

Decision to launch a review of the SME Banking Undertakings 2002

2 April 2025

Introduction

1. The CMA has decided to launch a review of the [SME Banking \(Behavioural\) Undertakings](#) (the Undertakings), given in 2002 by nine clearing banks¹ (the 'Banks') following a [market investigation by the Competition Commission](#) into the supply of banking services by clearing banks to small and medium-sized enterprises (SMEs). This document sets out the decision to launch this review and invites stakeholders' views on whether, by reason of any change of circumstances, the Undertakings are no longer appropriate and need to be varied, superseded or released.
2. In 2014, [the CMA reviewed the Undertakings](#) alongside its market investigation into [retail banking](#). As a result of that review, in 2016, the CMA decided to release all but four provisions in the Undertakings. The retained Undertakings prevent the Banks from requiring, as a condition of granting a business loan or approving the opening of a business deposit account,² that the SME customer should open or maintain a business current account (BCA) with the Bank (the 'Limitation on Bundling Provisions'). The Limitation on Bundling Provisions are the subject of this review.
3. In launching this review, the CMA is seeking views from interested parties on whether there are changes of circumstances that mean that the Undertakings are no longer appropriate and, if such changes of circumstances are identified, whether the Undertakings should be varied, superseded or

¹ Undertakings were originally given by AIB Group (UK) plc; Bank of Ireland; Barclays Bank plc (now Barclays plc); Clydesdale Bank plc (now t/a Virgin Money and part of Nationwide Building Society); HBOS plc and Lloyds TSB Bank plc (now Lloyds Bank plc, both now part of Lloyds Banking Group); HSBC Bank plc (now HSBC UK Bank plc); Northern Bank Ltd (t/a Danske Bank and part of Danske Bank Group); and the Royal Bank of Scotland Group plc (now NatWest Group plc). Following the acquisition of HBOS plc by Lloyds Banking Group, the Undertakings apply to eight banks.

² Business deposit accounts allow SMEs to hold money on deposit, in exchange for which interest is received. Business deposit accounts are not designed to handle day-to-day operations but serve as a device for storage and savings.

released. Where interested parties consider there is a case for varying or superseding the Limitation on Bundling Provisions, the CMA also welcomes views on the proposed changes that could be made.

4. The consultation closes at 5pm on 7 May 2025.

Background

Legal framework

5. The CMA has a statutory duty³ to keep under review undertakings and orders made under the Fair Trading Act 1973 (FTA) and under the Enterprise Act 2002 (EA02)⁴. From time to time, the CMA shall consider whether, by reason of any change of circumstances, undertakings need to be varied, superseded or released.⁵
6. [Remedies: Guidance on the CMA's approach to the variation and termination of merger, monopoly and market undertakings and orders](#) (CMA11) sets out the process which the CMA will typically follow. As part of its consideration of whether to conduct a review, the CMA initially assesses whether there is a realistic prospect of the review finding that there has been a change of circumstances.⁶

The Undertakings

7. The Undertakings were given by the Banks following the Competition Commission's 2002 market investigation into *the supply of banking services by clearing banks to small and medium-sized enterprises*. The investigation found that SME banking markets were significantly concentrated and lacking effective competition. The investigation identified several market features that adversely affected competition, including a reluctance by SMEs to switch banks, significant barriers to entry and expansion, and the existence of specific practices by suppliers of SME banking services which restricted and/or distorted price competition.

³ See [CMA11](#), paragraph 2.2.

⁴ In the case of the [SME Banking Undertakings](#), this duty arises under section 88(4) of the FTA (as preserved in Schedule 24 of EA02).

⁵ See section 84(4) FTA and section 162(2) EA02.

⁶ See [CMA11](#), paragraph 3.10.

8. In response to these concerns, the Competition Commission, in addition to other remedies, agreed undertakings with the Banks to increase price transparency and introduce clearer and faster methods of switching.⁷
9. The Undertakings were subject to a remedy review which concluded in 2016. All but four of the provisions in the Undertakings were released, with the Limitation on Bundling Provisions retained. The undertakings which were released were deemed to be unnecessary because of regulatory developments and the remedies package introduced as part of the CMA's Retail Banking Market Investigation.⁸ The Limitation on Bundling Provisions were retained and constitute the only provisions which remain in force (see paragraph 13 below for the reasons why they were retained).

The Limitation on Bundling Provisions

10. The Limitation on Bundling Provisions are set out in clauses 17 to 20 of the [behavioural Undertakings document](#). Clause 17(1) requires the Banks to “*not directly or indirectly require, agree (other than in respect of integrated products) or threaten to require, as a condition of the granting, maintaining or servicing of any business loan to, or the opening, maintaining or servicing of any business deposit account for, any SME that the SME should open or maintain any business current account with the Bank.*”
11. This equates to a prohibition on the Banks from compelling the SME customer to open or maintain a BCA as a condition of accessing business loans or deposit accounts.⁹
12. The Banks are, however, permitted to offer incentives (e.g. lower charges or interest rates) to SMEs to open a BCA alongside their loan or deposit account, and they can offer integrated products (provided that the integrated products are also offered separately).¹⁰

⁷ The Undertakings originally formed part of a suite of remedies established by the Competition Commission. In addition to the Undertakings, the remedies included: a) additional 'Switching' and 'Transitional' undertakings; b) a recommendation that the four largest banks in England and Wales should be required to offer SME customers interest-paying business current accounts (BCAs), or BCAs with zero money transmission charges, or a choice between the two types of account; c) a recommendation that the four banks subject to the requirement described in a) should be required to publish any further increase in a tariff-based money transmission charge (or the introduction of any new charge); and d) a recommendation that new safeguards for SMEs should be included in the Banking Code.

⁸ The Competition Commission's other remedies described in footnote 7 were also released as part of this review.

⁹ With limited exceptions set out in Clause 18(1) of the Undertakings.

¹⁰ The Limitation on Bundling Provisions 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).

Reasons for deciding to launch a review of the Limitation on Bundling Provisions

13. The CMA's decision in 2016, following its review of the Undertakings, to retain the Limitation on Bundling Provisions found that there remained strong product linkages between BCAs and SME lending, and together with the information asymmetries between an SME's BCA provider and other lending providers, this particularly favoured the longer-established banks. The CMA considered that the Limitation on Bundling Provisions mitigated the adverse effects of these linkages. As such, the CMA did not identify a relevant change of circumstances at that time relevant to the Limitation on Bundling Provisions.
14. Since 2016 the CMA has monitored compliance with the Retail Banking Market Investigation Order 2017, in addition to the Undertakings. This work has allowed the CMA to observe changes occurring in SME banking markets. The CMA has also undertaken further research in line with its duty to keep remedies under review. Based on evidence the CMA has seen during this work, the CMA considers that, since 2016, there have been changes to the competitive landscape for SME banking, new trends in customer behaviour and new regulatory developments, which may have weakened the product linkages between BCAs and SME lending, and the market power of the Banks.

Change of circumstances

15. In light of the CMA's monitoring work as described directly above, together with the CMA's preliminary research on the extent to which there have been changes in SME banking markets, the CMA considers there to be a realistic prospect that a review of the Limitation on Bundling Provisions will identify a change of circumstances. The possible changes of circumstances include:
 - (a) Changes in the competitive landscape and market shares in SME banking markets¹¹ since the remedy was put in place. For example, the new entry of banks (that are not bound by the Undertakings) may have weakened the market power of the Banks bound by the Undertakings.
 - (b) Changes in customer behaviour in response to new entry and new technologies. For example, changes in switching and multi-banking

¹¹ The Competition Commission found the reference services to include a number of relevant markets: for liquidity management services, which include business current accounts, overdraft facilities and short-term bank deposit accounts; for general purpose business loans to SMEs; for other types of business loans (such as asset finance) to SMEs; and for other business deposits held by SMEs.

among SME customers may have weakened the historic link between BCAs and SME lending.

- (c) Developments in the regulatory landscape for financial services since the remedy was put in place. For example, regulatory initiatives from the Financial Conduct Authority (FCA) such as the 'Consumer Duty'¹², which applies for the benefit of smaller SMEs. These regulatory developments may, although not replicating the remedy in question, address the same underlying problems that the Limitation on Bundling Provisions were designed to address.

Prioritisation

- 16. The CMA's Prioritisation Principles help to guide the CMA's choice of work where it has discretion to act, particularly as the CMA does not have the resources to act in all instances where its work would bring benefits. The principles consist of five key considerations:
 - (a) Strategic significance: does CMA action in this area fit with the CMA's objectives and strategy?
 - (b) Impact: how substantial is the likely positive impact of CMA action?
 - (c) Is the CMA best placed to act: is there an appropriate alternative to CMA action?
 - (d) Resources: does the CMA have the right capacity in place to act effectively?
 - (e) Risk: what types of risks are associated with CMA action, and how significant are they?
- 17. The CMA considers that, on the basis of the information available to it, a review of the Undertakings represents an administrative priority for the following reasons:
 - (a) Strategic significance: this review is in line with the CMA's statutory duty to keep undertakings and orders under review. Further, reviewing a remedy which induces compliance costs for the Banks and has been in

¹² The FCA [Consumer Duty](#), which came into force on 31 July 2023, is a set of regulations introduced by the FCA aimed at enhancing consumer protection in the financial services sector. It requires firms to act to deliver good outcomes for customers, ensuring that they provide clear information and support to help consumers make informed decisions.

place for some time aligns with the CMA's strategic priority of promoting economic growth.

- (b) Impact: ensuring the Undertakings remain appropriate in light of any changes of circumstances is important for the SME banking customers who benefit from the protections they provide and for the Banks who invest resources in complying with the Undertakings. In the event that the Limitation on Bundling Provisions are found to remain appropriate and are retained, varied or superseded, there would be certainty that they have residual value and the resources invested by the CMA and the Banks in ensuring compliance remain justified. On the other hand, in the event that the Undertakings are found to be no longer appropriate and are released, the resources invested by the CMA and the Banks could be redirected elsewhere.
- (c) Whether the CMA is best-placed to act: only the CMA has the power to review the Undertakings and to consider whether, by reason of any change of circumstances, they remain appropriate, or should be varied, superseded or released.
- (d) Resources: the resourcing requirement for this review is moderate and available.
- (e) Risk: the risk arising from the review (in particular, how likely it is to achieve its desired result) is low, because the desired result is for the CMA to consider whether, by reason of any change of circumstances, the Undertakings remain appropriate. Each of the possible outcomes – to retain, vary, supersede, or release the Undertakings – where appropriately grounded in evidence received through this review, are beneficial for the reasons set out in paragraph 17 (b) above.

Decision to launch review

- 18. The evidence currently available to the CMA indicates that there is a realistic prospect of finding a change of circumstances relevant to the Limitation on Bundling Provisions. The CMA has assessed this review against its published prioritisation criteria and found this review to meet those criteria. The CMA has therefore decided to launch this review.
- 19. The review will be conducted by a group of independent panel members.

Stakeholder views sought

- 20. The CMA is seeking views from interested parties on:

- (a) potential changes of circumstances that may mean that the Limitation on Bundling Provisions are no longer appropriate;
 - (b) whether, if such changes are identified, they mean that the Limitation on Bundling Provisions should be varied, superseded or released; and
 - (c) what, in the case of identifying the need to vary or supersede them, proposed changes could be made.
21. In particular, the CMA is seeking views and evidence in relation to the following topics:
- (a) **Whether and to what extent the structure and competitiveness of SME banking markets have changed since 2016, including but not limited to:**
 - (i) The extent to which the relative market strength and shares of supply of different providers of SME banking services – including BCAs, loans and deposit accounts – has changed.
 - (ii) Any new entry and expansion into SME banking markets, and to what extent it has impacted the competitiveness of these markets.
 - (iii) Factors which make it difficult for new providers to enter and/or expand in SME banking markets.
 - (b) **How banks compete for SME customers, including but not limited to:**
 - (i) What factors might prevent banks from retaining existing SME BCA customers or securing new SME BCA customers.
 - (ii) Whether banks offer incentives or disincentives to prevent SMEs from switching BCA provider.
 - (iii) Whether banks can compete for new SME loan or deposit account customers who do not have a BCA with them as effectively as they can sell loans or deposit accounts to their existing BCA customers. If not, what factors might prevent banks from securing new loan or deposit account customers who have their BCA with another bank?
 - (iv) Whether there remain strong product linkages between BCAs and SME lending, which particularly favour the longer-established banks.

- (v) To what extent bundling (as defined in the Undertakings)¹³ is used by banks other than those subject to the Undertakings, and the effects of such bundling.
- (c) **How the SME customer journey has changed since 2016 for either securing services from a bank for the first time or when switching to or multi-banking with a different bank, including but not limited to:**
- (i) The factors SMEs consider when choosing a banking provider(s) for their banking needs, such as BCAs, loans and deposit accounts.
 - (ii) The willingness and ability of SMEs to switch their main BCA provider, including whether this would be impacted by the offer of a better deal on a deposit account or loan product by another banking provider.
 - (iii) Whether the barriers¹⁴ to SMEs switching banking providers, as identified in the 2016 Retail Banking Market Investigation, still apply.
 - (iv) How common multi-banking is among SMEs, and which products are typically multi-banked. For example, to what extent SMEs take up loans or deposit accounts from banking providers with which they do not hold a BCA.
 - (v) To what extent, and how, the approach of different kinds of SMEs to shopping around for deposit accounts and loan products has changed.
- (d) **The extent to which new regulatory developments since 2016, such as the FCA Consumer Duty, provide effective protections for SMEs that are equivalent to the Limitation on Bundling Provisions.**

22. Respondents should provide their views, supported with relevant evidence where possible, in writing to the CMA at remedies.reviews@cma.gov.uk (Subject line: SME Banking Undertakings review).

¹³ At clauses 17 and 18 of the [SME Banking Undertakings](#).

¹⁴ The CMA found barriers to switching BCAs included: lengthy account opening processes; low use, awareness of and confidence in the Current Account switching Service (CASS) among SMEs; a perception among SMEs that switching current account was time-consuming, difficult and risky; and a fear among some SMEs that switching current account would reduce their ability to continue to access finance and/or access finance in the future. For SME lending products, there was little shopping around due to: short notice demand; search costs in the context of opacity of charges and lack of comparison tools; time and effort in applying for finance from other providers; and perceived importance of the relationship with a main bank for access to lending.

23. Responses should be received by the CMA by **5pm on Wednesday 7th May 2025**. Following this consultation period, the group of panel members appointed to make decisions regarding the review will assess the available evidence in order to make, and consult on, a Provisional Decision on whether to retain, vary, supersede or release the Undertakings.
24. The CMA will publish the submissions it has received on its website at the time that its Provisional Decision is published for consultation. Please ensure any submission provided to the CMA that contains any confidential material is accompanied by a non-confidential version which the CMA can publish.