HSBC'S RESPONSE TO THE CMA'S DECISION TO LAUNCH A REVIEW OF THE SME BUNDLING UNDERTAKINGS 2002

Executive Summary

HSBC UK Bank Plc (***HBUK***) and HSBC Bank plc (***HBEU***) (together, ***HBSC***) welcome the opportunity to comment on the CMA's consultation dated 2 April 2025 on its decision to launch a review of the SME Bundling Undertakings 2002 (the ***BUs***).

SME banking markets in the UK have undergone significant change since the BUs were first put in place, most notably from technological developments which have changed customer behaviour, fostered new entrants and increased competitiveness. Coupled with regulatory developments which bolster protections for SMEs, we are of the view that these changes are of sufficient magnitude they now render the BUs no longer appropriate and warrant their release in full.

Maintaining the BUs, which were designed over 20 years ago and result in a number of unintended consequences, adds unnecessary complexity to the retail and SME banking landscape especially given other regulatory protections in place. With the Government's wider policy objectives to remove unnecessary regulation to support economic growth, as set out in its strategic steer to the CMA, we consider it an opportune time to release the BUs in full.

We provide further information in response to each of the questions below, focusing on SME banking markets within Great Britain (***GB***), as the markets in which we operate.

(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.**

The structure and competitiveness of SME banking markets have undergone significant change since 2002, and even since the CMA's last review in 2016.

At the time the BUs were designed, a relatively small number of GB banks were considered to be 'large' clearing banks (i.e. Barclays Bank plc (***Barclays***), HSBC, Lloyds TSB Bank plc (***Lloyds***) and The Royal Bank of Scotland Group (***RBS*** or ***NatWest***)) and the remedy was specifically designed to address customer inertia within concentrated markets. However, these four banks have seen weakening of their market power since this time. Most notably, Santander UK plc (***Santander***) has experienced significant growth since 2002 and a growing number of challenger banks have emerged and are competing for market share (e.g. Metro Bank, Nationwide/Virgin Money, TSB, Aldermore, Co-op Bank). Furthermore, the market power of all traditional high-street banks has weakened over the past 10 years, following the entry of digitally focussed players such as Starling, Revolut and Tide amongst others, who have taken advantage of technological and regulatory developments to rapidly gain market share.

In 2022, the FCA reported on the changing dynamics of retail and SME banking markets in their Strategic Review of Retail Banking Business Models and concluded that, while large banks still have a strong position, they are facing increasing competition. The FCA found that incumbency advantages in terms of large customer bases, brand familiarity, large branch networks and aspects of the regulatory framework that once acted in large banks' favour, are weakening through digitisation, innovation and changing customer behaviour.

These developments, along with various regulatory developments aimed at addressing barriers to entry (noted below), have made it much easier for new providers to enter and expand – as evidenced by the changes in shares of supply noted below.

Changes in share of supply

With regard to Business Current Account (***BCA***) markets, shares of the traditional/longer established banks have seen steady decline. The FCA has reported that established banks have consistently lost share of micro-business BCAs (i.e. BCAs to SMEs with turnover of <£2million) in response to the rise of digital challengers. In particular, from 2019 to 2021, NatWest, Barclays, Lloyds and HSBC's collective market share dropped from 74% to 67%, with digital challengers' rising from 1% to 10%.[1] [REDACTED]

These market changes have been driven by the rise in digital only (i.e. app-based and branchless) entrants, who have rapidly gained market share by taking advantage of the digitisation of banking services and by making the experience of banking easier and more convenient. New entrants include Atom Bank, Tide, Revolut, Monzo, Starling Bank, Sempler and Allica Bank – with Revolut now holding more than 10 million (Personal Current Accounts (***PCA***) and BCA) customers, Monzo amassing 600,000 business customers in a short space of time and Starling alone accounting for 8.9% of the SME banking market.[2]

With regard to Business Deposit Accounts (***BDA***), there has been an increase in, and diversification of, providers within the market, with fintech firms and digital banks increasingly offering competitive deposits products to SMEs.

Similarly, in SME lending markets, since 2013, there has been steady decline in the five largest banks' share of gross lending to SMEs in response to new and alternative challengers[3]. In particular, 60% of all SME lending now comes from outside the main high-street[4], with traditional banks' collective lending representing a minority compared to 2015, when the largest four lenders accounted for around 80% of all general-purpose lending to SMEs[5].

New entrants include banks such as Allica Bank and Shawbrook, as well as alternative lenders such as, Funding Circle, ThinCats and iwoca, who have disrupted the market by offering differentiated products and focusing on single product offerings or narrower target markets.

We also consider it important for the CMA to take into account similar changes in the PCA market, owing to the CMA's previous findings regarding strong product linkages between PCA and BCAs and the view that SME customers were more likely to obtain a BCA from their PCA provider.

Again, these markets have seen significant new entry (Monzo, Starling, Chase) and have become more contestable. In particular, the four largest clearing banks' share of PCAs has dropped from 53% in 2019

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[1] FCA Strategic Review of Retail Banking Business Models 2022, Figure 2.2. FCA Analysis.
[2] Revolut reaches 10 million customers in the UK | Revolut United Kingdom; Monzo surpasses 12 million customers; Change for good - Starling Bank.
[3] This is with the exception of the COVID period during which market shares of the five largest banks momentarily rose due to the roll out of government backed loan schemes. Following roll out of the schemes, the banks' shares continued to fall.
[4] Small Business Finance Markets 2024/205, British Business Bank, Figure B.92.
[5] Retail Banking Market Investigation Order, Final Report dated 9 August 2016, (***RBMIO Final Report)***, para 7.26.

to 47% in 2024, while scale challengers and neo-banks now account for 18% and 26% of the PCA market respectively[6].

Impact of these changes on competition

These changing market dynamics and, in particular, the move to digital/online banking, have resulted in more competitive markets. Holding onto market share has become increasingly difficult, as all market participants are incentivised to innovate and compete more intensively.

Further information on the increased competitiveness of SME banking markets is set out in response to question (b) below. However, in relation to innovation, the app-based challengers have accelerated the pace of change and pushed traditional banks to invest and innovate more. This has been evidenced by the launch of several new digital offerings, including by high-street banks.

[REDACTED].

The BUs were originally designed to address issues of market concentration and customer inertia, however, the market changes noted above are evidence that these issues are lessening and that the remedy is no longer needed. More generally and from a broader competition policy perspective, restrictions on an undertaking's ability to freely deal with customers are typically required only where market power exists; where no such power exists or no longer exists, *ex ante* intervention should be slow to intervene.

Adverse consequences of the BU's application today

We also consider that the BUs produce a range of adverse and unintended consequences when applied to current markets.

It is no longer appropriate to maintain the remedy on a subset of players within the market. The markets for SME banking products and services are now contested by a large range of providers, yet a number of these providers are not subject to the BUs. This disparity has led those subject to the BUs being placed at a competitive disadvantage due to shouldering considerable costs and compliance burden associated with the remedies, as well as unnecessary complexity from overlapping regulation which stifles growth and innovation.

In particular, those subject to the BUs must, annually – if not more frequently, deliver training and ensure continued awareness across significant populations of first, second, and third-line teams [REDACTED]. Banks are also required to commit significant resources for annual compliance reviews. [REDACTED]. To require only a subset of banks to face these costs creates an unlevel playing field, in particular at a time when the traditional high-street banks face a number of costs disadvantages in terms of managing legacy systems and mandated branch networks. Such resources could be better directed towards enhancing competition, developing new products or services to improve quality and choice for customers and supporting the Government's growth agenda.

The BUs also create potential for regulatory overlap among the CMA, FCA and PSR, in particular in light of new and more appropriate consumer protection regulation (discussed in more detail in response to question (d)). This creates a complex regulatory environment for banks to navigate, which has a chilling effect on innovation and willingness for firms to explore new opportunities.

[6] IPSOS Financial Research Survey, July '24.

Additionally, the inappropriate application of the BUs to HSBC's non-ring-fenced bank, HBEU, has led to a disproportionate amount of resource, time and money ensuring compliance with a remedy that is not relevant to its customers.

[REDACTED].

(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.**

Banks compete for SME customers across a range of factors, sometimes dependent on the size of the SME, including: customer experience (including access to a relationship manager, which larger, more established, SMEs tend to favour), quality of service, price, as well as additional features or benefits. The digitisation of banking services has also led to competition in respect of factors such as functionality, ease of use and reliability.

Whilst the free-banking period continues to be a key incentive for customer acquisition, the rise of new entrants in recent years with innovative product offerings and competitive incentives has led incumbent banks to look for new ways to retain and attract customers. For example, BCA offerings across the market now vary in terms of monthly fee structure - with some banks opting to set a standard fee post the free-banking period (e.g. HSBC) and others choosing to offer permanent free banking for their most basic accounts with the option to pay for additional add on features (e.g. Revolut) – which is in contrast to the position in 2016, where the CMA found there to be little price competition. In addition, banks are increasingly competing in relation to differentiated features and complimentary benefits such as multi-user benefits, spending insights and accounting services amongst others, many of which are increasingly becoming a standard feature of a BCA and improving the quality and choice for customers.

On the demand side, changes in customer preferences for digital and/or mobile offerings and increased levels of customer engagement in banking services are impacting all banks' ability to attract and retain customers. There is now a proliferation of comparison tools and review channels which help SME customers to compare BCA offerings easily and quickly in the event they become dissatisfied with their current provider. Similarly, the speed and ease of account opening and loan applications has significantly improved in recent years; digitally able customers can self-serve products via apps, which has been particularly beneficial to 'time-poor' SMEs who were historically found to have been less engaged.

Comparison sites such as MoneySuperMarket, MoneySavingExpert and comparethemarket, as well as review sites such as Google review and Trustpilot, now put information more easily in the hands of the customer and help customers to "access" and "assess" the proposition that best suits their needs. These developments have directly addressed the CMA's previous concerns around barriers to searching, and whilst banks historically saw little searching and switching by SMEs post their free banking period, SMEs now have more access to information to inform a decision on whether stay or leave after this period ends. This in turn incentivises banking providers to compete more intensively for customer acquisition and retention, including by investing more into marketing. [REDACTED].

- **(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.

Competition in the SME finance market has significantly increased in recent years. The finance market now comprises over 150 lenders, and there are a number of providers who offer savings accounts and/or lending products without also offering a BCA, for example, Aldermore, iwoca, funding circle and lovefinance - evidencing a demand for standalone SME lending products and highlighting that previous findings of strong product linkages and between BCA and other SME products are weakening.

The introduction of The Small and Medium Sized Business (Credit Information) Regulation 2015 (***CCDS***) has enabled non-BCA lenders to access business current account and credit data held by banks (including those subject to the BUs) and has addressed the information asymmetries previously identified by the CMA as a barrier to entry. The Post Implementation Review of these regulations published by HM Treasury in 2014 concluded that the regulations have significantly enhanced competition in SME credit markets and that CCDS has increased the likelihood of SMEs forming new lending relationships particular with non-bank lenders. It is clear from this evidence that a range of finance providers are able to compete against traditional high-street lenders offering current accounts.

[REDACTED].

Furthermore, there remain a number of exceptions to the BUs where it is necessary for a customer to open a BCA with their lending, for example, where the lender is taking a debenture or fixed charge over the book and other debts of the borrower or where an account is needed to hold money specifically for money market deals. These exceptions result in a complex environment for both customers and staff to navigate when the primary focus of sales teams is to ensure they are providing the most suitable product, or range of products, to meet a customer's needs.

(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.

As set out above, banks compete for BCA customers across a range of factors. For BDAs, the interest paid as well as ease of access are key factors. For lending products, key factors are often fees and interest rates, product features such as repayments holidays, customer support (in terms of relationship management as well as other support channels (e.g. online, telephone etc)), and convenience factors such as ease of application and speed of decision.

The ability of SMEs to shop around and switch has been transformed by the increase in access to comparison information (as noted above) as well as new digital channels and tools from which to choose a suitable provider to meet their banking needs.

[REDACTED].

The willingness and ability of SMEs to switch their main BCA provider is borne out by consistent SME 'switching out' CASS data over the past 5 years[7]. However, it is important to note that switching data should not be viewed as a measure of competition in isolation. The increase in access to information and tools to enable switching, coupled with the expansion of new challenger brands, is already indicative of well-informed customers and a well-functioning market. Furthermore, CASS switching data will not reflect multi-banking and the true picture of SME mobility.

iii) Whether the barriers to SMEs switching banking providers, as identified in the 2016 Retail Banking Market Investigation, still apply.

The barriers to switching previously identified by the CMA have significantly lessened since 2016. In particular, it is no longer the case that SMEs find account opening processes to be lengthy, onerous or time-consuming. The digitisation of banking services now means that customers can search for and apply for products seamlessly via digital channels e.g. via comparison websites or in mobile apps, and that products can be opened much more quickly. [REDACTED].

Likewise, SMEs no longer view the switching process as risky. Various investments made to improve and market CASS has resulted in increased awareness of and confidence in the service, which now achieves extremely high levels of satisfaction (92%)[8].

Finally, the increase in multi-banking (as described below) and the rise in finance providers who do not also provide BCAs, weaken previous findings that SMEs consider switching hinders their continued access to finance.

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.

Multi-banking is a growing trend in GB SME markets, with SMEs increasingly willing and able to use different providers for different purposes and to spread concentration of debt. This is being driven by a combination of the increasing choice of differentiated finance providers, coupled with the technological developments that have made searching and switching more convenient. Even in BCA markets, SMEs are able to exploit the free-banking periods across different providers.

v) To what extent, and how, the approach of different kinds of SMEs to shopping around for deposit accounts and loan products has changed

See response to (i) and (ii) above.

[7] CASS Switching data dashboards, Pay.UK.
[8] Pay.UK figures, covering the period between 1 July 2024 and 30 September 2024.

c) **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.**

We consider the existing regulatory landscape, absent the BUs, provides effective protections for SMEs and the introduction, in particular, of the Consumer Duty reduces the rationale for the BUs' continued application.

The Consumer Duty, which came into force in 2023/24, sets a higher standard for consumer and SME protection across financial services. It requires firms to act in good faith and avoid causing foreseeable harm and has created a fundamental shift in how firms approach their commercial strategy and product propositions to ensure they '*act to deliver good outcomes for retail customers'.* The Consumer Duty applies to: (i) micro-enterprises with turnover up to £2 million and small charities with turnover under £1 million for deposit products; and (ii) sole traders, small partnerships and unincorporated associations (irrespective of turnover) for regulated lending products, many of which are within the scope of the BUs.

Of particular relevance are the requirements on firms to: design products and services that meet the needs of customers and which provide fair value, as well as provide timely and clear information to enable customers to make informed and effective decisions and advance their financial objectives. Designing a lending or deposit product which forces a customer to also open a BCA (in the absence of a strong business or customer rationale, which would include those scenarios which are current exceptions from the requirements of the BUs) would be likely to cause 'foreseeable harm' and be in breach of the Duty.

In addition to the Consumer Duty, regulated firms are subject to FCA conduct requirements under the FCA Principles for Business to treat customers fairly. These specifically require banks to act with integrity and clearly communicate with SMEs paying due regard to their information and business needs.

Furthermore, HSBC has internally defined a Purpose-Led Conduct Approach to achieve good customer outcomes and manage Conduct Risk effectively through a number of Conduct Outcomes including:

- We understand our customers' needs - and design products to have positive, and long term, impact for potential customers. We market to intended customer groups, and know our customers and their circumstances when we are selling to them.

- We provide products and services that offer fair value – we fairly price products and services to balance customer and bank interests and not undermine market competition.

- We act with integrity in the financial markets we operate – meaning we act in our customers' interests and not in ways that manipulate markets.

The above highlights the already robust regulatory landscape and existing protections in place to prevent inappropriate or unsuitable bundling. Releasing the BUs would therefore not leave SMEs without protection and would instead reduce unnecessary duplicative regulation and allow banks to focus on outcomes-based suitability principles to achieve good outcomes for SMEs.