

CMA Review of the SME Banking Undertakings 2002
Submission by NatWest Group

NatWest welcomes the CMA's decision to carry out a review of the SME Banking Undertakings 2002 ("Undertakings") and hopes that the following response will assist the CMA in its deliberations. We consider the review to come at a very opportune time, given the recent consultation on the CMA's draft remedies review guidance¹ and the CMA's renewed focus on promoting growth and carrying out its work according to the '4Ps' framework set out by Sarah Cardell.² This complements the CMA's statutory duty to keep undertakings and orders under review, as part of its objective to promote competition for the benefit of consumers, and its mission to make markets work well for consumers, businesses, and the economy.

In that spirit, and as requested in the consultation document,³ we set out our views below in relation to changes of circumstances that make it appropriate for the Undertakings to be released. Although the CMA also has the option to vary or supersede orders and undertakings following the review process, as opposed to fully releasing them, the narrowness of the remaining elements of the Undertakings combined with their age and the circumstances set out below warrant full release.

Changes of circumstances

Increased competition in SME banking markets

The SME banking market has changed significantly since the Undertakings were last reviewed. The growth of challenger banks has been dramatic, in particular with business start-ups, which given an indication of direction of travel in relation to overall market share. Around 43% of new start-up BCAs are now opened with Neobanks, which broadly equals the combined share of the four banks subject to the Undertakings - see Annex.⁴

BCA holders are aware of their options and are looking to exercise them: last year over 50% of UK SMEs were considering switching their main bank provider.⁵ The regular publication of Service Quality Metrics also indicates that SMEs are more engaged and are recommending Neobanks over their more established peers.⁶

This increase in competition has led to a significant response from NatWest and other incumbent banks, in terms of improvements being brought to customer experiences, technological innovation and more competitive pricing. Improvements in technology now make it much easier for customers to multi-bank for different products, and the wider availability of monthly fee-free BCAs (including our own) further facilitates this, increasing customer choice and competition.

This shift away from the largest banks has been reflected across other business banking areas, including in lending, where in 2024, challenger and specialist banks had a 60% share of total gross lending to SMEs – see figure below.⁷

¹ https://assets.publishing.service.gov.uk/media/6729fe5b40f7da695c921b3f/Draft_remedies_review_guidance_.pdf and NWG's response dated 4 December 2024

² <https://www.gov.uk/government/news/emas-annual-plan-to-drive-growth-by-promoting-competition-protecting-consumers-and-enhancing-business-and-investor-confidence>

³ https://assets.publishing.service.gov.uk/media/67ebce90199d1cd55b48c57d/Consultation_document.pdf

⁴ Savanta Switcher Dashboard Q1'25

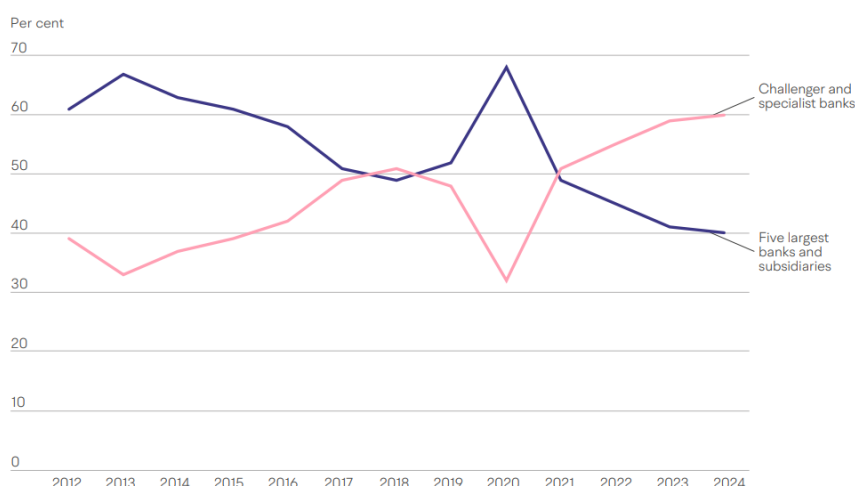
⁵ <https://smartmoneypeople.com/resources/article/switching-business-bank-accounts>

⁶ <https://www.bva-bdrc.com/business-banking-service-quality-great-britain/>

⁷ See page 125, British Business Bank's Small Business Finance Markets 2025 - <https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2025-02/small-business-finance-market-report-2025.pdf> . Specialist banks defined as those other than the biggest 5 UK banks.

Share of annual total gross bank lending to SMEs

Source: BoE and British Business Bank calculations



This shows that SMEs are not constrained to using their existing primary bank to provide them with additional services such as lending. The strong product linkages identified in the 2016 review⁸ between customers' relationship bank (where they held their BCA) and other products such as loans have been substantially loosened through increased competition.

The rise of alternative finance providers has also had a significant impact by attracting businesses traditionally served by high street banks but also by being able to offer services to viable businesses that were previously unable to access funding at all.⁹

Overall, this is a very different competitive landscape from that which the SME Undertakings were enacted to address, such that the Undertakings are no longer necessary to protect or enhance the competition that the clearing banks face, either in relation to lending or BCAs.

How banks compete for SME customers

As shown by the market data referred to above, we can be confident that SME customers are now more engaged than ever and have the information and tools available to them (particularly online) to compare products independent from one another and choose the best ones for them. Far from feeling constrained to source their lending requirements from their existing BCA provider, 50% of SMEs now do so using brokers to ensure they get the best deal.¹⁰ This is a strong indication that SME lending is now highly commoditised, whereas previously it was more relationship-led, further illustrating the erosion of the linkages between BCAs and SME lending and how technological change combined with the evolution of the market have overtaken the Undertakings, due to their age.

The expansion of the Open Banking ecosystem has also changed the way that banks compete for customers and has further levelled the playing field between incumbent providers and neo banks. The free availability of account information through APIs, for example, means that the information asymmetries identified in 2016 between an SME's BCA provider and competing providers no longer exist, thus substantially weakening the product linkages previously cited between BCAs and SME lending.

⁸ CMA Review of 2002 SME banking undertakings, Final decision, para 1.5

⁹ See page 28, <https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2024-03/small-business-finance-market-report-2024.pdf>

¹⁰ <https://nacfb.org/>, CP&D Broker Update

How the SME customer journey has changed since 2016

The primary factor that SME customers consider when choosing banking provider(s) is now one where incumbent banks have no inherent advantage over smaller providers – good digital banking.¹¹ Other factors that previously would have dominated,¹² such as good branch location and the availability of relationship managers, and where incumbent providers are better placed than their smaller rivals, are less important considerations for SME customers.



New regulatory developments overlapping with the Undertakings

The evolving nature of regulation and enforcement in financial services means that specific technical requirements such as the Undertakings are now out of date. The FCA's outcome-focused approach to ensuring that financial firms improve customer outcomes to comply with the Consumer Duty ensures that firms have the flexibility to compete and innovate whilst the interests of customers always remain paramount. The Consumer Duty also requires us to ensure that customers are provided with products that are suitable for their needs, which is inherently incompatible with the 'bundling' of products at least to the extent that such products are chargeable. More specifically, the requirement to conduct Price and Fair Value Assessments as part of our Consumer Duty obligations in relation to each product means that customers cannot be left in a position where they are paying for products or services that they don't need or want.

By contrast, prescriptive requirements such as the Undertakings become ossified over time and, as markets and technology evolve, are liable to create unintended adverse consequences for firms, consumers and the CMA.

Taken in the round, the market and regulatory context out of which the Undertakings arose no longer exists and, accordingly, a change of circumstances exists that merits their release.

¹¹ Finalta by McKinsey Customer Growth & Value and Digital Benchmarks, Key Findings, December 2024.

¹² The 2002 CC report identified that three quarters of SME customers regarded it as important to be near a branch – Conclusions, para. 2.157. The equivalent figure today, according to our data, is 34%.

Annex – market shares