UK Finance

Competition & Markets Authority (CMA) – Review of the SME Banking Undertakings 2002

UK Finance Response

Friday 9 May 2025

About UK Finance

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

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Executive Summary

1. UK Finance welcomes the CMA's decision to launch a review of the SME Banking Undertakings 2002.
2. The market for SME banking has changed since the Undertakings were first introduced, and since the time of the last review in 2016. In addition, with the Government's wider policy to reduce unnecessary regulation to support economic growth informing its recent strategic steer to the CMA, alongside the wider regulatory developments in this space since 2016, it is an opportune moment to consider whether the remaining Undertakings (the 'Limitation on Bundling Provisions') remain appropriate.
3. In engaging with our members on this issue, it has become clear that there are broadly three schools of thought as to what should happen to the Undertakings. Members designated under the Undertakings believe that for the reasons set out above, the Limitation on Bundling Provisions should be revoked. We have also heard that the Bundling Undertaking is no longer relevant because practices have changed across the market. However, feedback from some members not designated under the Undertakings is that the market has not changed sufficiently to warrant the removal of the Bundling provision. We set out more context to these respective positions below.
4. The third cohort of members, representing a sizeable proportion of our overall membership, is relatively agnostic about the future of the Undertakings. This

cohort believes that the Undertakings are no longer relevant, given how long they have been in place and the extent to which the market has changed in that time, but is equally relaxed about the Undertakings remaining, given what they consider to be a limited market impact.

5. We have responded to each question to the extent we are able to reflect our members' views and using data available to UK Finance. Individual banks will be best placed to comment in more detail on the differing approaches to competition for SME customers, changing SME customer preferences, etc.

Questions

***(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.

6. Since 2016, the UK SME banking market has changed, with challenger and specialist banks increasing their share of supply in business current accounts, loans, and deposit accounts.

7. The debt finance market for small businesses has become more diverse in the last decade and is more evenly spread across the UK, and debt finance provision highly digitalised for SMEs. Since 2014, 36 new banking licences have been issued to SME lenders.

8. In 2016, the largest four banks accounted for over 85% of BCAs. UK Finance analysis shows that currently, the eight banks designated under the Undertakings hold about 70% of the BCA market in stock terms. However, this stock figure understates the current level of competition in the market given that it is not reflective of flows – the designated banks hold a lower share of BCA openings, estimated from publicly available data, to be closer to 50%.

9. BCA switching activity remains static and low as there are only c.20-25k CASS switches per annum for business/charities, a very small proportion of the total number of SMEs that could be switching. This should, however, be seen in the context of the aforementioned flow of BCA openings and accounts that are opened without using the CASS service.

10. British Business Bank data showed that of the £62.1bn of gross lending to SMEs in 2024, £37.3bn was provided by challenger and specialist banks. Their share of gross lending (60% – a figure that has doubled over the last decade) exceeded that of the big five UK banks for the fourth year in a row, up from 59% in 2023 and the highest on record.

11. A much more diverse and competitive market for SME finance has also been enabled by the British Business Bank, which has played a key role in catalysing the development and success of the market for challenger banks, as well as crowdfunding, debt funds and asset finance amongst others, helping to achieve a diverse range of lenders to smaller businesses that didn't exist before.

12. While specific data on market share changes for business deposit accounts is limited, the size of the market is estimated by one member to have doubled over the last 10 years. The overall trend indicates a diversification of providers, with fintech firms and digital banks increasingly offering competitive deposit products to SMEs. SMEs have around £270 billion available in deposit and business bank accounts with 29% of SMEs holding more than £10k in credit balances. (UK Finance/Allica Bank/SME Finance Monitor).

13. Most SME deposits are held in current accounts rather than savings accounts. The proportion in current accounts has risen over the past decade from 50.8% in January 2013 (totalling £63.7 billion) to 55.9% in December 2024 (£124 billion). This rise and apparent inertia to seek out higher returns is likely to be influenced by the low interest rate environment prevalent over this period.

***(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) is used by banks other than those subject to the Undertakings, and the effects of such bundling.

14. Banks compete for SME customers across numerous areas. Recognising that the SME market ranges from micro-enterprises to sophisticated businesses with turnover up to £25m, banks design customer propositions to match specific SME segments and to meet the needs and lifecycle stage of these different business types.

15. Various factors influence the decision of a SME business to choose a banking provider or to remain with a current provider. Examples of these factors include:

    a. **Customer Experience**: SMEs expect a convenient banking experience. Responsiveness, speed of service, expertise and integrated processes across different channels are areas of focus that help SMEs to manage their finances.

    b. **Choice of Channels**: Banks have invested in digital channels and mobile banking, offering intuitive user interfaces which are regularly updated and enhanced. Digital banking enables differentiation in the market, and competition based on functionality, ease of use and reliability. Banks also offer telephone banking and branch services, giving customers a choice of how they interact with their banking provider.

    c. **Price**: Most business bank accounts have a cost relating to them, which can vary quite widely across the market. The types of fees can include monthly charges for having a business current account, different transaction charges, cash deposit and withdrawal fees, and borrowing related charges and interest.

d. **Relationship Management**: Access to a relationship manager is an important offering for many, particularly larger, SMEs where having a strong personal relationship is an important factor.

e. **Technology and Data**: Banks are investing in digital solutions, AI, and data analytics to improve loan processing, assess risk, and personalisation. This includes leveraging alternative data sources and partnering with other businesses, like fintech companies and accounting software providers, to create propositions to attract and retain SME customers.

16. There are market providers who offer incentives for business current account switchers, for example, 12 months with no account fee. These offers are promoted to SMEs through digital and other media.

17. Disincentives can relate to the degree to which the needs of the SME are being satisfied by their current provider. If the incumbent offers a good customer experience, choice of products, competitive pricing and, where desired a relationship manager who the SME knows well, a SME may not want to switch. Conversely, where these positive customer services are not in place, SMEs will not hesitate to switch.

18. As noted above, it is important to recognise that competition in the SME finance market has changed and increased in recent years. The finance market now comprises over 150 lenders and some estimates suggest over 300. Most of these lenders do not offer business current accounts. There are also more business current account and deposit account providers offering competitive rates and propositions.

19. SMEs are also making use of Commercial Credit Brokers who have good market knowledge that enables them to obtain the best price, product and structure for their SME customers. According to the NACFB 2024 annual impact report[1], NACFB Members facilitated £26.5 billion of the UK's £38 billion broker-led SME lending market in 2024, with lenders relying on intermediaries for 67% of SME finance transactions on average. However, 61% of this facilitated lending related

[1] https://nacfb.org/nacfb-members-fuel-70-of-uks-38bn-broker-led-sme-lending/

to property finance, 24% for Leasing and Asset Finance. Business Finance (working capital, acquisitions and unsecured lending) was 15%.

20. SME business owners are rarely financial experts and are time poor, so brokers are a vital aid to SMEs to navigate the now diverse SME finance market and for improving access to finance for SMEs, thereby supporting productivity and growth.

21. It is important to note that various conduct principles and/or regulation apply to the market (as set out at paragraph 44), which require brands to ensure that their products, services and policies are leading to good outcomes for SMEs. Brands need to ensure that any propositions meet these criteria.

22. The introduction of The Small and Medium Sized Business (Credit Information) Regulations 2015 (CCDS) has enabled non-BCA lenders to access business current account and credit data held by the banks captured by the 2002 Undertakings.

23. The CCDS Regulations require designated banks (of which there are currently nine) to share in-scope SME credit data with designated CRAs (of which there are currently four). A designated bank must share data specified in the regulations with these CRAs. These CRAs are broadly required to provide this information to other lenders.

24. The Post Implementation Review of these regulations published by HM Treasury on 30th October 2024 concluded that:

    a. the regulations have significantly enhanced competition in the SME credit market. Researchers (Babina et al. 20248) have found that CCDS has effectively increased the likelihood of SMEs forming new lending relationships, particularly with non-bank lenders, while also reducing interest expenses for those businesses. Their analysis suggests that the policy has boosted the probability of SMEs establishing new borrowing relationships by 25%. Schemes such as CCDS are seen as facilitating easier access to financial data, which fintech companies may leverage to offer tailored financial products and services to SMEs, which could result in increased loan availability and potentially better terms.

b. Likewise, the report by CFIT's SME Taskforce sets out that that CCDS has made and continues to make a positive contribution to the SME finance sector and provides a very valuable source of data to lenders.

25. This evidence suggests that providers of SME finance are able to access transactional and credit data to support credit decisions, although business current account holders still have the access to the most current data.

26. Having direct and immediate access to transactional and credit data supports dynamic credit assessment and the early identification of credit deterioration, and enables lenders to act swiftly to support the SME who may be experiencing financial difficulty.

27. Provision of and competition for business deposit accounts are not constrained by access to transactional or credit data.

(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 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.

28. New channels for seeking funding using technology and innovation, such as on-line eligibility tools, helping to make it easier for SMEs to shop around and compare options when looking for external finance. Lenders provide a wide range of channels for business engagement, including telephony and digital channels

and relationship managers for some SME cohorts. The speed and ease of loan applications has significantly improved in recent years.

29. The factors SMEs consider when choosing a banking provider(s) for their banking needs are outlined in our answer to the previous questions. For business deposit accounts, the interest rate paid, trust in the brand, and the ease of access will be key factors. For lending products key considerations will be trust in the brand, recommendation, interest rates, terms and conditions of the lending, ease of application and speed of decision.

30. Switching in the business current account market for established SMEs has been low historically and has not changed materially since 2016. This is despite the significant increase in and access to, comparison information/tools, along with increased awareness of new providers and switching tools. CASS SME switching data should not be considered in isolation, as the SME segment is not homogenous and accounts are opened outside of the CASS service.

31. However, although CASS switching has remained low, challenger brands have grown market share by providing attractive propositions to new businesses and market to existing customers who may wish to try alternative account providers without making a full switch. The market is typified by high levels of births and deaths, with a birth rate of over 11% of the market in every year since 2001, bar the Global Financial Crisis years of 2009-10. Deaths have followed a similar pattern, with rates of nearly 11% each year on average.

32. The ability to open or switch BCAs for most businesses is now very straightforward, with digital account opening journeys available and automated searches.

33. UK Finance maintains an online guide which helps to standardise and simplify the information required to open or switch to a new business current account, in association with 18 business bank account providers operating in the UK.

34. As stated previously, the willingness to switch BCA provider, is driven by many different factors which brands compete on. Financial offers and incentives are only part of this mix.

35. The CMA identified availability of pricing information, a lengthy and onerous accounting opening process, low Current Account Switching Service (CASS) awareness, and loss of historical data, as barriers to switching process, alongside

a fear that switching would make it less likely that customers would be able to access ongoing lending or future lending.

36. We believe that these barriers have lessened since 2016. The widespread adoption of the internet has had a major influence on behaviours, with consumers and SME owners making increasing use of online sources like social media, online reviews, and product information pages to research products and services before making a purchase decision. Consumers and business owners are using online resources to gather information, compare prices, and read reviews, ultimately leading to better informed choices. Among the resources available are SME Service Quality Metrics, introduced by the CMA Retail Banking Order 2017.

37. Business account opening is easier due to digital technology. Some banks offer rapid opening times, sometimes within minutes or 24 hours, depending on the bank and the type of business.

38. Overall CASS awareness has shown an upward trend over recent years, with 77% of individuals aware of the service in Q3 2024, according to The Payments Association. However, as noted at paragraph 9, the number of switches annually for business/charities remains relatively low.

39. To this point, non-designated members have suggested that while the BCA market for start-ups is competitive, it is less so for established businesses. This cohort of members has expressed the view that revoking the Undertakings is unlikely to support established SMEs into more proactively exploring the BCA market.

40. The data on the extent to which established SMEs are likely to explore the market more generally is not clear either way. British Business Bank data indicates that 50-60% of SMEs only consider a single lender when seeking a loan, and SME Finance Monitor data indicates an almost even split in the proportion of SMEs that go straight to their primary bank (49%) and those that explore other options (51%).

41. One non-designated member has expressed concern that were the Undertakings to be revoked, there could therefore be an increased consolidation of the established SME BCA market. Some other members have, however, suggested that the Undertakings have not by themselves encouraged switching in the same market and so are unlikely to make much difference in future whether they remain or are revoked.

42. Multi-banking is a growing trend in the UK SME market. The rise of challenger banks and the increasing array of providers and product options are key factors. SMEs are increasingly willing to use different providers for different purposes. For example, SMEs may choose an asset or invoice finance provider for asset purchase or to improve cash-flow, a different provider to make and receive payments, another for deposits and a different business payments or credit card provider.

43. In terms of how the approach of different kinds of SMEs to shopping around for deposit accounts and loan products has changed, one designated member has indicated that this is based on customer needs, with a difference in demographics e.g. younger generations and/or new SME start-ups with no lending required will typically go with the cheapest and simplest provider.

(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.

44. Regulatory developments since 2016, most notably the introduction of the FCA's Consumer Duty, have strengthened protections for SMEs and led to a regulatory overlap with the Limitation on Bundling Provisions. The Consumer Duty, which came into force in 2023, requires firms to act in good faith, avoid causing foreseeable harm, and support customers in making informed decisions. 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 original Undertakings.

45. In addition to the Consumer Duty, which a number of major high street banks voluntarily apply to non-regulated lending, long-standing FCA Principles for Business and voluntary SME lending standards, have also added to the framework of protections in place for SMEs since the Undertakings were introduced. These include requirements for fair treatment, clear communication, and transparent pricing for SME customers. Likewise, banks are also subject to general FCA conduct principles which would drive similar results as the Consumer Duty.

46. As noted earlier in this response, wider technological changes have improved transparency and customer mobility, making it easier for SMEs to compare services and switch providers. These changes have reduced the potential for customer lock-in and in this context, the original CMA undertakings now appear duplicative – particularly against the now overlapping regulatory protections in place.

47. With this context in mind, our bound members believe that revocation of the Undertakings could support regulatory simplification while leaving in place a high standard of consumer protection and competition in SME banking more generally.

48. It is also important to consider the potential for regulatory overlap among the CMA, FCA, and the PSR, and the impact this could have on innovation. Products affected by the CMA's remedies also fall under the remit of the FCA and PSR, creating a confusing and sometimes duplicative regulatory framework. The introduction of the Consumer Duty further strengthens the FCA's authority, enabling it to intervene in areas such as current accounts and SME lending. This misalignment between regulatory bodies may deter firms from exploring new opportunities and could ultimately stifle innovation within the sector.

49. If the Undertakings are to remain, designated banks would continue to bear the cost and compliance burden associated with demonstrating compliance with these remedies to the CMA – resources that could be better directed toward enhancing competition and developing new products or services; although it is recognised that the Undertakings are likely to be ingrained in the banks where they apply. One designated member has suggested that if the Undertakings are to remain/be amended, it would be appropriate to release the 2014 agreement and associated internal audit requirements which are no longer necessary given high levels of awareness and existing internal controls frameworks, which make an annual audit redundant.

50. The regulatory overlap between the CMA, FCA, and PSR adds unnecessary complexity to the retail and SME banking landscape. Aligning and streamlining the responsibilities of these regulators would not only reduce inefficiencies for financial institutions but also improve outcomes for consumers. A more coordinated approach would support fair competition and encourage innovation across the sector.