12 May 2025

CMA REVIEW OF THE SME BANKING UNDERTAKINGS 2002

INTRODUCTION

Barclays welcomes the decision of the CMA to review the appropriateness of the remaining part of the undertakings that nine clearing banks gave in 2002 following a market investigation by the Competition Commission into the supply of banking services by clearing banks to small and medium-sized enterprises (the ***Undertakings***).

The Undertakings are well over 20 years old and, as noted by the CMA, there have been significant changes in the provision of financial services in that period. New providers have entered the market, ease of customer switching has significantly increased and competition has been further enabled by transformational technological changes. This increased competition and ease of switching means that SMEs now have sufficient choice such that any potential bundling of some BCAs with deposit accounts or loans would not cause any customer detriment. This is supported by evidence that customers are increasingly exercising this ability to choose from a range of products and providers: for the vast majority of SMEs, the largest banks account for a decreasing proportion of BCAs, deposits and loan accounts; and a significant proportion of SMEs have deposit accounts and loans with institutions that are not their main banking provider. The new Consumer Duty will also operate to ensure that providers continue to offer smaller SMEs good outcomes.

Revoking the Undertakings would free up the significant internal resources that banks (including Barclays) currently allocate to compliance and annual reporting on the Undertakings. Barclays estimates that it allocates *[redacted]* on compliance with the Undertakings. Given the outdated nature of the original requirements, these resources could be redeployed much more beneficially elsewhere, including continued investment in product development and more meaningful improvements in customer experience, thereby contributing to economic growth.

Revoking the Undertakings would also remove the distortive competitive effect that results from some providers being subject to the additional compliance burden when others (including significant players) are not.

Therefore, overall, the Undertakings are no longer appropriate and should be released.

Question 1: 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.**

There have been significant changes to the provision of SME banking services since 2016. Importantly, there has been entry and strong expansion by a number of fintechs/digital only providers. Transformational technological changes have enabled larger scale entry at a much lower cost. These changes include: Open Banking, which increases SME access to recent data, enables SMEs to aggregate data from different providers in a single place and allows SMEs to make Open Banking payments; digital solutions and data processing enhancements that have improved risk assessments and loan processing; and the Small and Medium Sized Business (Credit Information) Regulations 2015, which have improved access to BCA and credit data for all financial services providers through the credit reference agencies. New entrants can now offer a streamlined and high-quality end-to-end process to their clients without the legacy IT and infrastructure costs that impact more traditional providers. At the same time, SMEs are increasingly using brokers to procure financial services, further reinforcing the ease with which they can switch to new providers.

- The Competition Commission, in its original report that led to the Undertakings, found that in 1999 the four largest clearing banks had a combined share of 91% of the market for liquidity management products. Since then, Santander, Metro Bank, Virgin Money[1], TSB and a range of others have established themselves as competitors.
- In its 2016 Retail Banking Market Investigation final report (RBMI Final Report), the CMA found that the four largest banking groups accounted for over 80% of BCAs in 2015 (an 11% decline from 1999). Their share of general business loans was also estimated to have declined to

[1] Virgin Money has of course recently merged with Nationwide to form an even more important player. On completion of the deal, on 1/10/24, Debbie Crosby, chief executive of Nationwide, stressed the significance of the deal and specifically called out the business banking impact as follows: "*Nationwide is now a stronger mutual and able to deliver even greater value through our unique Branch Promise, leading customer satisfaction, and competitive savings and lending rates. All Virgin Money profits will be retained for the benefit of customers and, for the first time in the UK, a full-service business bank will be part of a large and modern mutual*."

approximately 80%. Since then, a number of digital business account providers, including Starling, Tide, Monzo and Revolut, have entered and transformed the market.

- The FCA in its 2022 Strategic Review of Retail Banking Business Models noted that large banks face increasing competition and there are important signs that some of the historic advantages of the large banks may be weakening through innovation, digitisation and changing consumer behaviour:
    - Whilst difficult to find statistics directly comparable with the original findings of the Competition Commission in 2002, the FCA noted that Starling has 7% of BCAs and the digital challengers' share of BCAs for start-ups has increased to 23%, whilst the share of the four largest banks for start ups has fallen to 57%. Similarly, the FCA found that in 2021 the four largest banks[2] accounted for only 67% of BCAs for micro businesses (which make up the overwhelming majority of SMEs), down from 74% in only two years from 2019.
    - The FCA also noted that unsecured term loan lending by scale challengers, mid-tier banks and digital banks grew exponentially from 2019 and that some smaller banks (e.g. including newer players such as Starling and Metro) were able to grow their share of lending during the pandemic, despite most Covid 19 government lending scheme loans being issued by the larger banks.
- The Savanta survey[3] statistics for Q3 2024 confirm that the changes have continued apace since the RBMI Final Report. The four largest banks subject to the Undertakings combined now account for only:
    - 66% of main banking relationships for SMEs (less than £25 million annual revenue);
    - 62% of main banking relationships for SMEs with an annual revenue of less than £6.5 million; and
    - 40% of main banking relationships for start-up SMEs (less than 2 years old), which could of course be seen as the pipeline for the future of the market, and in particular for deposit products as these start-ups grow.
- The Savanta survey also shows that for SMEs with an annual revenue of less than £25 million: 21% of term deposit accounts, 8% of instant deposit accounts and 20% of business loans

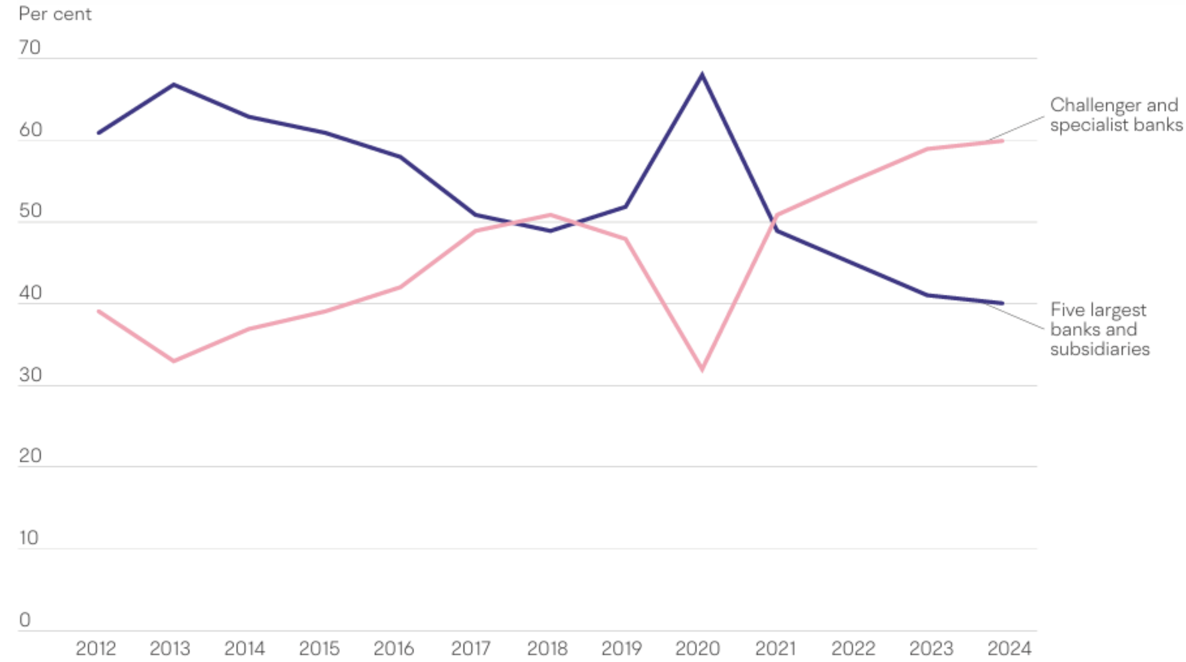
[2] Throughout this response we reproduce statistics for the largest four banks to aid comparison with the 2016 Retail Banking Market Investigation. These statistics would not include Nationwide (now also including Virgin Money) which for the most part is not subject to the Undertakings nor Santander which is also not subject to the Undertakings. However, for the avoidance of any doubt, it is our strong view that the largest four banks are not the appropriate frame of reference for the market.

[3] MarketVue Business Banking from Savanta, YE Q3 2024

were not with the main banking provider. For SMEs with an annual revenue of less than £6.5 million the figures are higher: 26% of term deposit accounts, 14% of instant deposit accounts and 25% of business loans were not with the main banking provider. For SMEs with an annual revenue of less than £6.5 million, the four largest banks have a combined share of less than 65% of business loans.[4]

- Furthermore, according to the British Business Bank, *"the share of total nominal gross lending to SMEs by challenger and specialist banks in 2024 was 60%. This was up from 59% in 2023, the fourth consecutive increase. It was also the highest on record. Furthermore, challenger and specialist banks' share of total gross lending exceeded that of the big five banks for the fourth year in a row"*[5]

Figure B.92
Share of annual total gross bank lending to SMEs
Source: BoE and British Business Bank calculations



It is therefore clear that there has been a sharp transition away from traditional providers for main banking relationships across SMEs of all sizes. It is also clear that there has been a significant increase in the number of options for term deposits and business loans.

The combined shares of the largest four banks have fallen substantially since 2019 for both established and start-up businesses. At the same time, there has also been a significant increase

[4] *Ibid*.
[5] https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-02/small-business-finance-market-report-2025.pdf

in the number of SMEs taking deposit and loan products from providers other than their main bank and the share of loans and deposit accounts provided by the largest four banks to SMEs has fallen sharply.

The data clearly indicates there has been a significant change in market structure in the provision of SME banking services, such that the Undertakings are no longer appropriate and should be released.

Question 2: 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) is used by banks other than those subject to the Undertakings, and the effects of such bundling.

Providers of BCAs compete for SME customers on a number of bases, including the digital service offering, product innovation, the relationship management/client service model that a provider is able to offer and pricing.

A particularly important differentiator in the SME BCA market, however, is the quality of service that providers offer to their clients. A poor service (including as part of the onboarding journey) or a negative customer experience (e.g. account outages, delays in payments being processed) can prompt an SME to switch to another provider. Non-traditional providers are entering and expanding their share, based in large part on their quality of service, as evidenced by the statistics produced in response to Question 1.

Barclays' SME customers are easily able to switch providers. Barclays therefore has to compete hard to acquire and retain SME BCA customers. For some SMEs this may include negotiating prices that take into account the overall commercial relationship between the bank and the SME and also the credit risk that the customer represents.

Existing providers of BCAs (whether these are within scope of the Undertakings or not) will have an established line of communication with a customer and potentially some understanding of the customer needs when looking to offer a deposit account or loan to that customer. However, these are not barriers to other providers offering those products to that customer or that customer taking up those products. As noted in response to Question 1, an increasingly significant number of customers are taking deposit and loan products from providers other than their main bank and there is significant choice for these products. The largest banks are increasingly finding themselves in the position of competing hard to sell loan and deposit products to growing SME start-ups for which they do not provide the BCA.

Barclays does not consider that there are strong product linkages between BCAs and SME lending. In particular, Barclays does not believe that the larger banks are better placed to compel a customer to open or maintain a BCA as a condition of granting a loan or a deposit account. In any event, the significant increase in competition which has occurred for loans, BCAs, and deposit products, as well as the ease of switching, means customers would not be harmed if a subset of banks did decide to introduce bundling of their products. There are no barriers to new providers, not just banks, entering and expanding in the provision of banking services to SMEs, as evidenced by the declining share of the largest four banks subject to the Undertakings and the entry and considerable growth of the fintechs/digital only providers.

Question 3: 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 barriers 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.

As noted above, the provision of SME banking services has been subject to transformational technological change. These changes include Open Banking, which increases access to recent data, enables SMEs to aggregate data from different providers in a single place and allows SMEs to make Open Banking payments. This has boosted the ability and willingness of SMEs to take BCAs, loans and deposit accounts from different providers. Digital solutions and data processing enhancements, which have improved risk assessments and loan processing, making onboarding quicker and easier. The Small and Medium Sized Business (Credit Information) Regulations 2015 have further improved access to BCA and credit data for all financial services providers through the credit reference agencies. In summary, these changes have enabled new entrants to offer a streamlined and high-quality end-to-end process to their clients making it easier for SMEs to secure banking services for the first time, to switch or to multi-bank.

In addition: many lenders now offer live pricing online using actual quoting techniques and many loans are now instantly approved or are made via a broker; awareness of and satisfaction with the Current Account Switch Service (***CASS***) is high, with Pay UK reporting that general consumer awareness was at an average of 77% through Q1 2025[6]; and SMEs have increasingly used brokers to procure financial services, further reinforcing the ease with which SMEs can switch to new providers.

As noted above, a key factor that SMEs consider when choosing banking providers is the quality of service. This increasingly includes the flexibility of the products and digital functionality. However, the extent to which the banking provider is able to offer targeted and timely overall support remains relevant too, e.g. through dedicated relationship managers for those SMEs that value this. According to research from Savanta, approximately 10% of SMEs consider switching their main bank in a 12 month period.[7] Although eventual switching rates are lower, that is very likely to be no more than a reflection of the low cost of core banking services relative to the overall expenses of SMEs (we estimate the cost of core banking services to be on average less than 0.5% of total annual expenses of an SME). It does not detract from the fact that choice for SMEs has

[6] https://www.wearepay.uk/wp-content/uploads/2025/04/CASS-Dashboard-Q1-2025.pdf. Although SMEs only form a small proportion of CASS.
[7] MarketVue Business Banking from Savanta, YE Q4 2024

significantly increased, and so has the ease of switching, as set out in detail in the preceding paragraphs. In many of these cases, the motivation to switch will come from a service quality 'failure' by their existing provider. Technological changes have further encouraged this motivation, by enabling new entrants to offer high quality service and flexible products without the legacy IT and infrastructure costs that impact more traditional providers.

Overall, SMEs have increased choice and there is clear evidence that they are exercising that choice to take BCAs, deposit accounts and loans from providers other than the largest banks. There is also evidence, as noted in response to Question 1, that a significant proportion of SMEs are multi-homing, sourcing deposit accounts and loans from providers other than their main banking provider.

In general, traditional economic theory holds that the bundling of different products does not result in harm to consumer welfare unless the supplier is dominant in the supply of one of the products. It is hard to avoid the conclusion that SMEs now have sufficient choice of BCA provider such that there can be no credible allegation that the largest banks are dominant providers in any of the markets. The statistics also show that SMEs are increasingly obtaining deposit accounts and loans from providers that are not their main BCA provider.

Question 4: 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.

Since the Undertakings first came into force, the FCA and the PSR have gained concurrent competition law powers.

Moreover, and as noted above, the FCA now has a wide range of regulatory tools to protect financial service consumers. Most notably, in 2022 the FCA published final rules and guidance for a new Consumer Duty that is designed to set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first. The duty applies to smaller SMEs which have the greatest need of protection. The duty requires firms to act to deliver good outcomes for consumers, take into account the needs, characteristics and objectives of their customers – including those with characteristics of vulnerability – and consider how they behave at every stage of the customer journey.

Barclays recently undertook a significant bank wide programme to deliver the requirements of the new Duty.

Specifically, the Consumer Duty rules require firms to *"design and deliver support to retail customers such that it…(4) ensures that retail customers do not face unreasonable barriers (including unreasonable additional costs) during the lifecycle of a product, such as when they want to…(b) amend or switch the product; (c) transfer to a new product provider….or (g) cancel a contract, agreement or arrangement or otherwise terminate their relationship with the firm."*[8]

Revoking the Undertakings would create a better, more efficient regulatory framework and would address the duplication that currently exists whereby larger banks may be answerable to both the CMA and the FCA. Moreover, any residual concern that smaller SMEs may be provided with inappropriate or unwanted products (including through bundling) can accordingly be addressed, as appropriate, by the FCA under the new Consumer Duty.

CONCLUSION

As evidenced in response to the consultation questions, Barclays considers that there is now a wide choice for SME customers seeking a BCA, deposit account or loan, and a significant number of customers are exercising that choice to take these products from providers other than the largest banks subject to the Undertakings. The Undertakings are therefore no longer necessary or appropriate.

The consultation questions do not inquire as to the benefits that may be gained from releasing the Undertakings, which Barclays considers are also important when reviewing whether the Undertakings remain appropriate. Whilst they are difficult to quantify, clearly there are a number of benefits (including to consumers) from releasing the Undertakings, which ultimately will support growth in the UK economy.

First, the ongoing cost of compliance with the Undertakings puts those banks subject to the Undertakings at a regulatory disadvantage to those providers that are not. One obvious competitive distortion in this market is that significant players (including Santander, which is now very well established and forms part of the fourth largest banking group in Europe by asset value, and the newly merged Nationwide/Virgin Money) are not subject to the Undertakings. As noted above, smaller players have also made significant inroads.

Second, the cost savings that would come from a reduction in the compliance burden, could be utilised for investment in better product development and customer experience.

[8] Rule 2.6.A.2.R

Quantifying the costs of complying with the Undertakings is not easy, because compliance with it is one part of many people's jobs and, given the breadth of the undertakings, there are a very large number of people involved. That said, in broad terms, Barclays estimates that it commits *[redacted]* to: (i) conducting the annual audit on compliance and reporting to the CMA; (ii) reviewing new and amended products for compliance; (iii) conducting ongoing monitoring and testing; (iv) completing mandatory training (which is delivered to thousands of employees each year); and (v) reviewing and answering queries on interpretation of the Undertakings. This employee time could otherwise be much better spent on product development or improving customer experience in the areas that matter most in the 2025 landscape.

A notable example of the impact of the Undertakings was the increased compliance burden Barclays encountered when implementing the Government Covid lending schemes during the pandemic. The many hours spent creating new channels and processes to ensure compliance with the Undertakings could have been better spent on Barclays' overall efforts to serve distressed companies more quickly.