

SME banking behavioural undertakings 2002

CMA report on compliance
Banks' audit 2016

© Crown copyright 2017

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Contents

	<i>Page</i>
1. Introduction	2
2. Summary of audit report findings	4
3. Best Practice for ensuring Compliance	6
Appendix 1: Summary of audit report findings.....	11
Appendix 2: Checklist for the 2014 Agreement	26
Appendix 3: CMA's 2014 Agreement with the Banks	27

1. Introduction

The behavioural undertakings

- 1.1 In 2002, following a Competition Commission investigation into banking services for small and medium-sized enterprises (SMEs), nine banks (two of which have since merged) agreed that, except in specific circumstances, they would no longer require a small and medium-sized enterprise (SME) customer to open or maintain a business current account (BCA) to get a business loan. This practice is commonly known as ‘bundling’ and was prevented by [behavioural undertakings](#) given by the banks to the Secretary of State for Trade and Industry and the Chancellor of the Exchequer (the Undertakings).¹
- 1.2 The eight banks currently subject to the Undertakings are: AIB Group (UK) plc (known as First Trust Bank), Bank of Ireland, Barclays Bank plc (Barclays); Clydesdale Bank plc (Clydesdale); HSBC Bank plc (HSBC), Lloyds TSB Bank plc (now part of Lloyds Banking Group and known as Lloyds in this report), Northern Bank Limited (known as Danske Bank) and the Royal Bank of Scotland (RBS) which includes Ulster Bank Limited (Ulster Bank) in Northern Ireland (together referred to as ‘the banks’).
- 1.3 The bundling undertakings are set out in Clauses 17 to 19 of the Undertakings. These prohibit the banks from compelling a customer to open or maintain a BCA as a condition of granting, maintaining or servicing a loan or deposit account. The banks may, however, offer incentives (e.g. lower charges or interest rates) to SMEs to open a BCA alongside their loan or deposit account, and they may offer integrated products (provided that the integrated products are also offered separately).²

The 2014 Agreement³

- 1.4 On 11 March 2014, the Office of Fair Trading (OFT) agreed a package of measures (known as the 2014 Agreement) with the banks to:
 - improve awareness of the bundling undertakings among relevant staff; and

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/370739/SME_October_2002_undertakings_behavioural.pdf

² The bundling undertakings prohibit the tying of a BCA and a loan or deposit account, but do not prohibit the provision of integrated products (i.e. the sale of several products as one combined product).

³ See Appendix 3 of this Report

- assist the Competition and Markets Authority (CMA) in assessing overall levels of compliance with the bundling undertakings on an ongoing basis.

1.5 As part of the 2014 Agreement, the banks agreed to undertake a detailed annual audit of their systems and procedures for ensuring compliance with the bundling undertakings.

CMA reports on compliance

1.6 Following the 2014 agreement, the OFT and then the CMA worked with the banks to produce a set of high-level principles to guide the focus and manner of their internal auditors' inspections.

1.7 The CMA reviewed the banks' 2014 audit reports and reported on its findings in its report on compliance of 22 October 2014⁴.

1.8 During this review the CMA concluded that HSBC and First Trust Bank had breached the bundling undertakings. On 21 October 2014, the CMA gave Directions⁵ to these two banks to improve compliance with the bundling undertakings.

1.9 Since 2015, the CMA has aligned the reporting period for annual audit reports to cover the period 1 July to 30 June annually. This current report sets out the results of the third round of audit reports which were submitted by the banks in 2016, covering the period from 1 July 2015 - 30 June 2016. Banks are required to submit audit reports by the last working day of July on an annual basis.

⁴ <https://www.gov.uk/government/publications/sme-banking-2002-behavioural-undertakings-report-on-compliance>

⁵ See CMA.GOV.UK for Directions given to HSBC and First Trust:

<https://www.gov.uk/government/publications/sme-banking-2002-behavioural-undertakings-directions-to-banks>

2. Summary of audit report findings

- 2.1 For the purposes of this 2016 audit review the CMA has considered how well the banks have met the 2014 Agreement.
- 2.2 For each of the banks, the CMA has considered each section of the 2014 Agreement against the information provided by them as follows:
- procedures, practices and policies in place to promote compliance;
 - training for Relevant Staff⁶ - the level of staff awareness and understanding of the bundling undertakings and any assessment of that training (by means of direct testing and/or mystery shopping) and any incidences of non-compliance with the bundling undertakings;
 - loan application cases – banks’ reviews of their new loan applications and whether there have been any incidences of non-compliance; and,
 - complaints data – banks’ reviews of SME banking-related customer complaints and whether there have been any incidences of non-compliance.
- 2.3 In the case of HSBC and First Trust, the CMA has also considered compliance with all the requirements of the Directions⁷ issued to these two banks.
- 2.4 The CMA confirms that the banks have met the provisions of the 2014 Agreement and have identified no material breaches of the bundling undertakings. The CMA also confirms that HSBC and First Trust have complied with the Directions.
- 2.5 For summaries of the banks’ audit reports, please refer to Appendix 1 which also includes an outline of the CMA’s process of reviewing the banks’ audit reports.
- 2.6 Some banks have taken steps to improve their systems and procedures for ensuring compliance with their obligations under the bundling undertakings. However, some banks need to improve their processes and provide clearer evidence on how they have complied with the 2014 Agreement, the bundling undertakings, and the Directions where appropriate. In the next section of this

⁶ Relevant staff as defined in the CMA’s 2014 Agreement “*Bank’s staff who are responsible for the marketing and sale of business loans and business deposit accounts*”

⁷ <https://www.gov.uk/government/publications/sme-banking-2002-behavioural-undertakings-directions-to-banks>

report we have described best practice adopted by some banks to ensure their compliance.

3. Best Practice for ensuring Compliance

Best practice

- 3.1 The CMA's best practice points contained in its two previous Reports on Compliance continue to be relevant to ensuring compliance with the bundling undertaking and form part of the Checklist for the Agreement (see Appendix 2).
- 3.2 The CMA would like to see high standards maintained (or improvements made to meet those standards) in the three areas below:
- Better guidance and education for credit-sanctioning staff to ensure that communications with frontline relationship managers and their SME customers are compliant with the bundling prohibition.
 - Revisions to the standard paperwork drawn up for loan applications to ensure that relevant staff consider the bundling prohibition when dealing with new-to-bank SME customers. This will also improve the bank's ability to monitor its compliance.
 - Changes to the categories used in the bank's internal complaints records to allow for better monitoring of compliance with the bundling undertakings.
- 3.3 In assessing the 2016 audit reports and having regard to the above points, the CMA has focused on the following three main areas when reviewing practice across the banks and looking at possible improvements and best practice:
- staff awareness and training;
 - reviews of credit application case files; and
 - reviews of complaints.

Staff Awareness and Training

Awareness and testing

- 3.4 The CMA expects each bank to continue to review and ensure compliance through its processes and procedures (and updating those processes and procedures where appropriate).

- 3.5 The CMA believes that ensuring a high level of staff awareness is key to complying with the bundling undertakings. All banks have reported that they have staff training on the requirements of the bundling undertakings.
- 3.6 Training materials should be reviewed on an on-going basis to ensure that it remains relevant and up to date.
- 3.7 Across the banks there are variations as to the level of formal training and the ways in which training is delivered to relevant staff. In addition, the frequency varies between annual and quarterly training. Some banks provide on-line based training while others provide reading material/training packs and one bank provides annual training via a training presentation and staff question session to relevant staff.
- 3.8 The CMA notes that some banks already have in place systems to record that relevant staff have received training on the bundling undertakings or read and understood the training materials. The CMA encourages the remaining banks to introduce a similar system to record staff training centrally.
- 3.9 While relevant staff should receive training on bundling undertakings, one bank has expanded its training to include staff in support roles with no contact with SME customers. Another bank has incorporated training into its induction for relevant new staff to ensure that new staff understand the requirements of the bundling undertakings.
- 3.10 The CMA considers that banks should also test relevant staff's understanding and awareness as part of their training programmes. A training programme should be provided to all relevant staff and assessed and evaluated properly for effectiveness and prevention of non-compliance. The CMA notes that several banks already formally assess and test their staff as part of their training programme and encourages the remaining banks to adopt such an assessment/testing system.
- 3.11 Where staff fail tests or interviews on awareness of the bundling undertakings, some banks have provided staff members with further training or opportunities to repeat training and retake the training assessment. One bank has a policy to ensure that staff who did not pass interviews will be marked for another interview in the next audit round and further training provided.
- 3.12 The Banks should take commercial decisions on how best to comply but the CMA considers that mystery shopping exercises are an effective and robust way of testing compliance and banks are encouraged to undertake such exercises as part of their compliance testing. The CMA notes that mystery shopping was carried out by several banks in 2014 and 2015.

- 3.13 In cases where it has been identified by the banks' audits that staff have failed in tests or incidences occurred where staff have given incorrect information, banks should provide staff with additional training or require the training to be repeated.
- 3.14 For reporting or explaining levels of compliance in audit reports, banks reported with terms such as, 'satisfactory', 'competently', 'sufficiently' or 'acceptable knowledge'. The CMA would find it helpful if banks would offer quantitative evidence, for example providing results in figures of the total relevant staff population, the number of staff assessed, tested or interviewed and the threshold for each category.
- 3.15 In all cases, banks should confirm the methodology used for sampling, i.e. geographic location, teams and business areas.

Annual Reminders

- 3.16 The CMA again this year had to seek copies of Annual Reminders from some banks as they had not been provided initially. The CMA would like to receive the Annual Reminder at the time when banks submit their audit reports. This applies to all the banks and to all future reporting rounds.
- 3.17 Annual Reminder and training materials provided to relevant staff on an annual basis should be provided in separate communications during the year, so that it can serve as two reminders of the bundling undertakings during one year in line with clause 2 of the 2014 Agreement. The CMA's preference is that staff training packs should also be provided independently of the Annual Reminder.
- 3.18 The banks used different methods of providing the Annual Reminder to staff. This varied from emails directly to each relevant staff and confirmation from those individuals that they have read and understood the Annual Reminder communication, to putting the Annual Reminder onto the bank's intranet pages. In the banks' audit reports, information on how Annual Reminders are provided to staff and whether staff are required to confirm receipt and understanding should be included.
- 3.19 In all cases where Annual Reminders are provided via email, the banks should review staff distribution lists regularly to ensure that Relevant Staff lists are kept up to date.
- 3.20 The CMA would be interested to hear from any banks on the levels of staff awareness of the bundling undertakings and on any new enhancements and improvements made to staff training to ensure compliance by relevant staff.

Loan applications

- 3.21 In reviewing loan application and new BCA account cases, the sample sizes used by banks used to identify any potential cases of bundling varied from 15 to over 200 new cases. Banks adopted different methodologies for selecting cases for review. One bank selected 10 SME customers out of a total sample population of 201 where a BCA was opened in the period three months before the loan to one month after. Another bank reviewed all new bank connections in the reporting period 1 July 2015 – 30 June 2016. Other methods include sample testing determined by sampling methodologies.
- 3.22 The CMA expects banks to provide an explanation of the methodology on the sample size of the loan applications along with the findings and any analysis of the figures.
- 3.23 The CMA would encourage banks to review and maintain internal guidance and staff communication on loan applications used to promote compliance with the bundling undertakings. Banks reported that internal guidance, staff communications, facility letters and sanctioning documentation have been reviewed as part of banks' audits. An example of a planned improvement from one bank is to enhance its guidance on recording conditions of sanction.
- 3.24 The CMA would be interested to hear from any banks on enhancements relating to the loan application process and procedures in ensuring compliance with the bundling undertakings.

Complaints

- 3.25 Banks adopted differing approaches to monitoring their complaints for potential product bundling issues. In 2016, one bank reviewed the full population of SME-related complaints to assess product bundling. Several banks used management information to extract from their complaints system and then review a sample size of complaints during the reporting period. While other banks used a specific category for complaints relating to bundling and developed a specific sub-category to capture any complaints relating to the bundling undertakings.
- 3.26 When categorising complaints, some banks used key words to search their systems to extract complaints. The type of key words used for searches included "Main", "Banking", "Switch" and "Transfer". There is a risk of omitting complaints relating to product bundling if the bank's existing key words do not capture certain product bundling complaints for the in-scope review. However, for the banks with a complaints category or code where the case handler can

identify when a complaint relates to bundling, searching on key words is not needed for the process of identifying any complaints on product bundling.

- 3.27 Some banks now have a specific complaints category and an internal escalation process for bundling related complaints. The CMA considers this to be best practice in capturing all complaints relating to product bundling.
- 3.28 The sample sizes used by banks for the review of complaints ranged from 15 complaints to the full population. Some banks also review appeals cases as part of their reviews of complaints to ensure compliance with the bundling undertakings.
- 3.29 The CMA expects banks to provide an explanation of the methodology on the sample size of the complaints along with the complaints data, findings and any analysis on the figures.

Next Steps

- 3.30 The CMA's Checklist (see Appendix 2 of this Report) sets out the high-level principles of the Agreement and is used as a guide to facilitate monitoring of the Agreement. Banks should submit Audit Reports to the CMA on the last working day in July annually. Reports should cover the audit period of 1 July – 30 June.
- 3.31 In addition, banks are encouraged to report any non-compliance issues to the CMA as soon as they are identified and not wait until submission of the reports to inform the CMA of any such issues.

Contact: Natalie Lam and Bob MacDowall

Email: natalie.lam@cma.gsi.gov.uk, bob.macdowall@cma.gsi.gov.uk

Address: Remedies Monitoring Team
Competition and Markets Authority
Victoria House
37 Southampton Row
London WC1B 4AD

Appendix 1: Summary of audit report findings

CMA process for reviewing compliance

1. Banks are required to submit audit reports annually on the last working day in July. We review these reports against the bundling undertakings, the 2014 Agreement and the Directions (where applicable). We identify any information on possible breaches or issues and follow these up with the banks where appropriate. Following this process, as part of this review we have:
 - sought further information and discussed with the banks issues reported in the audit reports
 - sought further information on proposed changes and improvements by some banks; and
 - requested additional reporting on changes and improvements to processes where appropriate.
2. In the rest of this appendix we set out summaries of the individual banks' responses.

HSBC

Policies, practices and procedures

3. HSBC told us that it has taken steps to ensure its policies, practices and procedures complied with the 2014 Agreement and Directions. This included testing and reviewing:
 - internal documentation such as Functional Instruction Manuals, the Branch Procedure Manual, internal intranet pages, and the Credit & Risk Business Instruction Manual;
 - Product Information Guides used by relationship managers and Corporate and Commercial Banking;
 - the procedures for selling and opening relevant accounts, the credit scoring process, and loan facility letters;
 - external documentation such as online product information, web pages, brochures in branches, Online Live Chat, Twitter responses, and other marketing material; and,

- the governance procedures for approving and reviewing new and existing products.

Training and staff awareness

4. HSBC issued an annual reminder of its obligations in the bundling undertakings to all Relevant Staff in the form of a mandatory reading item and followed up with a direct email to Relevant Staff. HSBC submitted a copy to the CMA in accordance with section 2 of the 2014 Agreement.
5. HSBC delivered mandatory e-learning content on key aspects of the obligations of the bundling undertakings to [X] Relevant Staff during the reporting period. The result was [X] of staff completing the module and passing the assessment. The remaining [X] who due to technical issues had not completed the assessment were provided a manual assessment until the system issues were resolved and the test could be completed on the training system.
6. HSBC conducted a series of further tests to assess the level of staff awareness of the bundling undertakings:
 - A sample of [X] telephone interviews were held with Relevant Staff to assess their understanding of the bundling undertakings. The result was a [X] success rate.
 - A sample of [X] mystery shopping calls and visits were conducted to assess whether guidance given to customers was compliant with the bundling undertakings. The sample included [X] non-relevant branch staff and [X] relevant customer service staff. The result was an [X] success rate. The bank reported that staff will continue to receive mandatory reading and email reminders to further embed knowledge of the bundling undertakings.
7. HSBC repeated the training for Relevant Staff who failed the e-learning assessment. If an individual fails the same test three times, the instance is reported to HR and additional coaching and testing is provided at local level.

Loan application cases

8. HSBC reviewed a sample of [X] business current accounts opened in the same month as a small business loan to identify any indication of product bundling. The sample of loans were assessed as being compliant with the bundling undertakings.

9. HSBC reviewed a sample of [X] loan openings in which the associated business current account was dormant since opening, to verify whether the BCA was opened as a condition of the loan (contrary to the bundling undertakings) and found to be compliant. The sample of cases were assessed as being compliant with the bundling undertakings.
10. HSBC reviewed a sample of [X] small business loans granted without the applicant holding a business current account, to confirm that there was no evidence that customers were pressured to open a business current account. The sample of loans were assessed as being compliant with the bundling undertakings.
11. HSBC reported that no staff or external customer complaints data, and no instances of bundling were identified from a sample of [X] new loans reviewed. However, HSBC noted a need to enhance its document approval and retention processes.
12. HSBC reported no evidence of customers being directly or indirectly required to open a HSBC BCA as a condition of the loan granted.

Complaints data

13. HSBC established a dedicated 'Centre of Excellence' specialising in complaint investigation and resolution for SME customers.
14. HSBC reviewed a sample of [X] complaints and any relevant lending appeals, filtered by relevant products and complaint categories, to identify any breaches of the bundling undertakings. There was no evidence of non-compliance.
15. HSBC confirmed it had not received any complaints relating to product bundling via its HSBC Confidential Line escalation process.

First Trust Bank

Policies, practices and procedures

16. First Trust Bank told us that its Group Internal Audit (GIA) reviewed the policies and procedures to verify compliance with the bundling undertakings and confirmed it did not identify any issues of non-compliance. The bank also reported that GIA performed testing as specified in the Directions and found no evidence of non-compliance with the bundling undertakings resulting in the need for escalation.

Training and staff awareness

17. First Trust issued an Annual Reminder of its obligations in the bundling undertakings in a circular to all relevant staff, who confirm their understanding of it by confirming they have read the circular (staff declaration).
18. The CMA followed up on First Trust's training programme and First Trust reported that staff training was carried out on a local level in teams shortly after the issue of the Annual Reminder. In the spirit of the Directions, staff training on Clause 17 of the bundling undertakings and the Annual Reminder on Clause 17 of the bundling undertakings should be two distinct events during the year, i.e. having a significant separation in time of, say, 3-4 months. First Trust agreed to ensure that its Annual Reminder and staff training is held at different times of the year, i.e. the written reminder for the next cycle will be issued during November 2017, and the training pack will be issued in March 2018.
19. The bank's Compliance Monitoring team through sampling testing identified that [redacted] staff members were not included in the distribution list of the 2016 annual reminder to staff on the bundling undertakings. The excluded staff subsequently received the information and confirmed their understanding of the content.
20. The bank reported it had amended the declaration to confirm that staff had read the annual reminder, attended the training session and, in addition, had understood and complied with the bundling undertakings.
21. GIA interviewed a sample of [redacted] staff members to assess their awareness of the bundling undertakings. It was reported that all staff interviewed demonstrated an awareness of bundling requirements. The [redacted] staff members represented First Trust's [redacted] business areas. The bank's Compliance Monitoring Team had undertaken a review and issued a report in June 2016 on Bundling and had interviewed [redacted] staff. GIA relied on the second line assurance testing as it interviewed a further [redacted] staff.

Loan application cases

22. GIA reviewed First Trust's business monitoring assurance process, who sampled [redacted] business loans where the applicant held a business current account to verify compliance with the bundling undertakings. GIA reported that no issues were identified. In addition to GIA's independent testing, GIA reported that it reviewed the first line First Trust business monitoring assurance process, which undertakes on a quarterly basis a review of a

sample of [X] cases of new business loans/deposits held with a Business Current Account, to verify compliance with the bundling undertakings.

Complaints data

23. GIA reported that there were no complaints for the period 1 July 2015 to 30 June 2016 related to the bundling undertakings made to First Trust's complaints management system, for which it has a bespoke product bundling category.

Barclays Bank

Policies, practices and procedures

24. Barclays told us that Barclays Internal Audit (BIA) reviewed the bank's policies, practices and procedures to ensure compliance with the bundling undertakings (and the 2014 Agreement). This included reviewing policies, procedures and guidance relating to SMEs for:
- credit risk; sales guidance; pricing structure; product terms and conditions;
 - the New and Amended Product Approval process; and,
 - setting performance objectives and compensation structure for staff.

Training and staff awareness

25. An annual reminder was sent to all Relevant Staff in June 2016.
26. Training has been assigned to all Relevant Staff, of which [X] completed the training.
27. BIA reported that it conducted a knowledge-based interview with a sample of [X] staff who had completed the training to assess levels of awareness of the bundling undertakings. The result was [X] of staff members demonstrated a satisfactory score in 2016. This represents a decline from [X] in 2015 and [X] in 2014. However, BIA reported no indication of breaches by staff during the reporting period.
28. BIA recommended to the bank that:
- a 'designated owner' be made responsible for the annual training and annual reminders to ensure that they are rolled out to all Relevant Staff on a timely basis, and

- BIA recommended a review of the design of the bank's annual training [X] to help make the training more effective. At the time of submitting its compliance report, the bank noted it had an 'Action' to review and assess the effectiveness of its training and create a plan to update and deliver training by December 2016.
29. The bank reported that 'Owners' have been identified for the bundling undertakings training and following the review, [X]. The new training module will be rolled out to relevant staff in Q3/Q4 of the 2017 calendar year.

Loan application cases

30. BIA reported that it reviewed a sample of [X] sectioned loans facilities from approximately [X] new SME loan accounts opened during the relevant period. It did not identify any instances of product bundling.

Complaints data

31. BIA reported that it reviewed all complaints received from customers of Business Banking and Corporate Banking to identify and inspect any complaints relating to product bundling.
32. [X] No product bundling was identified.

Bank of Ireland

Policies, practices and procedures

33. From the testing undertaken, Bank of Ireland reported that it did not find any evidence to indicate product bundling.

Training and staff awareness

34. On 11 February 2016, an Annual Reminder was cascaded to relevant staff in relevant business units.
35. The CMA followed up on Bank of Ireland's training programme and Bank of Ireland reported that staff training was carried out on a local level in teams shortly after the issue of the Annual Reminder. Given that staff training and the Annual Reminder should be separate communications, Bank of Ireland agreed to ensure that its future Annual Reminders and staff training on the bundling undertakings are to be delivered with a gap of at least 3-4 months.

36. Bank of Ireland's GIA recommended to Bank of Ireland's Management that it should consider adopting CMA best practice published in June 2016, including carrying out a mystery shopping exercise and implementing a process where relevant staff will confirm they have read and understood the training materials in the staff training pack.
37. GIA interviewed a sample of [X] relationship managers out of [X], and [X] credit underwriters to assess their understanding of the bundling undertakings.
38. GIA reported that interviews were held on a 1:1 basis. Questions used in the interviews were open and the audit team applied professional judgement as to whether any answers demonstrated either a lack of understanding of the bundling undertakings or indicated that bundling may have taken place. No exceptions were identified from the interviews.
39. It was reported that all staff selected for sampling purposes have confirmed and demonstrated that they are aware of the bundling requirements and have recently reviewed the annual reminder.

Loan application cases

40. GIA reviewed a sample of [X] of [X] SME loan files and BCA documentation where a BCA was established within close timeframe to the loan. From the sampled files, GIA reported that there was no indication that product bundling occurred.

Complaints data

41. GIA reviewed its complaints system to establish if any complaints were raised relating to product bundling. A sample of [X] complaints was then selected by filtering the complaints for business accounts. No product bundling was identified.

Clydesdale Bank

42. Clydesdale's audit reported that it had implemented all remedial action raised in its 2015 audit, including:
 - the Standard Credit Memorandum to ensure customer rationale for transferring their transactional business current account to the Bank is clearly recorded;

- the Management Assurance credit file review includes confirmation that appropriate rationale for the transfer of transactional banking has been recorded on file;
 - Network Quality reviews include a Manager's Planning Diary check to ensure the quarterly CMA Undertakings staff training certification is circulated and signed by staff as read and understood;
 - The Business Direct Manager's Planning Diary has been updated to include quarterly CMA Bundling Training Certification;
 - A specific complaint sub-category has been created for any product bundling related complaints.
43. Clydesdale confirmed that following internal restructuring in 2016 responsibility for assurance testing over compliance with the bundling undertakings has been assumed by First Line Enterprise Assurance. As reported in 2016, this assurance activity has moved from a 100% file checking regime to a sample based approach.

Policies, practices and procedures

44. Clydesdale examined the relevant websites, product terms and conditions, loan documentation, and other relevant documents to ensure compliance with the bundling undertakings.

Training and staff awareness

45. Clydesdale sent an annual reminder to all Relevant Staff in June 2016.
46. A quarterly Staff Training Certification was completed by all staff dealing with business customers. Staff must sign the certification to confirm they have read and understood their responsibilities in relation the bundling undertakings.
47. Clydesdale reported that it conducted interviews with a sample of [X] relevant staff. The result was [X] of staff providing a satisfactory response. Of the [X] members of staff who returned an unsatisfactory response, [X] were new to the role, and all [X] have been reminded of the requirements of the bundling undertakings. Staff failing to demonstrate the required level of competency will be included for the interview in the next annual review. In addition, [X] of those questioned were unable to clearly outline information sources which help maintain their knowledge of the bundling undertakings.

Loan application cases

48. Clydesdale assessed its Credit Memorandum policy by examining all new-to-bank connections. No product bundling was identified. This was further verified through a subsequent Management Assurance file review. As part of this detailed file testing, loan documentation and standard terms and conditions were examined and it was reported that no covenant, conditions nor clauses were included to require the transfer of a customer's transactional account to the bank a condition of providing a loan facility.
49. Clydesdale's 1st Line Management Assurance reviewed [8] new-to-bank connections and identified no instances where lending facility conditions required product bundling. In all cases, the correct Credit Memorandum template was used.

Complaints data

50. Clydesdale examined its Complaints Handling System for complaints related to product bundling by both a specific complaint sub-category and a keyword search of the wider database. It identified no instances of complaints relating to product bundling.

Danske Bank

Policies, practices and procedures

51. Danske Bank told us that its review of the Product Design and Approval Process (in conjunction with documented business policies and procedures) did not indicate any areas of non-compliance with the bundling prohibition.
52. There were [8] new loans or deposit accounts (as defined by the 'behavioural undertakings') launched during the period. Danske Bank reported relevant product documentation and supporting business policies and procedures were compliant with the bundling undertakings. Also, it reported that monitoring controls exist and findings from controls highlighted no issues or breaches.

Training and staff awareness

53. Danske Bank confirmed that it provided an Annual Reminder to all staff on the bank's web portal in April 2016. In addition, Danske Bank's 'Competition Law Guide' references product bundling and notes the severity if requirements are breached. This guide is also available on the intranet web portal. This is supported by a general on-line 'Anti-competitive behaviour' training which is

compulsory for all staff, including business managers dealing with the SME client base, to complete on an annual basis. Staff training was completed in June 2016.

54. Danske Bank's GIA interviewed [X] of the Business Manager population and reported that staff awareness in relation to 'Behavioural Undertaking' requirements, and associated business procedures were considered to be acceptable. Questions in the interviews were designed to cover both direct knowledge of the bundling undertakings and indirect knowledge obtained through business procedures put in place to ensure compliance.
55. GIA encouraged management to consider whether more focused training and or communication is required in application of the bundling undertakings.

Loan application cases

56. Danske Bank confirmed that they were not aware of any instances of non-compliance during the reporting period.
57. GIA reported it performed independent testing on a sample of [X] new loans and deposits opened in the period. An additional [X] applications relating to the switching campaign run during the period were identified as a specific risk population in terms of 'incentives'. Individual samples were reviewed to ensure no conditions had been imposed on the sale that would be considered a breach of the bundling undertakings. This included review of credit applications, facility pricing, conditions of sanction, facility or offer letters, and other general correspondence with the client that was evident on the client file.
58. The sample size and mix was determined through standard GIA sampling methodology.
59. Following CMA's policy on reporting issues when they arise. In 2016 Danske reported, to the CMA, three issues relating to the quality of comments recorded on credit papers and / or facility letters and the design of Product Approval framework:
 - [X]
 - [X]
 - [X]
60. Management actions taken by Danske to resolve the issues were:

- [X]
- [X]
- [X]

61. Danske confirmed that management action to improve credit documentation and enhancing the design of the Product Approval framework was completed in January 2017 and additional testing of credit control, incident reporting, and sample testing of customers' files were also carried out to check compliance. Danske reported that there were no issues identified in relation to product bundling.

Complaints data

62. Danske reported that no complaints relating to product bundling were identified.

Lloyds Banking Group

Policies, practices and procedures

63. Lloyds confirmed it has policies and procedures in place to ensure compliance. Lloyds confirmed it is monitoring compliance of credit applications and annual mandatory training.
64. [X] existing products had variations applied, neither of which impacted on compliance with the bundling undertakings. [X] new products relevant to the bundling undertakings were launched by Lloyds.

Training and staff awareness

65. Lloyds reported that the Annual Reminder was cascaded to Relationship Managers, Business Development Managers and Credit Sanction Managers in March and April 2016.
66. [X] of Relationship Managers and Business Development Managers passed the annual on-line mandatory training. Any individuals failing to complete all training within the given period were referred to management to consider further action.
67. Lloyds interviewed [X] relevant staff ([X] of total SME and RBB staff) to test understanding. [X] staff were able to confirm that Lloyds does not allow the bundling of current accounts with loan or deposit accounts and [X] remembered the Annual Reminder.

68. Lloyds reported that additional training was provided by line management to each of the [X] individuals to ensure that they fully understood the bundling undertakings. For the [X] staff members who during the staff interviews did not remember receiving the annual reminders, [X] of these staff members displayed an appropriate understanding of the bundling undertakings and no further action was taken. The remaining [X] staff members received further training with line management to ensure that they fully understood the bundling undertakings.
69. Lloyds reported that it has identified further enhancements to its annual reminder process which will include more direct communication. The effectiveness of this control will be reported in 2017.

Loan application cases

70. Lloyds reviewed customer guidance and external communications including Lloyds Business website and relevant product documentation and did not identify any evidence of non-compliance with the bundling undertakings. Lloyds reported it is monitoring compliance through ongoing credit application reviews.
71. Lloyds performed word searches on [X] Switcher-related Credit Applications. From [X] (SME) and [X] (RBB) matches, Lloyds identified [X] credit applications suggesting some condition around Business Current Accounts to be transferred to Lloyds and tested [X] credit applications. Lloyds concluded that it found no evidence of non-compliance in the sample tested.

Complaints data

72. Lloyds identified no evidence of non-compliance issues in relation to the bundling undertakings through (a) complaints and (b) bank's monitoring of compliance.
73. Lloyds found no internal complaints relating to non-compliance of the bundling undertakings.
74. Lloyds reported that it used word searches 'loan', 'servicing' and 'deposit' on all complaints to check for issues relating to product bundling. Lloyds identified [X] matches, which upon review did not show any evidence of non-compliance with the bundling undertakings.
75. Lloyds performed a review of [X] files (not identified through key word search) out of the [X] complaints and identified no evidence of non-compliance. In addition, Lloyds tested [X] customer lending appeals cases

within scope of the bundling undertakings and identified no evidence of non-compliance.

Royal Bank of Scotland

Policies, practices and procedures

76. Royal Bank of Scotland (RBS) reported that it did not identify any direct or indirect non-compliance with the bundling undertakings. RBS concluded that policies and procedures provided clear guidance to staff not to open a BCA as a condition for granting, maintaining or servicing a business loan or deposit product for SME customers.
77. RBS has made steps to improve RBS' ability to mitigate the risk of non-compliance with the bundling undertakings by the following management actions:
- Introduction of effective on-going monitoring to ensure relevant staff have completed the e-learning training module
 - Enhancement in the monitoring of compliance by introducing the following areas to the annual targeted controls reviews:
 - Monitoring of training completion; and
 - complaints testing.
78. RBS confirmed that product information on external websites, sales scripts and marketing materials for deposit and loan products do not contain any statements that are contrary to the bundling undertakings.

Training and staff awareness

79. RBS told us that an Annual Reminder was issued to all relevant staff via intranet and email.
80. RBS first implemented its e-learning module on the bundling undertakings in July 2015. In the 2016 report, there was a management action proposed for the annual e-learning module to be added to the Commercial Banking and Business Banking induction plans which cover training for new joiners in addition plans which cover training for new joiners on top of RBS wide new joiner training.
81. In Business Banking, as part of their induction new joiners are tested on their knowledge of RBS' policies through an online skills assessment. In

Commercial Banking, the e-learning module forms part of the core relevant training for new joiners whose role requires knowledge of the bundling undertakings and it must therefore be completed within 90 days of joining in line with other RBS wide new joiner training. To date, it has been the responsibility of line managers to monitor induction completion by its new joiners.

82. RBS reported that relevant staff have demonstrated sufficient knowledge and awareness of the bundling undertakings. [X] relevant staff interviewed, noted that they were unsure about whether they had completed the latest annual e-learning module. Further checking by RBS revealed that [X] individuals had completed the e-learning module which meant that the completion rate of those interviewed was [X]
83. Actual completion statistics are [X] overall training completion rate for the review period [X] staff which is a wider sample than those within the definition of Relevant Staff). Given that the annual e-learning module was being rolled out, those individuals who did not complete the training in the last round would again be subject to relevant training.
84. [X] member of staff out of the [X] relevant staff interviewed was not aware how to set up loans and deposits accounts for a customer without a BCA at RBS. The bank reported that given the annual e-learning module was being rolled out, [X].

Loan application cases

85. RBS reported that it considered that the greatest risk of inappropriate product bundling could be indicated by a high proportion of BCAs being open within 31 days of a relevant product being opened. It identified [X] of deposit accounts [X] and [X] of the total loans granted in the relevant period were associated with a BCA opened within 31 days. It considered that this assessment did not indicate any evidence of bundling due to a low number of accounts opened with the 31-day window.

Complaints data

86. RBS extracted a total of [X] SME related complaints from its complaints system. A further [X] SME complaints were identified. No complaints relating to the bundling undertakings were identified.
87. RBS reviewed the titles of [X] risk issues relevant for the reporting period in the bank's issue management system. A further [X] risk issues were

investigated based on the initial review. No product bundling specific issues were identified.

88. RBS reviewed its complaints escalation process and no complaints relating to the bundling undertakings were identified.

Appendix 2: Checklist for the 2014 Agreement

The contents of the annual audit reports should contain the following information:

1. Procedures, practices and policies in place to promote compliance.
2. Description of internal communications and staff training on compliance.
3. Description of external communications – eg customer guidance.
4. Description of any staff awareness training, frequency of provision and indication of to whom it is provided.
5. Processes and practices to monitor compliance (ie how is monitoring done and when).
6. List of non-compliance issues in relation to bundling undertakings identified through:
 - (a) complaints; and
 - (b) banks' monitoring of compliance.
7. Internal complaints escalation processes
8. Review of customer complaint or appeal records
9. Description of the remedial measures taken by banks to address any non-compliance issues
10. Review of any new products to confirm that they meet the relevant regulatory requirements

Appendix 3: CMA's 2014 Agreement with the Banks

Agreement with respect to the limitation of bundling

1. That THE BANK⁸ will, with respect to clauses 17 to 19 of the behavioural undertakings given by the banks to the Secretary of State for Trade and Industry and Chancellor of the Exchequer on 31 October 2002 ('the Bundling Undertakings'):
 - (a) On an annual basis, conduct a review of [THE BANK'S] compliance with the Bundling Undertakings, specifically including the following issues:
 - (i) The policies, practices and procedures (including those related to training) which THE BANK has in place to secure compliance with the Bundling Undertakings.
 - (ii) The awareness of THE BANK'S staff who are responsible for the marketing and sale of business loans and business deposit accounts ('the Relevant Staff') with the obligations created by the Bundling Undertakings.⁹
 - (iii) Other evidence suggesting the presence or absence of actual or suspected non-compliance with the Bundling Undertakings (including customer complaint data or data available from internal escalation processes for internal concerns).

Such a review must be conducted, outside the area of the bank which is directly responsible for the provision of banking services to SMEs, by the internal audit function of THE BANK, in accordance with the Code of Professional Conduct¹⁰ of the Chartered Institute of Internal Auditors.¹¹
 - (b) Provide a copy of such a review to the OFT/CMA with an annual statement of THE BANK'S compliance with the Bundling Undertakings which addresses the issues referred to in 1a. The first such statement will be provided by [THE BANK] to the OFT within 4 months of its announcement by the OFT

⁸ To add the identity of the relevant bank.

⁹ In undertaking such a review, an appropriate sample of staff should be assessed. Such a sample should be representative of staff at the various brands within THE BANK'S Group (where applicable), geographical locations and the range of sales/marketing channels available (eg in branch, online, by telephone).

¹⁰ <http://www.iaa.org.uk/members/member-benefits/code-of-professional-conduct/>

¹¹ In the event that the internal audit function of THE BANK is unable to conduct that review, the review must be conducted by an external auditor, independent from THE BANK.

2. That THE BANK, on an annual basis, provides to each of its Relevant Staff, a specific and direct written reminder (which covers no issues, other than the subject matter of the Bundling Undertakings) of:
 - (a) THE BANK'S obligations under the Bundling Undertakings.
 - (b) That THE BANK considers that any breach of those obligations is a serious matter, and that appropriate action will be taken in the event that a member of its staff fails to comply with them.

The first such reminder will be provided by [THE BANK] to the Relevant Staff within 1 month of its agreement of this proposal and its announcement by the OFT. A copy of such a reminder will be provided to the OFT/CMA within 10 working days following its provision to the Relevant Staff

3. Terms used in this document are consistent with the definitions included in the Undertakings.