and it seems likely that their market share will continue to grow (particularly given that peer-to-peer lending will be included in the ISA allowance from April 2015).³³

4.11 Even in the PCA sector, while the CMA concedes the entry of Metro Bank, Tesco Bank, Virgin Money, the Post Office and the proposed Atom Bank and acknowledges that "*these examples show that entry in the PCA market is possible,*" it nonetheless maintains that "*the scale of entry is open to question.*"³⁴ Barclays considers that the CMA has more reason to be optimistic as to the potential entry and growth of competitors. Specifically:

- (a) many of the PCA providers (with currently questionable scale of entry) are recent entrants who would be expected to make modest inroads before taking sizeable market share; and
- (b) looking at share growth within the overall sector may not reflect the targeted approach by some of the newer entrants of serving specific customer segments; and

²⁹ SME MS, paragraphs 5.13-5.16 and 5.19.

³⁰ SME MS paragraph 5.9.

³¹ Handelsbanken Interim Report, January–June 2014, <[http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_hb_q2_14_eng_report/\\$file/hb_q2_14_eng_report.pdf](http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_hb_q2_14_eng_report/$file/hb_q2_14_eng_report.pdf)>, page 12.

³² SME MS, paragraphs 3.28-3.29.

³³ HM Treasury, Budget 2014

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf>, paragraph 1.169.

³⁴ PCA MS, paragraph 2.63.

- (c) the gains made by other new brands are material across a broad base: for example, TSB's market flow (i.e. share of new or switched PCAs) was recently reported to be 9.2%, which indicates that TSB is on track to seize a substantial market share in the medium to long term.³⁵
- 4.12 To the extent that the CMA considers there to be insufficient monoline entry into the PCA sector, this could be related to the issues presented by the prevalent FIIC model (see paragraph 3.20(a) above).
- 4.13 The CMA should consider not only entry from full service banking providers, but also the impact of innovations from the wider retail banking sector. For example, payment service providers such as PayPal have emerged to compete with the functionality of PCAs and SME banking. The payments sector has seen considerable activity over recent years and the pace of change, from innovation, competition and other drivers such as regulation remains high.
- 4.14 More generally, Barclays considers that barriers to entry to the retail banking sector are diminishing. As well as improvements to the switching process (see paragraph 5.7 et seq. below for further detail on the CASS scheme), there have been recent regulatory developments aimed at easing the authorisation process for new banks and ensuring open access to payments systems (to be examined by the new Payments Regulator). Technological improvements also mean that new entrants can offer their customers the benefits of established and widely available industry platforms from the outset (e.g. access to the Link ATM network, Paym mobile payments).
- 4.15 Overall, Barclays is concerned that the CMA has not taken sufficient account of these important and encouraging developments, which show that entry to the SME banking and PCA sectors is possible and that new entrants can win market share from incumbents.

5. SWITCHING

Engagement and switching should not be pursued as absolute aims in themselves

- 5.1 Barclays notes that the CMA seemingly cites customer inertia as a driver for what it perceives to be the problems besetting the PCA and SME banking sectors. Barclays is concerned that the CMA's review may be in pursuit of a hypothetical ideal of what optimal markets look like, with low concentration, high engagement and frequent switching as objectives in themselves.

³⁵ See TSB Bank plc, Half Year 2014 Results Conference Call Transcript, 31 July 2014, <<http://www.abouttsb.co.uk/investors/assets/pdf/TSB-half-year-results-2014-transcript.pdf>>.

Lack of engagement may reflect customer satisfaction and priorities

- 5.2 As the CMA is aware, many PCA and BCA customers may not be interested in switching current account because they are positively satisfied with their product and service offering. The fact that these customers are satisfied should not be interpreted as a sign that competition in the relevant markets is not working.
- 5.3 The CMA cites research in relation to SMEs indicating that "*unless the basics are wrong*", customers do not seek to switch.³⁶ The CMA also concludes: "*There are now some emerging signs that PCA providers are starting to differentiate themselves with the PCAs they offer. However, consumers do not appear to be reacting yet as evidenced by low switching rates and the perception that there are no significant benefits to switching.*"³⁷
- 5.4 This lack of engagement with product and service innovation may simply reflect the preferences of natural customer behaviour. Many PCA and BCA customers may only require a basic functionality from their current account and are insufficiently interested in additional features or minor benefits³⁸ to spend time and effort examining various offerings across the market and arranging to switch. In relation to PCAs, the CMA should examine in detail the extent to which this customer behaviour is attributable to the FIIC model (see paragraph 3.20 et seq. above). In any event, the CMA should be wary of the risk of engineered outcomes that may disregard customer choice and priorities.

'Low' switching does not mean no competition

- 5.5 In relation to PCAs, the CMA acknowledges that "*the introduction of CASS has had some effect and PCA providers have responded by introducing new products to the market and by differentiating themselves in terms of service levels*", but does not draw any positive conclusions because there has not been an increase in switching.³⁹ It is not clear what the CMA considers to be 'enough' switching. The CMA cites evidence that the PCA switching rate was around 3% in April 2014;⁴⁰ Barclays understands that even in countries where PCAs attract charges, switching rates do not generally reach more than 10%. For example, European Commission findings indicate that the annual switching rate across 10 EU countries was 2%.⁴¹

³⁶ SME MS, paragraph 8.38.

³⁷ PCA MS, paragraph 6.16.

³⁸ Such as those outlined in PCA MS, paragraph 6.13.

³⁹ PCA MS, paragraph 6.38.

⁴⁰ PCA MS, paragraph 4.38, citing a survey by TNS Global.

⁴¹ European Commission, Bank Fees Behaviour Study Final Report (December 2012), section 4.5, <http://ec.europa.eu/consumers/archive/rights/docs/report_6146_bankfees_en.pdf>. The average proportion of switchers across two years was 4%. The countries considered were France, Germany, Ireland, Italy, Latvia, Netherlands, Romania, Spain, Sweden, United Kingdom.

5.6 As the CMA will appreciate, the true measure of the effectiveness of switching lies in the extent to which it provides a credible constraint on the incumbent banks. This constraint is assessed with reference not just to the actual incidence of switching but also to the awareness and perceived ease of switching.

Switching is easier

5.7 Barclays is also concerned that the CMA may not have taken sufficient account of the effect of CASS. According to the UK Payments Council, there have been 1.1 million switches using CASS in the first full 11 months since launch.⁴² This is an increase of 19% compared with the same time period one year before (and does not take into account further switches made outside the CASS service – see paragraph 5.9 below).

5.8 The CASS service is only in its early stages (and remedying the *perception* of costs, risks, and complexities involved in switching naturally takes time), but Barclays' view is that awareness of and confidence in CASS is relatively high and growing (UK Payments Council data indicates that 70% of the public are aware of the CASS service). Barclays' view is that as this nascent service becomes more established it will inevitably continue to improve the switching process and encourage more customers to switch (or give them the confidence to do so if they so choose). Barclays notes that, according to the Payments Council, more than 99% of switches that successfully start are completing in the seven working day timescale.

5.9 Additionally, as the CMA recognises, there are various methods of switching outside CASS (e.g. the ToDDaSO redirection service, manual switching and gradual switching/'try before you buy').⁴³ The CMA acknowledges these methods of switching when calculating its switching figures.⁴⁴ Nevertheless, it is important when considering the ease of switching not to focus solely on the success of CASS and to bear in mind that there are other options available to customers (indeed, the CMA's own estimate is that CASS and ToDDaSO together only account for just over half of switching⁴⁵).

5.10 Barclays also urges the CMA to be mindful of the benefits that will emerge from the provision of Midata to consumers (see paragraph 6.13 below). This Government initiative is specifically aimed at improving current account comparison and is already in train. Nevertheless, as referenced at paragraph

The study indicates that switching in the UK is actually higher than in France, Germany and the Netherlands.

⁴² <http://www.paymentscouncil.org.uk/communique/-/page/2800/>

⁴³ PCA MS, paragraph 4.36.

⁴⁴ PCA MS, paragraph 4.38.

⁴⁵ PCA MS, paragraph 4.39 (see also paragraph 4.29).

6.13 below, Barclays considers that the Midata proposition could be improved to further encourage customer engagement.

Multi-banking should be properly considered alongside shopping around and switching

- 5.11 Barclays considers that the CMA has given insufficient weight to multi-banking. In relation to PCAs, the CMA cites a report from Mintel which found that 28% of UK customers held two PCAs and a further 7% held three PCAs or more.⁴⁶ The CMA nevertheless comments that "*the extent to which multi-banking imposes a competitive constraint on the market is unclear*". In Barclays' view the fact that more than a third of customers already choose to spread their PCA requirements across multiple providers suggests a good level of engagement.⁴⁷ The CMA suggests that multi-banking may not be an active consumer decision⁴⁸ but does not provide any evidence to support this. Indeed, Barclays understands from the UK Payments Council that of the one third of customers who switch bank accounts and leave the old account open, 29% use it to pay bills; 22% use it for budgeting and saving; 18% use it to get cash; 50% keep their old account open 'just in case'; and only 10% do not use the old account.
- 5.12 In relation to SMEs, the CMA notes that 90% of BCAs, overdrafts and business loans are provided by the SME's main bank.⁴⁹ But even on those (possibly conservative) figures, that would mean that 10% of the market multi-banks on these products alone.⁵⁰
- 5.13 In Barclays' experience, multi-banking in the SME sector has increased materially in the last few years and is significantly higher than 10%. Research carried out by Charterhouse shows that at least a third of all small businesses (turnover <£5 million) have a relationship with a UK financial provider other than their main bank (33% in 2013, as against 28% in 2012).⁵¹ Even looking only at the smallest firms (turnover <£100,000), the proportion multi-banking in 2013 was 30% (compared with 21% when measurement began in 2010).
- 5.14 Even on the basis of the CMA's assumed multi-banking figures, it appears that 10% of the market multi-banks; 4% also switches, and a further 10-15% is subject to customer churn each year. In other words, the proportion of the market that is contestable may be closer to 30% a year. This presents a far brighter picture than that painted by the SME MS. Barclays suggests that the

⁴⁶ PCA MS, paragraph 4.42.

⁴⁷ PCA MS, paragraph 4.45

⁴⁸ PCA MS, paragraphs 4.46 and 4.47.

⁴⁹ SME MS, paragraph 8.69.

⁵⁰ Indeed, even looking only at BCAs, research carried out by Charterhouse indicates that in 2013, 9% of small businesses (turnover <£5 million) held BCAs at a provider other than their stated 'main' bank (an increase from 7% in 2012).

⁵¹ If "multibanking" is extended to cover insurance and international banking as well as more conventional banking products, the figure increases to 49% (as against 42% in 2012).

CMA might not have given full consideration to the cumulative effect of these factors beyond straightforward switching.

- 5.15 For completeness, the fact that the larger banks' market shares do not fluctuate by anything close to 30% does not undermine the statistic; it simply means that many new customers exercise a free choice to select one of the larger banks. As a related point, Barclays notes that the CMA places an emphasis on negotiation and bargaining power and concludes that negotiation has limited effect on competition.⁵² However, the CMA should also recognise the finding that the success rate for SMEs (of any size) that do attempt to negotiate is 70%. In Barclays' view, this very high success rate for negotiations suggests that banks are subject to competitive constraints (even if the customer ultimately selects the large bank, albeit at a negotiated down price, rather than switching away).

Competition for customer churn

- 5.16 There is strong competition between banks for customer churn, particularly in respect of SMEs, where 10-15% of the customer base churns each year. This ensures that the banks retain attractive offerings for new customers (and switchers, because many aspects of the competitive offerings for new SMEs are also available to switchers).
- 5.17 While the CMA recognises the reality of customer churn, it appears to conclude (without examining the banks' competitive offerings or focus in this segment) that competition in the SME sector for these new customers is not sufficiently intense and that churn does "*not affect the overall conclusion*".⁵³ This finding is seemingly based on the CMA's finding that competition for these new customers does not "*offset*" entirely any lack of competition in other segments.⁵⁴ In Barclays' view, the fact competition for churn is not a panacea should not preclude the CMA from taking proper account of its contribution to market dynamics. The reality is that 10-15% of market share is contested each year, in addition to any switchers, meaning that banks must keep their product offerings keenly competitive to avoid losing out.

6. TRANSPARENCY AND CHOICE

Customers may choose their PCA provider for their BCA or other products

- 6.1 The CMA's SME market study criticises heavily the link between PCAs and BCAs. The CMA suggests that "*more than half of SMEs take their business current accounts from their PCA provider.*"⁵⁵

⁵² SME MS, paragraph 8.29.

⁵³ SME MS, paragraph 4.50.

⁵⁴ SME MS, paragraph 8.85.

⁵⁵ PCA MS, paragraph 2.32 and SME MS, Chapter 3.

- 6.2 In Barclays' view it is inevitable, particularly for micro-enterprises with more important business needs than their current account arrangements (as acknowledged by the CMA⁵⁶), that some SMEs will simply choose the BCA offering that is simplest and easiest (also as acknowledged by the CMA⁵⁷). Fundamentally, this decision is a functioning of free customer choice. If a customer deliberately chooses their main PCA provider to provide their BCA (perhaps because it is the simplest solution for them), it is not clear to Barclays that intervention is justified.
- 6.3 The CMA interprets the exercise of customer choice as PCA providers enjoying a "*first port of call*" advantage.⁵⁸ However, there is no basis for assuming that the partial correlation between PCAs and BCAs is exploitative or anticompetitive. The so-called "*first port of call*" advantage can be easily distinguished from a 'point of sale' advantage, for example, where customers may not know of the existence of any alternative providers and may be pressurised into making an on-the-spot buying decision.⁵⁹ Indeed, Barclays understands that PCA cross-selling rates in the UK are low compared to many other jurisdictions.
- 6.4 Moreover, the CMA has not presented any firm evidence to show that competition for the provision of BCAs to SME customers that already hold PCAs is less fierce than it would otherwise be (other than noting the theoretical dampening of competitive incentives where there is a pre-existing link).⁶⁰ Again, it is not clear that this functioning of free customer choice should produce reasonable grounds to suspect that features of the SME banking sector restrict or distort competition.⁶¹
- 6.5 It is also a reality that many customers are multi-banked; the higher the number of banks with whom customers hold PCAs, the higher the chance that any further financial products (BCAs or other personal products) will be with a provider with whom the customer already has a relationship.
- 6.6 Finally, the partial correlation between PCAs and BCAs presumably indicates that the customer is happy with their PCA relationship. If the BCA-PCA link is as prevalent as suggested, Barclays queries whether in practice the banks do fare as badly on PCA satisfaction as the CMA's PCA MS suggests.

⁵⁶ SME MS, paragraph 7.7.

⁵⁷ SME MS, paragraph 8.10.

⁵⁸ SME MS, paragraph 8.11.

⁵⁹ See also the CMA's idea of a "*well functioning market*" (SME MS, paragraph 2.29) against which SME banking should be judged. These vague objectives place too much emphasis on low concentration and consumer engagement as targets in themselves (and imply – without justification – that there is a lack of efficiency and innovation).

⁶⁰ SME MS, paragraph 4.50.

⁶¹ Barclays again makes respectful reference to section 131, Enterprise Act 2002.

Customers may choose their BCA provider for other SME banking products

- 6.7 Similarly, the CMA states that SMEs are significantly more likely to obtain a business loan or other banking services from the provider where they hold their BCA.⁶²
- 6.8 As with the link between PCAs and BCAs, the CMA should be careful to avoid any assumption that because there is a correlation between certain products, BCA providers are acting in an exploitative or otherwise anticompetitive manner.⁶³ The reality is that some (not all⁶⁴) SME customers may choose to have their SME banking services provided by a single bank for a variety of reasons (including competitiveness, convenience and the value of a wider relationship), but in each case they are making a choice based on what they consider to be the most important factors. Customers demand and expect solutions that recognise their banking relationship (and are able to switch if they are unhappy for any reason).
- 6.9 Barclays has seen subsequent comment from the CMA that *"One way to see more competition, more choice and more diversity in the lending market as a whole is to try to weaken the link between the business current account and some of the other types of financial services that people are getting"*.⁶⁵ Barclays is alarmed at the potential implications of this statement – it is not clear that any measure that would effectively prevent customers from easily choosing their preferred provider would be beneficial or proportionate.

Transparency and comparability

- 6.10 Barclays is committed to giving customers the necessary tools to help them make informed decisions about their finances. Barclays considers that it is important to ensure that customers are able to compare not just cost but also value, service levels and other intangible factors that in many instances may be at least as important as price (e.g. relationship quality in relation to SME banking services).
- 6.11 Firstly, in relation to SME banking, Barclays notes that the customer base is entirely made up of functioning businesses, not individuals, who may be expected to have a basic grasp of finances.⁶⁶ Customer inertia might perhaps be explained as the result of satisfaction or prioritisation/disinterest (see paragraphs 5.2 et seq. above) rather than confusion, powerlessness or any issue related to allegedly restricted competition.

⁶² SME MS, paragraphs 4.35 to 4.43.

⁶³ See paragraph 6.4 above, including footnote.

⁶⁴ There are a number of SMEs who take their other SME banking products from banks who do not provide their BCA. Barclays has a broker channel, offering products to non-BCA customers.

⁶⁵ Treasury Committee, Oral evidence: SME Lending, HC 204, Monday 21 July 2014.

⁶⁶ See SME MS, paragraphs 1.28 and 7.7.

- 6.12 Secondly, Barclays successfully operates a number of useful PCA transparency programmes, such as (i) provision of clear annual summaries; (ii) Annual Eligibility Statements, which have driven clear and tangible customer action; (iii) text alerts, which are driving customer action to avoid fees ([...]); and (iv) a recent restructuring of overdraft charges materially improving clarity of the cost of borrowing for customers.⁶⁷ In addition, the growth in mobile banking usage has dramatically increased customer visibility and control of their accounts.⁶⁸ While Barclays cannot comment on the wider implementation of similar programmes by other banks, it notes that there are various initiatives underway to ensure cost comparison, such as the PAD (see paragraph 3.12 above) and HM Treasury's Midata proposal.
- 6.13 In Barclays' view, an ideal retail banking market would see customers equipped with the knowledge and tools to allow them to make informed, rational decisions. While a range of transparency and comparison tools already exist in the PCA market, Barclays considers that the Midata offering presents a significant opportunity to further improve customer outcomes. Midata could be expanded in due course to create customer engagement around not only cost and rewards, but other aspects such as value, key account features (including details of available channels and how they match the customer's actual/potential use of their PCA) and service (potentially based on a variety of features including 'customer-generated' ratings). It should also be extended to include smaller providers to ensure that customers are given the widest possible overview of the market. This would provide customers with a greater number of tailored inputs to allow them to make an informed decision to meet their specific demands, which in itself would drive engagement.
- 6.14 The new Business Banking Insight website, which was launched on 28 May 2014, shows results from a survey (commissioned by the Chancellor and carried out by the Federation of Small Businesses and the British Chambers of Commerce) of thousands of UK SMEs who were asked about their experience of the banks they use. The site will be updated with new survey data every six months. It is obviously too soon to assess the impact of this development, but the website can be expected to aid decision making by SMEs.
- 6.15 Barclays recognises that there is a certain degree of differentiation in the retail banking space that can make comparison harder than if products and services were standardised. However, it is difficult to see how this can be entirely avoided if the industry is also to support and encourage innovation, flexibility and competition in pricing and features.

⁶⁷ With reference to PCA MS 6.35.

⁶⁸ [...]

7. CUSTOMER OUTCOMES

7.1 In both the SME MS and the PCA MS, the CMA cites evidence of poor customer outcomes which it suggests stem directly from an absence of effective competition in both sectors.

SME customer outcomes

Customer surveys

7.2 In Barclays' view, the CMA places undue emphasis on the responses to various qualitative survey questions in section 9 of the SME MS – these relate to customer feelings rather than market dynamics (and may reflect perceptions of SME providers' brands rather than levels of SME service). The mere existence of customer complaints, many of which may be unsubstantiated sweeping statements, should not be used as a substitute for proper analysis.

7.3 In particular, Barclays has some misgivings about the nature of some questions asked. For example, the response to one question led personnel within the CMA to conclude that "*only 13% of SMEs trust their bank to act in their best interests*".⁶⁹ Barclays is concerned that that response is likely to be materially coloured by recent negative press coverage of the banking sector overall (e.g. LIBOR); indeed, the question essentially asks whether the banking industry has a good reputation.

7.4 The CMA also discounts certain findings that appear to show the banks in a positive light. For example, the CMA states "*the five point scale that Charterhouse use means that 'good' is equivalent to the midpoint on the scale, which we do not consider provides a strong indication that banks are satisfying SME's needs*".⁷⁰ In Barclays' view, the response "good" in relation to a question on satisfaction should not be set aside based on the CMA's view of the survey design. If "good" responses were accepted in this particular instance, Barclays notes that it would increase the proportion of SME customers that were satisfied overall with the service from their main bank from 50% to 77%. This is a significant increase, resulting in a sizeable proportion of satisfied customers.

7.5 Comparisons with other sectors⁷¹ may be particularly inappropriate given the relatively low amount of money⁷² and time⁷³ SMEs spend in relation to banking

⁶⁹ SME MS, paragraph 1.31.

⁷⁰ SME MS, paragraph 9.55.

⁷¹ SME MS, paragraph 9.59 et seq.

⁷² Average annual BCA transaction costs of £52-£169 for SMEs with turnover not exceeding £100k (see SME MS, paragraph 3.17).

⁷³ SME MS, paragraph 7.7 refers to "*the limited time which owners or employees of SMEs, particularly smaller SMEs, may devote to managing their banking needs, given the range of other business-related activities they will be engaged in, which are likely to be of greater salience to them than their banking provision*".

services. Barclays estimates that [...] This figure is approximately one-third of expenditure on telecoms, and one-quarter of that on insurance. This may explain why many SME customers do not consider SME banking to be a pressing issue and choose to spend time engaging or negotiating with providers of other services (or focusing on their core business).

Low dissatisfaction ratings

- 7.6 Notwithstanding the above concerns, Barclays is interested in the CMA's finding that only around 10% of SME customers are dissatisfied with their bank.⁷⁴ In Barclays' view, there are three conclusions that may be drawn from this figure.
- (a) First and most obviously, SME banking offerings may not be as poor as the CMA has indicated. This accords with Barclays' own efforts to ensure good customer outcomes (as shown by innovations such as Barclays Mobile Banking and Pingit⁷⁵).
 - (b) Presumably the 4% of customers that switch each year fall within the 'dissatisfied 10%'. This means that only 6% – or around 5%, taking into account the level of customer churn – remain unhappy with their bank. Barclays queries whether it is reasonable or proportionate to pursue a far-reaching and potentially intrusive investigation for the purported benefit of 5% of the market (who are already well able to switch).
 - (c) Thirdly, given the CMA's report that 10% of SME customers are dissatisfied and 60% of customers are satisfied, a full 30% of customers are presumably neither satisfied nor dissatisfied. While the stated views of the 10% and 60% should certainly not be discounted, the fact that nearly a third of the market is ambivalent or disinterested suggests that this may not be an industry that generally gives rise to strong views. If SME banking is simply not a pressing issue for many customers, Barclays queries whether intervention by the CMA is justified.

PCA customer outcomes

Collaborative technological innovation benefits all customers and provides new battlegrounds for competition

- 7.7 The CMA reaches a number of conclusions in relation to the PCA sector. First, it states that while there has been considerable technological innovation, this has generally been industry-wide and so "*not truly a factor of differentiation between PCA providers (Pingit is an exception)*".⁷⁶

⁷⁴ SME MS, paragraph 9.45. See also "Key Facts", SME MS, page 15.

⁷⁵ Referenced by the CMA at SME MS, paragraph 93.9.

⁷⁶ PCA MS, paragraph 6.9. See paragraph 4.4(a) above for more detail on Pingit

- 7.8 First, Barclays is again concerned that the CMA may be inclined to dismiss industry-wide improvement (from which all customers benefit) because it remains firmly focused on a regulator-driven approach to the market, requiring high differentiation as an overriding aim in itself. Progressive industry-wide initiatives (such as Paym mobile payments) should not be discounted on the basis that the industry has worked for the benefit of customers together, rather than in individual silos.
- 7.9 Second, viewing Pingit as a one-off exception to the general rule underestimates the scope for technological initiatives to act as real points of differentiation for customers. In Barclays' view, there is room for both collaborative and competitive developments, and the former can lead to the latter. Indeed, industry-wide developments often facilitate vigorous competition as they provide additional reach and platforms for differentiation (for example, Pingit is an example of Barclays using the central infrastructure provided by Faster Payments to differentiate itself).
- 7.10 Additionally, while the CMA has considered extensively the potential drawbacks of a relatively concentrated sector, the fact that these innovative programmes are often initiated and funded by the larger incumbents reveals a benefit to those new entrants (and the whole market) from there being larger banks with sizeable development teams.⁷⁷

Customer satisfaction: complaints on a downwards trend and increased "pull" factors

- 7.11 Mintel research indicates that only 3% of customers are unhappy with their PCA (though the CMA only discusses this finding briefly).⁷⁸ Moreover, the number of complaints regarding PCAs shows a strong overall downward trend: the number of complaints has almost halved since 2010, even in the face of negative press coverage of the wider banking industry and the emergence of proactive claims management companies. In particular, Barclays has been working hard to reduce its numbers of customer complaints and ensure its customers are happy, and [...]. The CMA appears to give insufficient weight to this low dissatisfaction rating and clear overall downwards trend in complaints, and instead chooses to focus on the minor increase in the last six months.⁷⁹
- 7.12 Barclays also understands from the UK Payments Council that of the PCA holders who have switched in the last 12 months, 16% switched to obtain a better account at the new bank.⁸⁰ First, this accords with the CMA's acknowledgement that there are "pull" factors acting as competitive drivers on

⁷⁷ See also paragraph 4.14 above.

⁷⁸ See PCA MS, paragraphs 6.29 and 6.39.

⁷⁹ PCA MS, paragraph 6.20.

⁸⁰ Similarly, a further 30% switched to receive a better service level at the new bank, and 16% because the new bank presented a more convenient offering.

a product level;⁸¹ secondly, in 2012 the equivalent figure was 5%, which indicates that even in the last two years competition at a product level is increasing and driving improved customer outcomes and current empirical evidence points to this trajectory continuing.

8. CONCLUSION

In summary, an MIR involving PCAs and/or SME banking is neither necessary nor appropriate at this juncture. The competitive landscape is changing rapidly and dramatically in a number of important respects. The key changes need time to take effect and the results should be observed and analysed before further intervention is contemplated. In particular:

- Switching is easier, the threat of switching continues to grow as a competitive constraint, and actual switching is increasing (by at least 19% in the last year). The importance of a large branch network is fading, and new entrants to the sector are showing that it is possible to take market share from incumbents. There are also alternative sources of financing for SMEs.
- There are various transparency and comparability initiatives in train to assist customer decision-making. In particular, Barclays considers that (i) expanding and improving HM Treasury's Midata proposals and (ii) combining these with Annual Statements and CASS to form a single annual account review and meaningful customer intervention could significantly drive customer engagement and improve customer outcomes. The Business Banking Insight website can also be expected to aid decision making by SMEs
- Finally, although Barclays is not complacent and continues to work towards improving customer satisfaction, it notes that PCA complaints have dropped significantly in recent years, and that dissatisfaction amongst SMEs is low.

⁸¹ PCA MS, paragraph 4.62.