

BANK OF IRELAND UK
RESPONSE TO CMA STATEMENT OF ISSUES IN RETAIL BANKING MARKET
INVESTIGATION

1. Bank of Ireland UK ("**BOIUK**") welcomes the opportunity to comment on the CMA's statement of issues in its retail banking market investigation (the "**Statement of Issues**").
2. BOIUK does not consider it unreasonable for the CMA to investigate the three theories of harm outlined in the Statement of Issues. BOIUK intends to co-operate fully with the CMA's investigation and to provide assistance to the CMA in undertaking the investigation.
3. At this stage of the investigation, BOIUK considers that it would be helpful for the CMA to take into account the following general points.
 - a. In the Statement of Issues, the CMA emphasises the need to take into account previous reviews of the sector and, where appropriate, to build on them rather than replicate them.¹ Whilst BOIUK understands and appreciates the need to minimise the burden on parties involved in the investigation, BOIUK would caution against the CMA forming its views with reference to past competitive dynamics. BOIUK welcomes the CMA's intent to take into account current and future developments and notes that a number of these developments have had a considerable impact on the sector and the nature of competition within it. In addition to the developments listed at paragraph 19(j) of the Statement of Issues, BOIUK notes in particular:
 - i. the increasing adoption of technological innovations in recent years, which has changed the ways in which customers interact with their banks and has the potential for significant effects on the way banks compete;²
 - ii. the increasing popularity of peer-to-peer lending and crowdfunding services as alternative means of financing for both individuals and SMEs;³ and
 - iii. recent initiatives undertaken by participants in the retail banking sector to encourage and facilitate switching (including seven-day current account switching services, as mentioned in paragraph 19(j)). BOIUK welcomes the CMA's intent to take such developments into account,

¹ Paragraphs 15 and 17 of the Statement of Issues.

² For example, see Tesco Bank's response to the CMA's consultation on the possible market investigation, page 1, referring to technological innovations such as Paym and the increasing adoption of online and mobile channels, and page 2, referring to Tesco Bank's achievement of considerable scale in certain retail banking products by pursuing an online and telephone-based strategy (with 9 out of 10 of its customers buying online). See also RBS's response to the consultation, pages 4-5, on the anticipated impact of technology companies starting to provide services akin to traditional PCA providers.

³ See also e.g. Paragon Bank's response to the CMA's consultation on the possible market investigation, page 4, noting (in the context of PCAs) that "the UK is going through an exciting period of change in banking", with numerous applications for banking licences undergoing consideration; introduction of new services and products by established non-bank brands including retailers; technological developments facilitating the growth of online-only banks; and the government's MiData programme; see also page 5 (in the context of SME banking), noting that technological developments and the relative retrenchment of mainstream banks from SME lending have helped to encourage a raft of new entrants with varying business models, and that alternative finance (e.g. peer-to-peer lending and invoice and supply chain finance) has started to play an important role, albeit from a small base.

and notes that they will need to be considered on a forward-looking basis as the true extent of their effects has not been fully felt yet.

- b. With reference to paragraph 21 of the Statement of Issues, and based on BOIUK's own experience:
 - i. BOIUK considers that products such as invoice finance, asset finance and peer-to-peer lending can be considered alternatives for SME business loans and therefore the competitive effects of such products should be taken into account. BOIUK competes not only with full-service banks in respect of lending to SMEs, but also other suppliers specialising in products such as those mentioned above; and
 - ii. the CMA may also wish to consider whether sources of finance available to individuals are substitutable for SME business loans, at least for smaller SMEs: BOIUK is aware that many small businesses may rely on e.g. a personal credit card or line of credit as a source of finance.
- c. Geographic scope: the core issues which the CMA will investigate will have many common features across the UK as a whole and, as such, it makes sense for the CMA to focus its analysis and studies on a UK wide basis.
- d. With reference to paragraph 41 of the Statement of Issues:
 - i. BOIUK notes that switching rates per se are not a totally effective method of measuring customer movements, particularly in respect of BCAs. Businesses may open a new account with a new provider and over time transfer facilities to the new provider whilst running both accounts in parallel for a period, only closing the old account at a later stage. This gives rise to a form of "silent switching" that is not easily measurable. It will therefore be important for the CMA to assess the effect of multi-banking and partial/gradual switches as part of its analysis; and
 - ii. the CMA suggests that comparative analysis of switching in other industries may be helpful to the CMA's analysis of the costs and risks of switching. As levels of switching will vary widely between different industries in light of the specific characteristics and nature of those industries, BOIUK would caution against drawing parallels with switching levels in other industries unless the characteristics of those industries are clearly comparable with those of the retail banking sector. In addition, the CMA will need to consider whether any finding of low levels of switching should necessarily lead to a conclusion of uncompetitive conditions.
- e. Externalities: in conducting this investigation, the CMA should be fully aware of "externalities" over which banks have no form of control or influence. Such factors include, for example:
 - i. errors by direct debit takers when switching occurs, which may impact on customer willingness to switch;
 - ii. the time and effort involved for customers in complying with anti-money laundering checks when choosing a new bank;
 - iii. the effects of the global financial crisis; and
 - iv. the central bank low interest rate environment.

4. The brief general comments provided above are not intended to address all of the propositions raised in the Statement of Issues; as the market investigation develops, BOIUK will wish to make more comprehensive representations on the points raised in the Statement of Issues and no doubt other issues which will arise, and therefore reserves its position accordingly. In the meantime BOIUK will of course be happy to assist the CMA with any other queries it may have.