Response to Provisional Decision from Allica Bank received 30 September 2025

On behalf of Allica Bank, I write to support the response submitted by Innovate Finance as part of the CMA's review into SME Banking Undertakings, and reiterate the key points made in Allica Bank's response.

We are strongly opposed to the removal of the Limitation on Bundling Provisions (LOBP), which we believe would risk harming customers both for lending and Business Current Accounts (BCAs) for the following key reasons:

There has been no change in BCA market share for established SMEs

There's a major distinction to be made between the BCA market for micro SMEs (<5 FTE, typically 1 FTE) and established SMEs (>5 to 10 FTEs). Established SMEs are smaller in number but provide a larger contribution to economic growth.

Competition in the micro SME BCA market has increased in the last decade, but there has been no change in the established SME BCA market. A survey conducted by Allica Bank shows that five major banks hold 89% of the BCA market share, with other traditional banks holding 5% and digital banks holding 6% share.

We support Innovate Finance's view that it is unclear how the CMA has concluded there has been a "material reduction in market concentration". This market concentration in the established SME BCA market means customer outcomes are poor.

Removing the LOBP could limit value for SMEs

Research from Allica Bank suggests the majority of SME deposits are being held in current accounts rather than savings accounts, where they're earning little to no interest. On average, SMEs are earning an effective rate of 1.48% on their instant-access deposits, compared with the 3.4% effective rate received on average by corporates. This means SMEs are missing out on £5.25bn of lost interest in business current accounts.

As Innovate Finance suggest, bundling will not only restrict market access for competitors, but also remove incentives for business current account providers to offer competitive account pricing and service quality.

Removing the LOBP could hinder broker-driven loan growth, limiting SME access to finance

The most recent British Business Bank annual review indicates that 50-60% of SMEs only consider a single lender, and SME Monitor data reveals that almost half (49%) go straight to their primary bank for borrowing.

Removing the LOBP would likely enable the major banks to increase these percentages further, and seek to reduce the broker share. Brokers are the main channel by which challenger and fintech SME lenders have grown their share of SME lending over the last decade, and the use of brokers for SME finance has increased significantly since the 2002 order and since the last CMA review in 2015/16.

Our leadership has seen first-hand the reluctance at certain Bound Banks to work with the broker market in favour of a strong preference for 'direct' relationships. 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.

Removing the LOBP could significantly hinder the growth of the broker channel and thereby hinder access to SME lending itself.

Removing the LOBP could present further barriers for challenger banks to scale

New and innovative smaller banks face significant barriers to scaling, hence the government announcing in the Financial Services Growth and Competitiveness Strategy that the PRA and FCA will launch a new scale-up unit to support challenger banks to grow. This followed evidence from Allica Bank CEO Richard Davies to the Lords Financial Services Regulation Committee in November 2024. A key barrier to growing, and therefore providing more finance to SMEs, is the availability of funding through customer deposits. The CMA's decision could limit the availability of funding for challenger banks, and be inconsistent with previous governments' efforts to grow the sector and the current government's new scale-up unit.

For the reasons set out above, Allica Bank does not support the removal of the LOBP because there is minimal benefit in its removal, at the cost of potentially reversing successive governments' efforts to create fair competition in the SME banking market. These efforts have helped SMEs get a better deal from their banking provider, enabling them to support jobs and growth in the economy.

We support the view of Innovate Finance that the bundling restriction should remain as long as the Bound Banks continue to hold 70-80% market share. The loss of competition would not only have a worse outcome for SMEs and bound bank competitors, but also puts at risk the substantial investment that has been made in creating and supporting banking competition.