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Innovate Finance follow-up feedback following meeting with the CMA on Thursday, 16 October 2025
CMA Provisional Decision: Review of the SME Banking Undertakings 2002 (Removing Bundling Limitation)

Background

Following the submission of the Innovate Finance response[1] to the Competition and Markets Authority's (CMA) *"Provisional decision: Review of the SME Banking Undertakings 2002"* which is also referred to as the "Limitation on Bundling Provisions" (LOBP), the CMA kindly convened a meeting with our FinTech members to further discuss their views, the provisional decision and next steps. This meeting took place on Thursday, 16 October 2025.

As the CMA is aware, we and our members are against the provisional decision to remove the LOBP because there is a risk of significant detriment to the FinTech sector and SMEs should that decision proceed.

As the CMA finalises its decision, we thought it would be helpful to reiterate our position by further highlighting some key points in writing. We would be grateful if this short note can be passed on to the decision makers.

Summary of key points explaining our position

Innovate Finance and our members take the position that the evidence does not support the Provisional Decision's findings for the following key reasons:

1) Changes to the competitive landscape

Four Bound Banks continue to dominate the market in holding 60-70% by volume and 70-80% by value of the lending market, with one bound bank holding 40% BCA market share. The 2016 Final Decision of the ban cites that there *"remain strong product linkages between business current accounts (BCAs) and lending to small and medium enterprises (SME lending), and that this particularly favours the longer-established banks"*.[2] Our members urge the CMA to explain why this principle no longer applies in a highly concentrated market.

2) Market concentration

Further to the above, it is hard to agree with the determination that there has been a "material" reduction in market concentration in the loans/deposits market since the LOBP was introduced.

[1] Innovate Finance, *CMA Provisional Decision: Review of the SME Banking Undertakings 2002 (Removing Bundling Limitation): Innovate Finance response*. See here: https://www.innovatefinance.com/consultation/cma-provisional-decision-review-of-the-sme-banking-undertakings-2002-removing-bundling-limitation-innovate-finance-response/

[2] Competition and Markets Authority, *Review of 2002 SME banking undertakings: Final decision*. See here: https://assets.publishing.service.gov.uk/media/57a8c29940f0b608ab000000/sme-undertakings-final-decision.pdf

The Bound Banks are estimated by the CMA to continue to provide 60-80% of SME lending by number of loans. Two banks are noted to each hold 30-40% by number of loans. This still represents significant market concentration. Likewise for deposit accounts, the CMA's provisional decision notes that one bank also has a 30-40% share by both value and number of deposit accounts. While the other Bound Banks are noted to have less than a 20% share, if each of the other five has on average a 10% share, this would equate to the Bound Banks maintaining in aggregate 80-90% market share. This constitutes significant market share.

3) The need to consider segmentation

Regardless, the CMA cannot accurately make a determination of market concentration in the supply of business loans and/or deposit accounts without considering the segmentation of the SME market and the relative economic value of each part of the SME market. One of our member's survey suggests that the five major banks continue to hold 89% of the established SME BCA market, which is the part of the SME market that provides the most economic contribution. While the CMA is not considering market concentration in the BCA market directly, it does suggest significant competition issues remain and the potential that Bound Banks are using their market concentration to limit competition in the established SME BCA market. This is precisely what the CMA should be considering. This warrants further investigation by the CMA before making a determination.

4) Changes in customer behaviour

The BCA switching rates are unchanged at 3% and a return to bundling can only entrench customer inertia. Furthermore, a reversion to bundling is at odds with the Financial Conduct Authority's (FCA) Consumer Duty work citing concerns in the BCA market regarding fair value (e.g. predatory pricing) and customers' ability to understand the outcomes (e.g. low financial literacy). The FCA states that this sector is an area of *"existing concern"* where there *"may be harm or the potential for harm"*.[3] If the CMA's review is based solely on likelihood of abuse of dominant position, the Consumer Duty work strongly suggests current market dysfunction, if not abuse.

5) Pro-market regulatory developments

The Prudential Regulation Authority (PRA) website[4] says that 11 of 41 new banks have exited the market, and not all remaining banks offer SME banking services. The FCA data[5] shows the same long-term trend of alternative providers leaving the market.

6) Impact on foreign exchange transactions

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[3] Financial Conduct Authority, *Our Consumer Duty focus areas*. See here: https://www.fca.org.uk/publications/corporate-documents/consumer-duty-focus-areas
[4] Bank of England/Prudential Regulation Authority, *New banks authorised since 2013*. See here: https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit/new-banks-authorised-since-2013
[5] Financial Conduct Authority, *Information on e-money and payment institutions -January 2025*. See here: https://www.fca.org.uk/freedom-information/information-e-money-and-payment-institutions-january-2025

As noted during the meeting, should the CMA proceed with its provisional decision, there is a significant risk for SMEs when considering foreign exchange. It is well-documented that billions are lost in currency exchange, where it has been noted to us and the CMA that there is around £8.1 billion of hidden fees in foreign exchange transactions. For SMEs, working capital is most important and they would ideally seek to export their services abroad. If a bank is allowed to assert that to receive a loan, the SME needs to have a BCA with the bank, that could limit their ability to get a good foreign exchange rate as offered by some FinTech payment service providers. This would lead to increased costs for SMEs and hinder their ability to grow by exporting their services abroad.

Conclusion

In summary, bearing in mind the points above, our position is that the CMA should not remove the LOBP. We echo the sentiment shared by other bodies, such as the Federation of Small Business, who, we have been told, stated in their response that it would be "perverse" to relax rules.

We acknowledge the legal constraints faced by the CMA in conducting this review, particularly on scope, but we would **urge the CMA to pause its decision-making process and further consider the points above**.

We are grateful to the CMA for engaging in constructive dialogue with us and our members. We also look forward to hearing more from the CMA about the wider strategic review of the remedies portfolio/financial services remedies.

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