Federation of Small Businesses

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Federation of Small Businesses

Consultation response:

Provisional decision: review of the SME Banking Undertakings 2002

27th August 2025
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27th August 2025

To whom it may concern,

RE: Provisional decision: review of the SME Banking Undertakings 2002

FSB welcomes the opportunity to provide a response to the above call for views.

FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

FSB is concerned about the impacts on small business customers of CMA's provisional decision to release the limitation on bundling provisions. We disagree with the conclusions that 'they are no longer appropriate and should be released'. The limitation on bundling serves as good market discipline to financial institutions to provide consumers and SMEs alike with greater amount of choice when accessing banking products. We stand by the arguments as outlined in our previous consultation response on the SME Banking Undertakings 2002 review below.

When reviewing the SME Banking Undertakings, FSB's primary focus is the interests of small business owners. Under current rules, consumers have the freedom to independently shop for two different financial products, enabling them to secure the best possible deals for both. This dual-choice process incentivizes the market to offer the best value for each product. Allowing banks to reinstate bundling would eliminate consumer choice and weaken market discipline, reducing incentives to provide competitive products. Ultimately, this would lead to suboptimal outcomes for SMEs. Regardless of changes in the SME lending landscape, bundling inherently undermines competition in the banking sector, and it is difficult to foresee any outcome other than a disadvantage for borrowers. Since current accounts and loans serve distinct financial purposes, compelling consumers to purchase them together contradicts the principle of consumer choice.

The current limitations on bundling already permit major banks to bundle in certain situations - for example, when shared security is necessary (e.g. a business current account and overdraft using debenture mortgage security for a loan) or when a price incentive benefits the customer (i.e. lower fees or interest rates when taking the bundle). This means that bundling is allowed when it is necessary for securing the loan or when the customer gains a financial benefit. The existing legislation allows banks to offer better deals on current accounts as an incentive to accept loan offers. Removing these undertakings would likely eliminate the motivation for banks to provide preferential terms, making it difficult to see how consumers would ultimately benefit.

Another major concern for SMEs seeking loans is the additional complexity bundling introduces into the lending process. Some SMEs, particularly microbusinesses, struggle with financial literacy and already find borrowing money challenging. The UK has a particularly intricate financial landscape, and accessing credit as a small business can be a daunting task. Reintroducing bundling would further complicate this process, potentially deterring businesses from pursuing credit altogether. Bank of England and Department of Business and Trade data shows that 77% of small business owners would rather grow slowly than borrowing to grow faster[1]. We should be looking to collectively build trust and confidence among SMEs to borrow, in order to reduce that 77% figure and deliver stronger business investment and stronger economic growth. In that context, it would seem perverse to relax these undertakings. Instead of streamlining access to finance, bundling would require SMEs to conduct additional calculations to fully understand the long-term financial implications of various credit channels.

Beyond being detrimental to consumers, it is unclear how increased bundling would contribute to improving SME lending. High Street banks remain the primary lenders in the SME market, yet estimates suggest an SME funding gap of approximately £65 billion, according to Allica Bank. Given that major banks already control the majority of business current accounts in the UK, it is unclear how removing the bundling restriction would enhance their SME lending efforts.

Large banks may argue that their share of SME lending has declined and that competition in the sector has grown. However, this does not justify reducing consumer choice in both lending options and current account selection. The rise in SME lending competition demonstrates that existing regulations have been effective rather than redundant.

Furthermore, the evolving financial services landscape raises questions about the extent to which current account bundling should be permitted. Since bundling was last allowed, SME banking has expanded significantly, with a broad range of current account offerings featuring various functionalities. These include diverse account access methods, payment transfer services, and tools for tracking expenditures. Permitting further bundling would reduce competition for deposits within the fintech sector, while forcing SMEs to accept less functional products simply to access credit. This presents additional non-monetary disadvantages.

Key unresolved issues include:

- Whether SMEs will retain the right to use sophisticated current accounts for specific transactions if a lender cannot provide equivalent in-house functionality.
- The cost implications of switching to a bundled account that offers similar features, particularly for businesses with accounts supporting multiple currencies at low costs.
- Whether borrowers can maintain secondary accounts or whether loan providers can legally require businesses to conduct all banking with them.
- Whether there should be restrictions on the obligations lenders can impose regarding current account requirements.

Given these uncertainties, we continue to argue against the removal of bundling limitations as it appears to introduce more complexity and potential disadvantages for SMEs rather than offering meaningful benefits.

[1] https://www.bankofengland.co.uk/quarterly-bulletin/2024/2024/identifying-barriers-to-productive-investment-and-external-finance-a-survey-of-uk-smes

Yours sincerely,

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