



3 September 2025

CMA Review of the SME Banking Undertakings 2002
Response by NatWest Group to CMA Provisional Decision and notice of intention to release

NatWest Group welcomes the CMA's Provisional Decision to release the SME Banking Undertakings. We note that feedback on the CMA's previous consultation round was received from various parties and would like to take this opportunity to respond to some of the points made in those submissions to the extent that we contest them. We hope that this will assist the CMA in finalising its decision to release the Undertakings.

Points made by the Federation of Small Businesses

The submission by the FSB starts from the assumption that the bound banks have a desire to impose bundling obligations on our customers and would do so absent the Undertakings. The economic and competitive conditions that led banks to impose bundling obligations prior to 2002 were completely different and, as stated in the Provisional Decision, these circumstances no longer exist.

The submission also maintains that the Undertakings provide an incentive for the bound banks to offer preferential terms on current accounts to encourage customers to accept loan offers. This overlooks the fact that the Undertakings already permit the bound banks to offer incentives for customers to take on loans or deposit accounts alongside their current accounts and yet, at least in NatWest's case, choose not to do so. This in turn is because the FSB's position misunderstands the nature of competition in the markets for current accounts and business loans. As noted in our previous submission, the loans market has been increasingly commoditised through the use of brokers and price comparison services, meaning that customers are able to compare the merits of current account and loan products independently. Given the constraints of competition from the non-bound banks, the bound banks would not be able to compete effectively through these channels if they reserved their most preferable rates for bundled products and, accordingly, there is no commercial incentive to do so.

The lending required to generate interest income for banks entails capital requirements that are due to increase with the introduction of Basel 3.1, whereas fee income from current accounts can be generated without holding associated capital. This is a further reason why there is no incentive for banks to offer discounted fees on current accounts in order to incentivise further lending and, as noted above, such incentives can in any event be offered with or without the Undertakings in place. In fact, banks being incentivised to offer discounts on BCAs for customers taking out loans from them, would bring competition and customer outcome benefits.

The FSB states its concern that release of the Undertakings would increase complexity in the lending process. In reality, however, it is the requirement to comply with the Undertakings in circumstances where they no longer offer any benefit or protection to customers that has increased complexity both for the bound banks and our customers. The additional information that the bound banks have been required to include in customer journeys in order to

evidence compliance with the requirements introduces complexity, as do additional customer communications that are triggered by often very minor technical breaches. Following the CMA's request on 10 November 2020, for example, the bound banks have been required to include specific wording setting out the content of the anti-bundling rule "...on the banks' websites or any written and verbal communications at the outset of any loan application or during processes involving customer decisions on applying for a business loan or accounts."¹ This has created additional complexity in NatWest's case through the inclusion of FAQs that, for the reasons stated in our earlier response, no longer serve any useful purpose.

The FSB refers to an SME funding gap of £65bn and argues that removing the Undertakings would do nothing to address this. Given the significant compliance costs associated with the Undertakings, however, the release of these requirements would free up significant resource that could be re-allocated to addressing that funding gap. NatWest is already seeking to improve access to SME lending through a radical transformation of our lending journeys for all SME customers (including current account customers and those without NatWest current accounts). Combined with improvements to our credit risk decisioning, including the use of AI models, this will allow us to lend more within our risk appetite than we are currently able to do. Such improvements require significant investment that has to be balanced against other unavoidable costs including compliance costs. It cannot therefore be said that removing such compliance costs to the extent that they no longer serve their purpose will do nothing to free up additional resources that could be used to address the SME funding gap – the opposite is true.

Finally, FSB argues that the increase in competition we have seen over the last few years has been as a result of effective, rather than redundant, regulation. Whilst we agree that some regulation, in particular Open Banking, has contributed significantly to the technological innovation, new market entry and increased competition that the bound banks have faced, the same cannot be said of the Undertakings, as these market developments would have occurred with or without them.

It is therefore our view that the concerns raised by the FSB in its response cannot be substantiated.

Points made in the submission by Allica Bank

Allica Bank states that, based on experience by its senior staff in previous roles at bound banks, the ongoing operational cost of compliance with the Undertakings is minimal. This is incorrect. Bound banks incur significant ongoing expenditure to ensure compliance across front-line business teams, compliance and risk, internal audit and legal functions. NatWest's internal audit team estimates, for example, that the annual audit for Undertakings compliance utilises about 10% of the annual FTE budget for audits in the Commercial and Institutional Ring-Fenced Bank business line audit plan (which covers over 40% of Group turnover). Furthermore, it is highly unusual for the internal audit function to conduct audits on the same compliance requirement every year, as required under the 2014 Agreement.

The Allica Bank response goes on to discuss bank profitability in general terms and in specific relation to net interest margin, referring to funding cost advantages brought by balances on non-interest-bearing current accounts. To the extent that these advantages do exist, however, they are shared by all the banks that have expanded into the current account market since the Undertakings were last reviewed in 2016 – an increase in competitive pressure that, as noted above, is entirely unrelated to the Undertakings.

Allica Bank goes on to argue that release of the Undertakings could undermine the broker channel that is so important to improve access by time poor SMEs to the best value lending products. The response does not explain why this should be the case. NatWest delivers c. £750m of term lending through the broker channel annually and strongly supports it as an efficient way for customers to access our lending, with or without the Undertakings in place. We have also seen sustained growth of around 20% per year in the use of the broker channel across the market.

¹ See annex

Finally, the Allica Bank response alleges that release of the Undertakings would have no benefit to customers. As noted above, however, compliance with the Undertakings imposes significant costs and takes up considerable management time across multiple areas of NatWest, all of which could be redeployed in the service of customers.

Points made in the submission by Clear Bank

The Clear Bank submission refers to the strong product linkages identified by the CMA in its 2016 review and alleges that releasing the Undertakings would prevent current account providers that do not also offer business loans from competing effectively.

NatWest contests this position. As the CMA has noted, these product linkages are weaker today than they were in 2016, not least because of the technological and competitive innovation that has transformed the current account market since then.

The Finalta report cited in our response to the previous consultation round shows that good digital banking is now the primary competitive differentiator in the current account market and, as noted above, digital tools including price comparison services and the broker channel now allow customers to quickly identify the best value services across business banking. In this environment, there is nothing to suggest that re-imposing bundling obligations would create any kind of competitive advantage for the larger banks or any others.

Points made in the submission by the FCA Financial Services Consumer Panel

The Consumer Panel response argues that the CMA should proceed with caution in releasing the Undertakings on the basis that the FCA's regulatory perimeter and consumer credit regulation does not cover off the same scope of customers as the Undertakings and Consumer Duty is not yet sufficiently embedded to provide assurance in their place. Whilst these points are arguable, they are no reason to delay the release of the Undertakings.

As the CMA has noted in the Provisional Decision, changes to the competitive landscape and consumer behaviour merit the release irrespective of FCA regulation including Consumer Duty. It remains NatWest's position that there is a considerable degree of overlap between the Undertakings and Consumer Duty.

Points made in the submission by Innovate Finance

Innovate Finance opposes the release of the Undertakings on the basis of the product linkages between current accounts and business lending. However, as noted in the Provisional Decision, the competitive landscape and customer behaviour has evolved significantly, such that the bound banks no longer enjoy the same structural advantage that may previously have existed to warrant the subsistence of the Undertakings.

Innovate Finance also alleges that the reduction in operational costs from releasing the Undertakings would be minimal. As noted above in response to the submission on this point by Allica Bank, this is incorrect as the ongoing costs of compliance with the Undertakings is in fact significant.

The response goes on to state that the growth of challenger banks and fin-tech lenders has been enabled by well-established regulation, including in relation to prudential and macroeconomic stability. Whilst we do not disagree with this, the linkage that Innovate Finance makes to the Undertakings, which have nothing to do with prudential regulation, appears tenuous.

Innovate Finance emphasises the importance of the broker channel for SME lending and alleges that the larger banks would wish to reduce broker usage. NatWest agrees that the broker channel is increasingly important as an effective and essential platform for competition in the lending market and notes that, given the increasingly commoditised nature of the market noted in our previous response, the larger banks would not be in a position to reduce usage of brokers even without the Undertakings in place. As noted in response to the FSB's submission, larger banks would find themselves unable to compete via the broker channel (or on price comparison services) if they reserved their most preferential rates for bundled products.

The Innovate Finance response also sets out concerns relating to a cost of funds advantage enjoyed by the larger banks. However, as noted in response to the same point made by Allica Bank, this has little to do with the Undertakings.

Annex (confidential)