LLOYDS BANKING GROUP PLC

Response to the SME Banking (Behavioural) Undertakings 2002 consultation

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Non-confidential version

EXECUTIVE SUMMARY

1. As a **leading UK financial services provider, Lloyds Banking Group (LBG) provides financial services to 28 million customers** in the UK. We help millions of customers – individuals, families and businesses – to spend, save, borrow and invest and help Britain prosper.

2. We welcome the CMA's decision to launch a review of the SME Banking (Behavioural) Undertakings 2002 (*the "Undertakings"*). **We consider that there has been a material change in circumstances meaning that the Undertakings are no longer appropriate and should be released.**

3. The Undertakings were given over two decades ago under the monopoly provisions of the old Fair Trading Act 1973. Since then, and even since the CMA's last review of the Undertakings in 2014-2016, **the business banking landscape has changed considerably; and it continues to evolve at pace.**

4. In addition, **the introduction of the outcomes focused Consumer Duty has significantly changed the regulatory landscape**, setting high standards of consumer protection, supervised and enforced by the FCA.

5. Rather than creating risk of harm for customers, coupled with Consumer Duty, we consider that **removing the prohibition could operate for the benefit of customers.**

6. We develop each of these points in this submission.

7. We also note there is an ongoing cost to compliance, including the mandatory annual internal audit, specific complaints monitoring and training requirements. Release of the Undertakings would help to reduce unnecessary regulatory costs and improve clarity of regulatory expectations.

8. Finally, and for completeness, **we would also invite the CMA to formally confirm that undertakings 21-24 of the Undertakings 2002 are released.**

   As explained in the consultation paper, the CMA decided in 2016 to release all but four provisions in the Undertakings which relate to bundling. However, we note that the CMA decided that undertakings 21-24 would be released "upon the implementation of the measures to develop and require the use of open application program interface (API) standards and data sharing through them". At the time, the CMA indicated that it expected to do this in 2018.[1] The Open Banking Roadmap is fully complete.[2] The CMA does not appear yet to have explicitly confirmed that undertakings 21-24 are no longer in force. We would welcome this clarity.

9. We thank you for taking the time to read our response, and look forward to seeing the conclusions reached by the CMA in this review.

[1] Notice of release of SME undertakings, switching and behavioural (Oct 2016)

[2] CMA confirms full completion of Open Banking Roadmap, unlocking a new era of financial innovation - Open Banking (Sept 2024)

Structure and competitiveness of relevant SME banking markets

1. We face strong and effective competition from high street banks and fintechs who are not subject to the Undertakings, as well as those banks that are. The entry and growth of neobanks in particular demonstrates that any barriers to entry and expansion are readily manageable. By way of illustration:

   a. In Business Current Accounts (BCAs):

      - LBG estimates that Monzo, Starling and Tide collectively acquired c. 50% of new current accounts opened in 2024.[3] Monzo (which started offering business accounts in 2020[4]) alone secured c.25% in 2024, while Tide doubled its presence from c.8% in 2018 to c.16% in 2024. (By comparison, LBG was at c. **[✂]**%).

      - Latest customer research on overall service quality (based on customer recommendation, produced for the CMA Retail Banking Order) shows that Monzo, Starling, Handelsbanken, Tide, Zempler and Metro outperformed those firms subject to the Undertakings.[5]

   b. In SME lending:

      - The British Business Bank has found that smaller businesses "have never had more options than they have now".[6]

      - Gross lending to SMEs by challenger and specialist banks was up to a record high of 60% share in 2024, outperforming the largest 5 banks for the fourth year in a row.[7]

      - Similarly, LBG estimates that challengers' share of SME lending balances has grown year on year, from c.17.3% in 2020 to c.25% in 2024. For example, Handelsbanken has a c.7% share of stock and Shawbrook has a c.5% share.[8]

      - We note that challengers are increasingly offering a diverse range of lending options, often characterised by greater product flexibility. Typically, these challengers operate across the entire risk spectrum, providing multiple pricing points tailored to specific risk levels, for example, pricing to risk.[9] While challengers initially expanded in the unsecured market, gaining market share with their capacity to offer

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[3] LBG estimates based on UK Finance data and public disclosures.
[4] We've reached 50,000 Monzo Business customers (Sept 2020).
[5] Business banking service quality - Great Britain - BVA BDRC (Feb 2025). We also note from the historic metrics (available at: Business Banking Service Quality - Historic Results - BVA BDRC), how quickly they established themselves at the top of the rankings after entry.
[6] Small Business Finance Markets 2024/25 (March 2025).
[7] Small Business Finance Markets, ibid.
[8] LBG estimates based on public disclosures.
[9] See for example Iwoca: How do you decide what interest rate to offer? | iwoca - Support Centre.

larger advances on unsecured loans via assisted or automated credit decisioning, they are expanding into more traditional secured lending as they mature. [✂]

- In addition, latest service quality metrics for SME loans and overdrafts show that Handelsbanken, Metro, Santander outperformed those firms subject to the Undertakings.[10]

c. In Deposits, savers can find competitive rates across all types of account: easy-access, notice and fixed term. We observe strong interest rate competition from firms who are not subject to the Undertakings, such as Bank of London, Aldermore, Hampshire Trust Bank, Reliance Bank.

2. Intermediaries and enablers play a significant role in the market, further supporting competitive outcomes and reducing potential barriers to entry/expansion, for example:

   a. An estimated 67% of SME lending in FY 2024 was facilitated by intermediaries, with brokers facilitating c.33% of SME funding deals by specialist lenders and c.28% by challenger banks.[11]

   b. A number of aggregators (such as MoneySuperMarket, NerdWallet, BusinessComparison, BusinessAccounts.co.uk) have emerged.

   c. We see firms like SilverRock, which was granted a UK banking licence in 2024, enter to provide forward flow financing to non-bank and specialist lenders and building societies that provide loans to SMEs and consumers.[12]

Customer behaviour

3. We have seen a significant shift in customer preferences towards use of digital channels. [✂] of our business banking and SME customers are digitally registered, of which [✂] are digitally active. In this context, we note that latest service quality metrics show Monzo, Starling, Tide and Zempler all outperform firms subject to the Undertakings for online and mobile banking services.[13] [✂] We also note that Starling, Tide and Monzo all offer same day BCA opening via mobile apps and with 24/7 in person app support.

4. There has been a significant weakening in the linkage between BCAs and other products, which the CMA was concerned historically favoured the largest banks. For example, [✂].

5. Switching is much simpler for SMEs. The fee-free Current Account Switch Service, backed by the Guarantee, takes the hassle out of switching. In addition, technological innovations are improving the customer experience and making it

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[10] BVA BDRC data (Feb 2025), op cit.

[11] National Association of Commercial Finance Brokers, [NACFB Members fuel 70% of UK's £38bn broker-led SME lending - NACFB](#) (Mar 2025).

[12] [SilverRock | Achieve more together](#)

[13] BVA BDRC data (Feb 2025), op cit.

quicker to access bank accounts and finance. Facial recognition and fingerprints, for example, allow customers to prove their identity whenever and wherever they want rather than needing to make an appointment with the bank; and developments such as Digital Identity could simplify 'know your business' processes further.[14] Some firms – both high street banks and neobanks – also offer fee-free propositions to incentivise SMEs to bank with them.

6. Multi-banking is also becoming increasingly common. [✂]

7. The banking journey for small and medium-sized enterprises (SMEs) has significantly evolved due to digital solutions, increased competition, and greater flexibility. In the past, SMEs would typically visit a branch to consult with their personal banker when starting a new business. They may have relied mainly on their incumbent bank and only sought alternatives if they faced declined lending applications or poor service. Today, SMEs have access to a variety of solutions, including from challenger banks and specialist providers, that they will consider alongside the bank(s) that hold their personal account much earlier. This shift allows SMEs to utilise multiple banking services across different providers, driven by innovative digital platforms and competitive offerings. The SME banking journey is now very clearly a multi-provider ecosystem, offering greater choice and flexibility.

   [✂]

8. While relationship management is important to some SMEs, the ability to offer this effectively does not depend on scale of the provider. We note that providers with relationship management support of some form that are not subject to the Undertakings have successfully grown their lending balances by over 20% since 2020.[15] The latest service quality metrics on relationship/account management (based on customers who said they would recommend their provider's relationship/account management to other SMEs) ranks Handelsbanken, Monzo, Starling, Metro, Tide and Zempler the highest.[16]

Regulatory developments

9. Consumer Duty came into force in 2023/24. Consumer Duty is outcomes-based regulation, and is supervised and enforced by the FCA. The regime consists of a new Consumer Principle that "a firm must act to deliver good outcomes for retail customers" (which, for these purposes, we include SMEs with BCAs, business loans or business deposits) together with:
   a. Cross-cutting rules to: act in good faith towards retail customers; avoid causing foreseeable harm; and enable and support retail customers to pursue their financial objectives;
   b. Rules on specific outcomes relating to: products and services; price and value; consumer understanding; customer support.

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[14] CFIT-Blueprint-Report-March-2025-Final.pdf (March 2025)
[15] LBG estimate based on public disclosures for Handelsbanken, OakNorth, Allica Bank, Paragon Bank, Metro, Shawbrook, Aldermore and Close Brothers.
[16] BVA BDRC data (Feb 2025), op cit.

10. The Customer Understanding outcome (supporting good customer outcomes through effective customer communications) requires firms to support their customers by helping them make effective and informed decisions about financial products and services by making sure customers are given the information they need, at the right time, and presented in a way they can understand.[17] This applies both in the sales journey and through the lifecycle of the product. Firms must ensure options available to consumers are presented in a clear and fair way, and they ensure that their choice architecture is not designed to influence consumers to select a particular option that benefits the firm but may not deliver a good outcome for the consumer.[18]

11. Under the Consumer Support outcome, the FCA expects firms to make it at least as easy to switch product, leave their service or make a change, as it is to buy the product or service in the first place.[19]

12. The Price and Value outcome requires firms to ensure that customers are getting fair value for money. The FCA has said that a product or service that doesn't meet any of the needs of the customer it is sold to, or which has negligible or no obvious benefits, is unlikely to provide fair value.[20]

13. The FCA expects firms to be proactive in delivering good customer outcomes and to monitor and take action based on the evidence of customer outcomes.[21] In this way, the Consumer Duty provides a high standard of consumer protection, and the Undertakings have become unnecessary.

14. We also note the impact of The Small and Medium Sized Business (Credit Information) Regulations 2015. These regulations require designated banks[22] to share (and regularly update) credit information (which includes information on loans and current accounts) about SME customers with specified credit reference agencies who provide this to other finance providers on request. HM Treasury's post-implementation review concludes that "the policy has improved the availability of credit data for SME finance providers, reduced information asymmetries, supporting more accurate credit risk assessment and enables a wider range of finance providers to offer credit facilities to SMEs", that "the SME credit market and finance technology have both evolved substantially over the past decade" and that "the regulations have significantly enhanced competition in the SME credit market". It

[17] PS22/9: A new Consumer Duty
[18] FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty
[19] FCA guidance, ibid.
[20] FCA guidance, ibid.
[21] Consumer Duty – information for firms | FCA and Consumer Duty implementation: good practice and areas for improvement | FCA
[22] It is interesting to note that HM Treasury originally designated nine banking groups – i.e. a wider set of firms than are subject to the Undertakings: Allied Irish Bank, Bank of Ireland, Barclays, Clydesdale (now part of Nationwide), Danske Bank, HSBC, LBG, Natwest and Santander; and that stakeholders have fed back to HM Treasury that it should consider designating more finance providers to "better reflect the modern SME lending market" (see CCDS_Post-Implementation_Review_2024.pdf).

also notes research which finds that the regulations have "boosted the probability of SMEs establishing new borrowing relationships by 25%".[23]

Consumer benefits from release of the Undertakings

15. Release of the Undertakings could make a positive contribution for SMEs, for example, through:

    a. supporting credit decisioning and speeding up access to funds for customers, supporting growth. For example, firms may be able to get a better view of affordability, increasing confidence to use automated credit decisioning rather than manual referrals. **[✂]**;

    b. improving flexibility and reducing costs for clients and encouraging innovation by firms. **[✂]**;

    c. supporting protection of vulnerable clients. Having visibility of BCA data, such as transactional data, increases the likelihood that a lender will be able to spot when a customer could be in, or is entering, a period of financial difficulty, enabling them to offer appropriate support at an early stage. For example, lenders may see reduced income, returned payments, periods of excess, unpaid items and other early warning indicators on financial wellbeing. Interventions or nudges to support credit health can then be done in a more personalised and targeted – and therefore more impactful – way;

    d. helping transition customers to the right products. In our experience, some smaller SMEs still use a personal current account (PCA) for business purposes. This can be for a number of reasons, including the time and admin for BCA on-boarding. Enabling the opening of a BCA to be more freely discussed and encouraged with a customer currently using their PCA for business purposes during their lending onboarding journey, for example, could help reduce perceived barriers to transitioning. Using a PCA instead of a BCA creates issues. **[✂]** In addition, during the Coronavirus Pandemic, only customers with an existing BCA were initially eligible for the Bounce Back Loan Scheme (BBLS), so those using a PCA instead of a BCA were unable to access prompt financial support under this Scheme. When later HM Treasury asked banks to extend BBLS to customers operating their business from a PCA, **[✂]**; and

    e. reducing cost of compliance and therefore ultimately costs for customers.

16. While we recognise that the Undertakings do not prevent a customer from choosing to hold multiple products with the same provider and nor do they prevent incentives or integrated products as defined in the Undertakings, they can create a chilling effect. For example, employees, who want to ensure they do the right thing from a compliance perspective, may be deterred from offering a BCA that meets a customer's needs well, concerned about whether this could be perceived as a "direct or indirect" requirement or how they evidence it was not one, thereby reducing customer choice. Moreover, this chilling effect only applies to a limited number of

[23] CCDS_Post-Implementation_Review_2024.pdf (Oct 2024).

market players creating an uneven playing field in the current market context which, as explained above, is materially different to how it was in 2002 or 2016.