



**Retail Banking Market Investigation
CMA's Updated Issues Statement, 21 May 2015**

Response on behalf of Barclays Bank PLC

15 June 2015

1.1 **Please note:** [...] Barclays has provided its comments below in the time available, and reserves the right to supplement its response further. Certain information accompanying the CMA's Updated Issues Statement ("**UIS**") has been redacted and Barclays reserves the right to review and comment on all Barclays-specific information in due course.

2. **Executive summary**

2.1 This submission is made on behalf of Barclays in response to the UIS, dated 21 May 2015, the appendices to the UIS dated 21 May 2015, the report entitled "Personal Current Account Investigation: A Report for the Competition and Markets Authority by GfK NOP", published 21 May 2015 ("**GfK Survey Report**"), the CMA's case studies of new entrants (Metro Bank, Tesco Bank, TSB) published on 21 May 2015, the CMA's additional case studies of new entrants (Virgin Money and Nationwide) and its prospective entrants paper of 5 June 2015, the CMA's review of the 2002 SME Undertakings, as well as its consultation on whether to review the Northern Ireland PCA Banking Market Investigation Order 2008 (the "**NI Order**").

2.2 Barclays welcomes the opportunity to comment on the issues that the CMA considers are relevant to its investigation based on its analysis to date, as Barclays considers that the UK retail banking sector is increasingly competitive. Customer expectations are rising in the round, and the pace of technological change creates new opportunities and challenges. Competition is coming from a range of sources – many new and some more established. Their impact ranges from the more incremental to the dramatic. As a forward looking and ambitious business, Barclays wants to engage existing customers and attract new customers. It seeks to offer straightforward propositions which meet customers' needs, leading them to make a positive choice to bank with Barclays.

2.3 In summary:

2.3.1 In Barclays' view, the UK retail banking sector is distinct and care should be taken when comparing other industries or countries.

2.3.2 While Barclays welcomes the CMA's recognition of innovation in the sector, it considers that insufficient weight has been given to developments for SME customers. The CMA has noted a number of recent innovations from Barclays on the PCA side, including its new Blue Rewards scheme and personalised debit cards, but Barclays has also developed video banking and mobile cheque depositing and is continuing to enhance digital and Pingit mobile payments services for both PCA and SME sectors, and will imminently launch [...]. Indeed, the SME sector is very dynamic with

innovations such as pre-assessed lending and biometrics for identification and verification.

- 2.3.3 Both the PCA and SME sectors are continuing to evolve rapidly as a result of ongoing innovations and regulatory developments. If Barclays fails to meet rising customer expectations, it will lose out to competitors who can. It will be important for the CMA to take into account not only recent developments, but also anticipated future developments and evolving customer behaviours as a key part of its analysis.
- 2.3.4 Barclays recognises the relevance of switching as one possible measure of competitiveness. However, Barclays also cautions against the misinterpretation of switching levels, especially against a backdrop of high customer satisfaction statistics (the GfK survey results show for example that 91% of PCA customers are very or fairly satisfied) and the presence of other, equally valid, alternatives such as multi-banking, internal switching, switching outside CASS, and on the SME side, multi-sourcing. The CMA should also take account of the threat of switching as an important competitive dynamic.
- 2.3.5 Barclays also cautions against any desire to strive for a notional switching level, rather than seeking to ensure that customers have good visibility of the cost and value of their account, that it is easy and seamless to switch and that customers have high awareness of and confidence in their ability to switch should they choose to do so.
- 2.3.6 Barclays agrees with the CMA's view that concentration levels should not be considered in isolation and considers that a relationship between concentration and competition (or customer outcomes) should not be assumed. However, it is concerned that neither of the two theoretical constructs proposed by the CMA as a means of analysing the impact of concentration on customer outcomes are consistent with the actual functioning of the banking sector.
- 2.3.7 New entrants do pose a credible threat to the major banks and Barclays disagrees with the CMA's suggestion that entry to date is small scale and threatens only a limited impact on the industry. Barclays faces intense competition not only from established players, but also from an increasing number of new entrants and alternative providers which can target certain segments and provide an important competitive dynamic. For example, SME customers can now make and receive payments through PayPal (which has emerged as one of the largest SME providers in the UK) without the need

for a BCA. Indeed, providers such as PayPal, iZettle, Amazon, and Apple Pay have a direct impact on Barclays' PCA and SME strategies.

2.3.8 Factors such as the continued decline in significance of the traditional branch network, the rapid growth of mobile and internet banking, as well as alternative physical distribution models, will facilitate the entry and expansion of challengers. While some customers appear to still value the availability of branches, Barclays considers that attitudes to branches can lag behind actual behaviour which is apparent from the survey results. New entrants do not require an extensive branch network to compete fiercely on price, innovation and service; indeed as the CMA observes, Atom Bank is planning to launch as a digital only bank, and innovative new formats, for example through partnership arrangements (such as with the Post Office) or much smaller branch formats (which take up fraction of the space of a traditional branch) will allow new entrants to have a physical presence in a very cost effective way. Moreover, as the CMA has noted in its case studies, new entrants are not necessarily burdened by legacy IT systems and their innovative IT systems can be a key competitive advantage over existing providers.

2.4 Overall Barclays considers that the level and type of entry and innovation in the sector provide strong evidence of its competitiveness. At a more detailed level Barclays provides comments below on:

- a) the CMA's proposed product and geographic market definition;
- b) the CMA's initial analysis on market outcomes;
- c) the CMA's proposed theories of harm, and the GfK Survey Report, and the CMA's case studies (where relevant);
- d) the 2002 SME Undertakings; and
- e) the CMA's consultation on the NI Order.

3. **Product/ geographic market definition**

Product market definition

- 3.1 PCA. In Barclays' view, the CMA should consider further the constraint that alternative providers and products place on PCA providers¹. As Barclays has noted previously², alternative providers, for example monoline payment providers, directly affect Barclays' PCA strategy.
- 3.2 As previously noted³, Barclays considers that private banking customers have a number of important and distinct characteristics (such as their account usage, their channel usage, and the set of providers which offer wealth/private banking services), which distinguish them from other PCA customers and justify their separate treatment.
- 3.3 SME. As for PCAs, the CMA should consider further the constraint that alternative providers and products place on BCA providers. Barclays considers that the CMA should include a wider set of finance products such as peer-to-peer lending and invoice financing when looking at general purpose business loans.

Geographic market definition

- 3.4 As previously noted in response to the CMA's Initial Issues Statement⁴, Barclays submits that there is no merit in considering the possibility of regional or local markets. Whilst Barclays acknowledges that certain challengers have strategies involving entering parts of the UK at different times, Barclays and other banks provide a consistent offering in terms of price and service levels across the UK and Barclays considers that competitive constraints on strategies such as pricing and innovation operate at the national level.
- 3.5 The CMA has published a consultation on whether to review the NI Order⁵. Barclays supports a review of the current anomaly involving the differential treatment of Northern Ireland customers, pursuant to the NI Order. Barclays submits that the terms of the NI Order should be taken into account in the present investigation with a view to the early discontinuation of the NI Order⁶. Please see section 9 below for further comments on the CMA's consultation.

¹ CMA's Updated Issues Statement, 21 May 2015 ("UIS"), paragraph 24(a).

² [...]

³ [...]

⁴ [...]

⁵ Consultation published 20 May 2015: <https://www.gov.uk/government/consultations/northern-ireland-pca-banking-market-investigation-order-2008>.

⁶ [...]

4. Outcomes

Profitability

- 4.1 Barclays agrees with the CMA that reaching an objective view in relation to market-wide profitability would be an extremely complex task⁷.
- 4.2 As Barclays has stated previously, drawing meaningful conclusions in relation to customer and product profitability will be difficult, if not impossible⁸.
- 4.3 In relation to the CMA's proposal to use a five-year period for analysis and given that a unique set of economic conditions has been experienced over the past five years, Barclays would advocate considering an approach which reflects a normalised set of economic conditions, potentially using the previous 10 years as the basis of that cycle, although full data may not be available over an extended period⁹.

Pricing

- 4.4 Barclays agrees that, based on the information provided by the CMA, there is no evidence of any relationship between market shares and price. Barclays will engage further on methodological issues as the CMA progresses its analysis¹⁰.
- 4.5 As the CMA recognises, there are methodological difficulties in both the proposed bottom up and the top down pricing analysis. Barclays considers that its previous comments are still applicable¹¹ and notes the comments from parties on the methodology, set out at Appendix C to the UIS, many of which echo the comments Barclays has made previously. In particular:
- 4.5.1 For any price comparison to be meaningful, it would have to be performed on a like for like basis, i.e. ensuring that the same products/services are being compared across banks. For example, in the case of the “top-down” analysis, the CMA aggregated net revenues across the entire PCA and BCA customer bases (making only two adjustments¹², one on average balance per account and one on interchange fee

⁷ UIS, paragraph 26. [...]

⁸ [...]

⁹ [...]

¹⁰ Figures C5 and C6 of the UIS are redacted for confidentiality reasons. However, an inspection of the corresponding Figures A5 and A6 would not suggest that banks with larger market shares (which Barclays understands are located towards the left of each chart) charge higher prices than banks with smaller shares (which Barclays understands are located towards the right of each chart).

¹¹ [...]

¹² In addition to normalising net PCA revenues by the number of main accounts and net BCA revenues by the number of active accounts.

income¹³), which will not allow like for like comparisons across banks. In relation to the “bottom up” pricing analysis, the CMA looked at six notional PCA customer profiles (each with a given PCA usage pattern), which does not, for example, account for differences in the level of service across banks.¹⁴ While the CMA has noted that it will look at quality separately, the CMA does not discuss how it will account for differences in product scope or characteristics.

- 4.5.2 Different customers will use products or services in different ways, which could mean that comparisons across customers with different usage profiles are not meaningful.
- 4.5.3 For any price comparison to be meaningful or indicative of any price differences across banks, the set of representative customer profiles selected for the analysis should attempt to replicate the customer base as a whole and any average drawn would have to be weighted accordingly.
- 4.5.4 Barclays agrees with the CMA's view that *"for many SMEs the quality of services and the relationship component can often be a more important feature than price"* and that any pricing analysis needs to also take into account differences in quality of service. Indeed, Midata could take into account non-pricing factors which, as the CMA has suggested, are very important.
- 4.5.5 In order to accurately reflect the cost to the customer of Barclays' current PCA overdraft proposition, Barclays considers that the analysis should be undertaken on data for the second half of 2014.
- 4.5.6 In addition, it is not clear how the CMA is proposing to take account of "interest foregone" in its analysis. As Barclays has noted previously¹⁵, interest foregone is a hypothetical concept which relies on a number of assumptions. The value of interest foregone is unlikely to be material for the large majority of PCA customers and on the SME side, Barclays is not aware of any BCA which pays credit interest. Furthermore, there are inherent difficulties in identifying an interest rate against which to make any calculation, and in the absence of any standard benchmark, it is not possible to make meaningful and accurate comparisons.

¹³ Barclays already set out its concerns on these adjustments. [...]

¹⁴ This challenge also exists in the case of the BCA “bottom up” pricing analysis, which the CMA discussed to a lesser extent in the UIS as this analysis was less advanced.

¹⁵ [...]

4.5.7 The CMA will also need to consider how to take into account reward schemes and Barclays requests further details from the CMA on its proposed approach (for example in relation to calculating average turnover or tenure data).

Innovation

4.6 Barclays is pleased that the CMA acknowledges the significant level of innovation in the PCA sector provided by both established banks and entrants, with some of the more established banks innovating at least as much as smaller or new providers¹⁶. Innovation is an important feature of competition and quality which should feature prominently in the CMA's assessment of the market. Barclays has been at the forefront of innovation in order to address customers' evolving needs, both in terms of its product offering and the channels through which its customers can access its services.

4.7 Barclays does not agree with the CMA's assessment that there is less dynamism in the provision of SME banking than PCAs. Innovation is central to its SME proposition and as in the PCA sector, Barclays is constantly innovating in order to respond to the evolving nature of customers' needs. [...] Barclays is innovating in the SME space with developments such as Barclays Pingit,¹⁷ Smartcall, TrackIt¹⁸ and video banking¹⁹. Wider industry innovations include payment providers such as iZettle and the wider growth of alternative providers of what are essentially PCA or BCA products, such as PayPal, which has emerged as one of the largest providers of money transmission services for SMEs. In addition, there is an extensive range of innovative bookkeeping packages in which it is possible to view banking transactions.

5. Theory of harm 1: impediments to customers' ability to effectively shop around, choose and switch products or suppliers

PCA - Access to information

5.1 The CMA suggests that the variety of charges (in particular in relation to overdrafts) may make it difficult for customers to keep track of, and compare, costs.

¹⁶ See paragraph 41, UIS.

¹⁷ [...]

¹⁸ See paragraph 5.27, below, for further detail.

¹⁹ Please refer to paragraphs 6.4 and 7.11 for further information regarding innovation in the SME sector.

- 5.2 As noted previously, Barclays redesigned its PCA overdraft proposition in 2014 to enhance the transparency of overdraft charges combined with an enhanced suite of SMS notifications²⁰. According to recent findings from the FCA, signing up to text alerts or mobile banking apps reduces the amount of unarranged overdrafts incurred by customers, with the combined effect of both services reducing overdraft charges incurred by 24%²¹.
- 5.3 Barclays has also introduced enhanced annual summaries and annual eligibility statements. Barclays has witnessed a [...] in customers cancelling or adding features following the receipt of their annual eligibility statements which suggests that changes and innovations introduced by Barclays have promoted greater customer engagement.
- 5.4 The CMA observes that price comparison tools are not used as much as in other industries and that there is limited comparative information for customer service standards. This is in part because the price and quality of banking services depend a great deal on how customers use the products, which makes it difficult for direct and meaningful comparisons to be made. Barclays considers that Midata may be a useful building block in the development of real-time, independent, and comprehensive comparison tools that go beyond price to consider the full set of components a customer considers when choosing a current account. Barclays considers that there is merit in the promotion of comparison tools (such as Midata).
- 5.5 The CMA is considering the extent to which future developments in the sector such as an open application programming interface ("API") to enable the sharing of data and information between providers and other third parties, may improve access to information. Barclays is actively engaging with the Government to shape the API standard and the opportunity it presents for consumers whilst seeking to ensure data remains protected from fraud risks.

PCA - Assess information

- 5.6 The GfK Survey Report finds that most people responded that it is easy to understand different current account options available (68% who have not looked around and 77% who have looked around were of this view); the majority of people responded that it is easy to make comparisons (65% who have not looked around and 75% who have looked around were of this view); and the majority of people responded that it is easy to find out about features

²⁰ [...]

²¹ FCA occasional paper No.10 (March 2015): "Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour", page 3.

and charges on a PCA (76% who have not looked around and 79% who have looked around were of this view).²²

5.7 Barclays agrees with the CMA's identification of FIIC banking as an important element in the assessment of product and pricing structures as well as customer behaviour²³.

PCA - Act (Appetite for switching)

5.8 Barclays agrees with the CMA that "*low rates of engagement in themselves may not be a concern if they reflect that customers are already getting good outcomes*"²⁴.

5.9 However, even if observed switching rates reflected low levels of engagement, there is strong evidence that customers are already obtaining good outcomes. The CMA's initial view that observed switching rates may not be consistent with a well-functioning market²⁵ does not therefore appear to be supported by the GfK Survey Report evidence²⁶ which shows that:

5.9.1 PCA customer satisfaction is high (91% are "very satisfied" or "fairly satisfied"); and

5.9.2 93% of PCA customers are very or fairly satisfied with the quality of staff and customer service, which was rated the most important element of a PCA²⁷.

5.10 The FCA's recent CASS report, published in March 2015, ("**FCA March Report**") also concluded that over 80% of customers are very or fairly satisfied²⁸. This finding is supported by a report of research conducted by Tooley Street (the "**Tooley Street Report**"), which also suggests that customer satisfaction in the sector is high²⁹.

5.11 Switching statistics cannot be considered without an appreciation of the fact that, if consumers are satisfied with their PCA provider, they will not wish to switch.

²² "Personal Current Account Investigation: A Report for the Competition and Markets Authority by GfK NOP", published 21 May 2015 ("**GfK Survey Report**"). GfK Survey Report, page 58.

²³ [...]

²⁴ UIS, paragraph 58.

²⁵ UIS, paragraph 90.

²⁶ UIS, paragraph 90.

²⁷ See GfK Survey Report.

²⁸ FCA Report, "*Making current account switching easier: The effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability*", March 2015, paragraph 5.15, ("**FCA March Report**").

²⁹ Tooley Street Research "*Towards world class: The consumer view of current accounts and payments*", dated June 2015, page 9 ("**Tooley Street Report**").

- 5.12 Moreover, in the context of strong customer satisfaction scores, the GfK Survey Report found that *"high levels of customer satisfaction is a major reason for not switching – nearly two-thirds of those who had not looked around or switched in the last 3 years gave satisfaction with their current provider as the reason."³⁰*
- 5.13 Net Promoter Scores ("NPS") are reportedly lower than satisfaction levels³¹. Barclays considers that this is due to there being a difference between an individual's personal satisfaction with their use of their PCA and recommending a PCA. PCA customers would have to know another person's financial situation and preferences quite well, and understand account features that are important to them across a range of providers, in order to make a recommendation.
- 5.14 Barclays agrees that internal switching and multi-banking should be taken into account in the CMA's analysis. The CMA is considering switching rates in the context of its assessment of customer engagement and possible barriers to switching (including customer inertia and lack of awareness). Multi-banking and internal switching are highly relevant to this assessment. The fact that customers have more than one bank account demonstrates their level of engagement, their knowledge of alternative offers, as well as their ability to act on products and information available in the market. Similarly, internal switching rates show that customers are ready to compare and act on information on their PCA products. Barclays also highlights the fact that many customers have moved the transactional function of their PCA to alternative payment providers, which is, in itself, a form of switching.
- 5.15 The GfK Survey Report results found a switching rate of 14% over the past three years (8% between banks and 6% internal switching). The GfK Survey Report results also found that *"more than a quarter (28%) had two PCAs and a fifth (19%) had three or more PCAs with at least one bank³²"*; and that 22% use a PCA with more than one bank.³³ This would not be taken into account in the CASS statistics as multi-bankers can change provider without the use of CASS. The "silent switching" dynamic is an important part of the PCA sector which the CMA should take into account in its analysis. One of the consequences of the FIIC model is that there is no financial incentive for customers to close one PCA in order to open another.

³⁰ GfK Survey Report, paragraph 18.

³¹ See UIS, paragraph 59. Respondents were asked the question 'how likely is it that you would recommend [bank] to a relative, friend or colleague in the next 12 months for current account banking' and choose a score between 10 (extremely likely) and 0 (not at all likely). The NPS is the difference between the percentage of respondents who are 'promoters' (ie choosing a score of 9 or 10 and the percentage who are 'detractors' (ie scoring 0 to 6).

³² GfK Survey Report, paragraph 57.

³³ GfK Survey Report, paragraph 21.

In other sectors, such as the energy sector, customers may have significantly more to gain financially by switching supplier than for PCAs³⁴ for example, energy costs are higher as a proportion of household income. Banking costs account for a typically very small proportion of household expenditure.

- 5.16 The CMA appears to suggest that customers may characterise themselves as satisfied because it is difficult or costly for them to compare or consider other offers³⁵. As mentioned above, the GfK research finds that people say it is easy to compare accounts; and Midata further facilitates comparison according to individual account usage. The GfK Survey Report also shows that more people are looking around than are actually switching (in the last year, 16% looked around without switching)³⁶. Furthermore, the threat of customers switching is an important competitive dynamic. This point was recognised by the Office of Fair Trading when it stated that, "*[m]arkets can be competitive when switching rates are low, if customers are able to switch easily and providers respond to the threat of switching by offering better deals*"³⁷.
- 5.17 As the FCA stated in the FCA March Report, "*[a] key driver of effective competition in a market is consumers' ability to exercise choice. If consumers can switch easily between different products and providers, firms will have strong incentives to improve the products and services they offer to retain and attract customers. The ability for consumers to switch easily and with confidence fosters competition in a market*"³⁸. Barclays agrees that the switching process should be easy with a high degree of awareness of the process. Barclays submits that customers who switch speak highly of the process (Payments Council, TNS and FCA research are in alignment on this point³⁹).

³⁴ Consumer Engagement and Switching, 17 December 2014, UKRN, 17 December 2014, Figure 1, page 10; Eurostat research which shows that energy prices rose by 2.9% in 2014: <http://ec.europa.eu/eurostat/web/products-press-releases/-/8-27052015-AP>

³⁵ UIS, paragraphs 59, 60 and 90.

³⁶ GfK Survey Report, paragraph 7.

³⁷ See Payments Council, Current Account Switch Service Dashboard 2015, http://www.paymentscouncil.org.uk/files/payments_council/accountsswitching/dashboards/current_account_switch_service_dashboard_2015.pdf ("PC Dashboard 2015").

³⁸ Paragraph 1.1; see also Review of the personal current account market, January 2013, page 94 paragraph 6.1, "*[m]arkets can be competitive when switching rates are low.*"

³⁹ The Current Account Switch Service: one year on, September 2014, pp 8-11 http://www.paymentscouncil.org.uk/files/payments_council/accountsswitching/cass_one_year_on_report_-_sept_14.pdf; Current Account Switching Index: Current Account Switch guarantee is working but not switching people on, 17 March 2014 <http://www.tnsglobal.com/uk/press-release/current-account-switching-index-current-account-switch-guarantee-working-not-switching>; FCA March Report, page 23 paragraph 4.12 (footnote 16).

- 5.18 The CMA seeks to compare the levels of switching observed in the retail banking sector with other sectors⁴⁰. Barclays considers that any comparisons of customers' propensity to switch across industries or products must take account of the differences in those industries or products. Switching rates can be influenced by a number of factors and the same rates can be consistent with both more and less competitive markets⁴¹. This may be due, for example, to differences arising because of the ability to deal with multiple suppliers (multi-banking, in the banking sector) or to different levels of satisfaction in the market.
- 5.19 Barclays agrees with the CMA that CASS is working well. PCA switching has increased following the introduction of CASS. The UK Payments Council has recently reported that CASS facilitated 1.1 million switches in the twelve months to 31 March 2015⁴². This is an increase of 7% on the same period in the preceding year. The Payments Council also reported that 71% of the public are aware of the CASS service⁴³. The FCA observes that CASS "*has made the switching process simpler and easier for consumers, though a small number of operational issues appear to remain*"⁴⁴.
- 5.20 Barclays also agrees that there is scope for improvement in terms of raising awareness of the switching service and confidence in it. This is particularly in the light of the apparent discrepancy between the perception of CASS and its operation noted in the GfK Survey Report which suggests that customers who have not used the service think that it may be complicated; whereas those who have used it report that it is easy to use⁴⁵.
- 5.21 While awareness of CASS is fairly high, confidence in CASS appears to be lower. The Tooley Street Report suggests that "*there is some evidence that people may not be fully aware of the details of the switching and redirection service. Concerns about complexity amongst this group could be alleviated by knowing more about the service*"⁴⁶. Barclays considers that further promotion of the features of CASS is required in order to engender confidence in it.

⁴⁰ Appendix D, paragraph 7, "[i]nitial evidence suggests that these switching rates are lower than in other UK retail markets such as car insurance and energy".

⁴¹ [...]

⁴² Payments Council, Current Account Switch Service Dashboard 2015: http://www.paymentscouncil.org.uk/files/payments_council/accountsswitching/dashboards/current_account_switch_service_dashboard_2015.pdf ("PC Dashboard 2015").

⁴³ Ibid.

⁴⁴ FCA March Report, paragraph 9.3.

⁴⁵ GfK Survey Report, paragraph 182.

⁴⁶ The Tooley Street report, page 3.

5.22 In relation to account number portability ("ANP"), The Tooley Street Report suggests found that this *“is not a deciding factor when considering whether to switch current accounts”*⁴⁷. It is attractive for some people who have already decided to switch; however knowing more about CASS has the same effect; and the appeal of portability evaporates if it is seen to make the overall system more complex or risky.

5.23 ANP is highly complex and Barclays considers that it is likely to introduce greater risk into the system. ANP would require vast commitment of resources which could otherwise be focussed on innovation and customer service. Barclays therefore considers that further promotion of CASS would achieve the same outcomes at a much more proportionate cost.

SME - Access to information

5.24 Barclays has made a number of changes to ensure that customers can access information about – and compare – alternative SME products and services. As a first step, Barclays launched an enhanced BCA proposition in 2013 with simplified pricing. This involved a move away from individually negotiated prices towards a simpler structure with two price plans. Barclays has now migrated over [...] of the relevant BCA customer base to the new proposition.

5.25 Barclays Business Banking also introduced Pre-Assessed Limits at the end of 2013. This allows customers to quickly and easily see through online banking account, the amount of borrowing [...] available to them without having to go through a more traditional lending application process. Particularly for smaller SMEs, this transparency over access to finance is very important. Pre-Assessed Limits have increased transparency for over [...] of Barclays' SME customers (as well as reducing the time required to obtain finance as part of Barclays' Instant Lending approach).

5.26 As the CMA has acknowledged, the account opening process can be lengthy which is partly because of anti-money laundering regulations and Customer Due Diligence (CDD) measures and additional verification. Barclays would, in principle, support moves to reduce the cost and complexity of CDD requirements. Barclays has substantially improved the transparency and speed of finance applications and approvals overall in recent years and is keen to ensure that BCA customers know that their application will be handled efficiently.

5.27 Barclays observed that customers are able to track the progress of purchases they have made online in other sectors, and decided to introduce the equivalent for its customers, with its

⁴⁷ The Tooley Street report, page 3.

TrackIt system, which allows customers to follow the progress of applications and/or complaints online.⁴⁸ In addition, Barclays works to ensure its statements display information in a way that is transparent and easy to read, and offers a range of text alerts to help customers manage their money.

- 5.28 The CMA states that "*there is an absence of effective price comparison websites for BCAs. A number of banks have begun to implement price calculators to enable businesses to more easily compare between different price plans within their individual bank, but SMEs cannot compare across banks*"⁴⁹. First, there has been a change in the industry in terms of availability of pricing and product information available online.
- 5.29 Second, the CMA states that "*while BCA prices are generally transparent*" (*price schedules are readily available on banks' own websites and through publications, such as Business Moneyfacts*), *comparing prices between banks and between bank accounts is complex*"⁵⁰. Barclays aims to balance product simplicity with meeting customers' individual needs. Barclays also works to ensure that customers are placed on the best tariff for their current pattern of activity. However, any comparison of products and services from several providers is not completely straightforward due to innovation, competition and flexibility.
- 5.30 The CMA states that "*negotiation of charges is also more common for SMEs, which means comparisons may be further complicated*"⁵¹. However, (i) published prices nevertheless provide a valid and easily accessible starting point for comparison, and (ii) most SMEs will be used to negotiation of charges for some of their business activity, and so the extent of any hypothetical "further complication" should not be overstated.
- 5.31 The CMA concludes that "*the extent of complexity is supported by [indications] that a large proportion of SMEs either do not know the monetary benefits of switching or erroneously believe there are no monetary benefits to switching*"⁵². Barclays does not agree with this assessment. Customers are likely to search at particular points in time (such as when there is a trigger such as the need to increase lending or to avail of a risk management service), rather than on a continuous basis. For competition to be effective, it is not necessary for the majority

⁴⁸ For further details see: <http://www.barclays.co.uk/Home/BarclaysTrackIt/P1242625815319>.

⁴⁹ UIS, paragraph 84(c).

⁵⁰ UIS, paragraph 84(a).

⁵¹ UIS, paragraph 84(b).

⁵² UIS, paragraph 84(d).

of the market to have constant awareness of the best deals on offer but that all customers can, and often do, quickly obtain the relevant information and act on it.

- 5.32 Nevertheless, Barclays agrees with the CMA's view that there is still room for the market to work towards real-time, independent, and comprehensive online comparison tools - including measurements of non-price factors which customers consider important - so that customers can compare transparent product offerings more easily.
- 5.33 Barclays is also engaging in industry-wide initiatives to improve SME customers' access to information. Barclays has provided some funding to the Business Banking Insight Survey and website to assess quality of service across the industry and to create a culture of "user reviews". This represents a step change in the ability of SMEs to assess the relative quality of service from providers on a standardised basis. Barclays is also considering the provision of an open API framework that enables sharing of data and information between providers and other third parties. Furthermore, [...].

SME - Assess information (Appetite for switching)

- 5.34 The CMA has reported that only around 10% of SME customers are dissatisfied with their bank. Customers are able to switch away from their bank if sufficiently dissatisfied, e.g. using CASS where turnover is below £6.5 million and where there are fewer than 50 employees.
- 5.35 Whilst BCA customers who have used CASS are generally satisfied with its effectiveness, Barclays is aware that a significant number of customers have switched without using CASS. This is because the CASS service has not been promoted as strongly for BCAs as for PCAs and more could be done to increase awareness of CASS for SMEs.⁵³ Barclays agrees that there is some scope for improvements to CASS in the case of BCAs.
- 5.36 Data from the Payments Council indicates that there has been relatively little use of CASS by businesses and charities in its initial phase (<2% of switching through CASS in 2014 involved these types of customers). However, Barclays observes that the 'main bank' measure of switching is higher for this group than for PCAs, suggesting that awareness of CASS is not a restriction on overall switching activity.
- 5.37 Barclays considers that the measure of 'main bank' switching understates the effective rate at which activity shifts between BCA providers. A key dynamic in SME current accounts is the

⁵³ One possible reason why CASS may not have been taken up is that an SME may not know it is classified as an SME under CASS, particularly as different definitions are used by the European Commission, the Companies Act and Bank of England.

presence of significant entry and exit in any given period (i.e. churn). In 2014 there were more than 390,000 BCA start-ups in England and Wales and as the CMA observes that *"about 12% of accounts were opened and closed each year (compared with 8% for PCAs)"*⁵⁴. Start-ups are understandably unlikely to switch within an initial period.

- 5.38 FIIC also plays a role in switching dynamics, with switching rates nearly twice as high at the end of the free banking period.
- 5.39 The extent of multi-banking and multi-sourcing is a significant factor to consider in switching, and threat of switching, analysis. Charterhouse survey data from 2014 indicates that 50% of small businesses held at least one financial product away from their main bank. Furthermore, as in the PCA sector, "silent switching", whereby customers switch part of their banking needs, is an important competitive dynamic for SMEs that needs to be considered.
- 5.40 The CMA's focus on BCA product providers does not give sufficient prominence to the continued development of new payment providers (e.g. monoline providers such as PayPal) that provide SMEs with the option to receive and make transactions without using a BCA. Research by the Payments Council in 2012 estimated that 4% of outgoing payment volumes went through PayPal and in 2013, 20% of SME purchases on the internet were through PayPal. Barclays considers that PayPal is a BCA provider in all but name and is of an equivalent scale to Barclays. There is a clear equivalent for PCAs too - many consumers have moved the transactional functions of their PCA to alternative payments providers, which is in itself a form of switching (which would not be captured in official data sources).
- 5.41 Finally, it is important for the CMA to consider that, as banking costs represent a very small proportion of an SME's cost base. Barclays estimates that core banking costs⁵⁵ for its small business customers (turnover less than £1.125 million) represent less than 0.5% of their total spending for the majority of firms. This figure is approximately one-third of expenditure on telecoms, and one-quarter of that on insurance. This may explain why SME customers might not prioritise switching over other business activities, especially if they are satisfied with their current provider.

⁵⁴ The figures refer to account openings and closures excluding internal transfers. See UIS, paragraph 21(b).

⁵⁵ These costs comprise regular account fees plus money transmission charges.

6. Theory of harm 2: Concentration giving rise to market power of some banks leading to worse outcomes for customers

6.1 As stated by the CMA, it cannot be assumed that concentration leads to poor outcomes for consumers. It is important that the CMA does not place undue significance on levels of concentration. Any assessment of the relationship between concentration and outcomes should also, as the CMA suggests, take account of factors such as innovation and the range and diversity of entry. As the CMA has indicated that it will continue to investigate the relationship between concentration and competition outcomes, Barclays provides below its initial, and high-level response to the CMA's second theory of harm. Barclays reserves the right to respond more fully on this point in a separate submission in due course.

6.2 The retail banking sector is competitive. Challenger banks have intensified competitive pressures. There have been new entrants in both the PCA and SME market segments over the past few years. These include, for example Metro Bank, Tesco, Aldermore, TSB and Virgin Money to name a few, as well as anticipated new entrants (for example, those listed in Table 1 of the CMA's prospective entrants paper (Atom, Fidor, Starling, OakNorth and CivilisedBank) as well as Williams & Glyn which due to be launched as a new bank in 2016⁵⁶). Some of these appear to be focusing on acquisition of the most profitable customers.

6.3 Banks are facing increasing competitive pressure from non-traditional service providers. In response to these developments, Barclays has expanded the range and diversity of products and services offered to its customers (for example, Barclays recently introduced a new rewards proposition in the form of Blue Rewards for PCA customers and the new online lending platform for SMEs as a response to competitive pressure). As mentioned previously, both the SME and PCA sectors are very dynamic and Barclays has launched a number of evolutionary and revolutionary innovations⁵⁷. Revolutionary changes include Pingit, Mobile Cheque Imaging⁵⁸ and video banking. Barclays has also developed innovations such as Barclays Mobile Banking ("**BMB**"), pre-assessed lending, biometrics for identification and verification and SmartSpend.

6.4 The CMA should take into account future anticipated developments in the sector as well as recent innovations from non-banking undertakings such as monoline payment providers, as

⁵⁶ See also CMA announcement of 28 May 2015 on the proposed Williams & Glyn divestment.

⁵⁷ [...]

⁵⁸ For further information, please see: <http://www.barclays.co.uk/MobileBankingservices/MobileChequeImaging/P1242668620764>.

well as smaller providers developing a presence in a non-traditional format (for example, Virgin Money's "concept lounges").

6.5 Barclays is uncertain whether the CMA's two theoretical mechanisms of unilateral market power are based on sound economic theory or consistent with the functioning of the sector in practice.

1) The ability of banks with higher market shares to differentiate products and exercise market power

6.6 Barclays does not support the point the CMA makes in relation to differentiated products and brands within the same firm. Barclays considers that product differentiation and branding are consistent with competitive outcomes.

6.7 As for the presumption of a relationship between concentration and margins, Barclays considers that this premise is contradicted by well-established economic theory. The CMA intends to perform an analysis of concentration and margins from an empirical perspective and Barclays will engage with the CMA on this matter.

2) Difficulty in discriminating between active and inactive customers

6.8 In relation to Theory of Harm 2, the CMA has stated that: "*[i]f there are high levels of customer inertia, and banks cannot discriminate between active and inactive customers, then banks with a larger market share may have weaker incentives to reduce prices/ improve quality than banks with a smaller market share*"⁵⁹.

6.9 First, Barclays disputes the assumption that customer inertia is high, for the reasons set out in section 4 of this response.

6.10 Secondly, it would be helpful to understand the basis upon which the CMA has characterised customers as 'active' and 'inactive' as Barclays considers that the degree of customer engagement or activity is a more nuanced concept; furthermore, 'inactive' customers can be expected to become 'active' if they were not satisfied with their existing bank. This is supported by the Tooley Street Report, which lists "a bad experience with [a] previous bank (especially related to customer service)" as one of the top prompts for switching bank⁶⁰.

⁵⁹ UIS, paragraph 99 (b).

⁶⁰ Tooley Street Report, page 19.

- 6.11 Against this backdrop, large banks need to offer a competitive product (on price and quality/innovation) to their customers in order to retain them. In fact, large banks have more to lose than smaller banks, as they have a larger customer base that could switch away. In relation to SME customers, Barclays also competes for the significant number of new start-ups constantly entering the sector⁶¹.
- 6.12 One way of thinking about ‘active and inactive’ would be through primary and secondary banking. For PCAs, there is minimal cost to holding multiple accounts. Customers choose to be more active in one of their accounts than another. Barclays is not aware of any evidence to suggest that relative inactivity (secondary banking) results in negative outcomes.
- 6.13 Thirdly, analyses and evidence referred to by the CMA appear to be inconsistent with the CMA’s theory of harm. First, one would expect banks with a larger customer base to charge higher prices than banks with a small customer base, if the CMA’s hypothesis held true. However, as noted above, the results of the CMA’s pricing analysis do not provide any evidence of a relationship between concentration and prices. One would also expect low levels of innovation from the established banks if the CMA’s theory of harm held true. However, as recognised by the CMA and noted above, there are many examples of innovation by both established banks and recent entrants, and established banks are innovating at least as fast as recent entrants. Any assessment, therefore, of the relationship between concentration and market power, must take account of innovation and technological developments which have greatly eroded any entry barriers into banking activities and ensured that banks face continuing and strong competitive pressures.
- 6.14 Barclays also considers that the degree of reliability of any analysis of margins across customers depends on the soundness of the methodology used for allocating costs. As banking is essentially a fixed cost activity, there is a certain amount of discretion involved in allocation of fixed costs. Cost allocation methodologies may differ across banks, making it difficult to compare margins on a like for like basis.

7. **Theory of harm 3: Barriers to entry and expansion leading to worse outcomes for customers**

- 7.1 As the CMA acknowledges, "*there are no insurmountable barriers to entry and expansion*"⁶². The CMA acknowledges the significant new entry in the retail banking sector, and the fact

⁶¹ See paragraph 5.37, above, for further details.

⁶² CMA prospective entrants paper, paragraph 2.

that prospective new entrants are "*optimistic*"⁶³ about their ability to enter. The CMA states that it considers that this entry is "small scale" and/or "targeted". However, as noted above, Barclays considers that new entrants pose a significant threat and challenge for Barclays.

- 7.2 On the PCA side, there is an increasing number of new entrants as well as non-banks which provide individual elements of a current account, and monoline payment providers such as PayPal offer customers the chance to load their "digital wallet" and use that for all their transactional needs, which means that consumers use their PCA less frequently (this acts as an effective "switch" though would not officially be classed as such). PayPal now provides a variety of services including online payment services, mobile payment services, account services, deferred payment systems, money (including cheques) transfer services into PayPal accounts and in-store payment systems⁶⁴.
- 7.3 Apple Pay will soon be available at 250,000 UK locations.⁶⁵
- 7.4 On the SME side, alongside an increase in payment providers, there has been a similar trend in payment acceptance (e.g. iZettle). As noted above, alternative finance platforms are of growing importance.
- 7.5 As noted above, PayPal has emerged as one of the largest providers of money transmission services for SMEs, and SME customers can make and receive payments through PayPal without the need for a BCA. PayPal enables businesses to set up an online payment system (allowing customers to pay via PayPal but also via debit and credit card), accept in-store payment, accept payment over the telephone, send invoices and access working capital⁶⁶. In the absence of any significant barriers to expansion, it would take very little feature development by companies such as PayPal to become full BCA providers in all but licence.
- 7.6 Regulatory barriers. Barclays agrees that any funding advantage to existing banks is counterbalanced by the higher burden placed on them in terms of compliance with their

⁶³ Ibid, paragraph 5.

⁶⁴ There are 20 million active PayPal accounts in the UK. In order to use PayPal, a consumer can set up a free PayPal personal account, and PayPal categorises its services into three main areas: buying with PayPal, selling with PayPal and sending or receiving money. All transactions can be funded by the account holder's PayPal balance, a bank account, debit or credit card.

⁶⁵ See http://www.thegrocer.co.uk/stores/store-design/apple-pay-makes-waves-with-retailer-announcement/519790.article?utm_source=Newsletter&utm_medium=email&utm_campaign=5797788_Gro+daily+09%2f06%2f15&dm_j=131K,3G9LO,5DVWVQ,CCS9X,1.

⁶⁶ See <https://www.paypal.com/uk/webapps/mpp/merchant>.

various regulatory obligations. As the CMA's paper summarising the regulation in the sector shows, existing banks are subject to wide-ranging regulatory obligations⁶⁷.

Branches

- 7.7 In light of technological innovations in retail banking, as well as the business models of new entrants, Barclays considers that a lack of a scale branch network is not a major impediment to new entry. The importance of a branch network is declining as digital channels (for example mobile and internet banking) continue to grow and new and existing providers look to deploy alternative physical distribution formats and approaches. As noted previously, while branches are important to some customers, their significance is certainly in decline. Far from maintaining their networks, most banks are closing UK branches due to a reduction in demand. Data from the BBA indicates that the total number of branches in the UK declined by 5.4% in the period from the end of 2011 to 2013 alone⁶⁸, and the number of transactions carried out in branches decreased by 6% in the past year⁶⁹. Of the five prospective entrants considered in the CMA's case studies, none is planning on launching with a branch network⁷⁰. The co-founder and former chairman of Metro Bank, has said that "*opening a bank in 2015 with branches would be like BT putting telephone kiosks back on the high-street*"⁷¹.
- 7.8 As Barclays has stated previously⁷², there is a significant trend towards declining branch usage; customers choosing a PCA based on branch location have dropped 2% year on year to 32%⁷³; and the number of PCA accounts opened in branch has fallen over time.
- 7.9 Whilst digital banking usage has increased significantly, average visits per month per user is just [...] for branch users, against [...] visits per month for mobile users. Since December 2014, registered BMB users have increased from [...] million⁷⁴ to [...] million (June 2015)⁷⁵. The BBA finds that more than eight million people downloaded banking apps in the past year

⁶⁷ CMA working paper on the regulatory framework applicable to the retail banking industry in the UK.

⁶⁸ [...]. See also comments made by the Chief Executive of the BBA on the rise of digital banking, <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10948204/The-era-of-the-traditional-bank-branch-is-dead-says-BBA.html>

⁶⁹ BBA research, reported at <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11672021/Mobile-banking-has-eclipsed-branches-and-even-the-rest-of-the-internet.html>

⁷⁰ CMA's prospective entrants paper, Table 1.

⁷¹ <http://www.ft.com/cms/s/0/a0bbea58-bff7-11e3-9513-00144feabdc0.html#axzz2yrH8fshe>

⁷² [...]

⁷³ GfK KRS Survey Current Account Market, September 2013 and 2014.

⁷⁴ [...]

⁷⁵ Source, Barclays' internal data.

in the UK⁷⁶. Barclays estimates that in-branch transaction volumes have almost halved, declining from [...] million per month in October 2006 to [...] million per month in 2015⁷⁷. So far this year, [...] million of payments have been processed through BMB, and approximately [...] million users log in per day⁷⁸. Total BMB logins for the purposes of making payments and transfers have increased from approximately [...] million in 2012 to approximately [...] million (2014)⁷⁹. Pingit registrations have increased from [...] million to [...] million since December 2014⁸⁰. BBA research shows that UK customers transfer £2.9 billion through apps in a typical week⁸¹.

- 7.10 The GfK Survey Report also shows that "17% [of PCA customers] use a branch less than once a year, and a further 25% use a branch only once or twice a year, but 9% use a branch once a week or more⁸²." As Tesco Bank states in the CMA's case study, the historically strong correlation between the number of branches a provider has and their PCA market share is breaking down⁸³.
- 7.11 As with PCA customers, SME banking has seen a migration of transactions to digital channels. Charterhouse survey data from 2014 indicates that for new SME customers, only 1 in 6 consider location [of branches] to be an important factor. Around [...] of Barclays' active SME customers are regular users of Barclays' online banking platform ([...] of SMEs conduct more than half and [...] conduct all or nearly all of their business online), and [...] of Barclays SME customers are active users of mobile banking⁸⁴.
- 7.12 To the extent that the GfK Survey Report suggests that some customers still value the availability of branches, attitudes to branches lag behind actual behaviour. Whilst Barclays observes transactions migrating to digital channels and self-service, customers may retain an emotional connection to branches. That such attitudes may be founded on sentiment rather than borne out by usage trends is emphasised by GfK's finding in the GfK Survey Report that,

⁷⁶ BBA research, reported at <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11672021/Mobile-banking-has-eclipsed-branches-and-even-the-rest-of-the-internet.html>

⁷⁷ Based on Barclays' internal analysis and other sources.

⁷⁸ 2015 figures based on Barclays' internal data.

⁷⁹ Source, Barclays' internal data.

⁸⁰ [...]; source for 2015 figures, Barclays' internal data.

⁸¹ BBA research, reported at <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11672021/Mobile-banking-has-eclipsed-branches-and-even-the-rest-of-the-internet.html>

⁸² GfK Survey Report, paragraphs 24-26.

⁸³ Tesco Bank case study, paragraph 47.

⁸⁴ Source: Barclays' internal data.

of the survey respondents who had visited a branch of their bank in the last year, 63% still keep their PCA if their most-used branch closed down⁸⁵.

- 7.13 The CMA's case study on Tesco Bank supports this view: *"Tesco Bank believed that whilst a branch network might still be important for a certain market segment, there continued to be a migration away from branches and towards digital channels. Tesco Bank stated that it had achieved considerable scale in certain products – such as credit cards and personal loans - by pursuing an online and telephone-based strategy, and while developing its PCA proposition, it determined that there was a sizeable customer appetite for a direct (branchless) proposition that was only likely to grow."*⁸⁶ Barclays also considers that Tesco has been able to leverage its access to its network of over 20 million Tesco customers when launching its banking services⁸⁷.
- 7.14 Barclays is constantly innovating in relation to its branch formats as a reaction to the declining use of traditional branches. The CMA has noted the use of Barclays Essentials branches and Post Office counters. Barclays' new branch models, for example Barclays Essentials and Bminis (a small space with a self-service machine and colleagues on ipads) and technologies (such as assisted service counters), are designed to give customers more flexibility and options based on their changing needs, addressing customer demand for convenience and ways to save time. Barclays is trialling relocating branches to other retail destinations outside of the traditional high street and is testing increasing or reducing branch opening hours according to customer demand within local communities.
- 7.15 It is also possible to operate with fewer branches if a regional network is desired rather than a national network. A smaller network focussed on regional hubs would mean a provider could offer good coverage for fewer branches. For example, Metro Bank's strategy is to have 200 branches by 2020⁸⁸. TSB also appears to be of the view that *"because of the size of the catchment areas concerned, a comparatively large increase in reach could be accomplished by a relatively limited expansion of the network in Greater London"*⁸⁹. Virgin Money, in its statements published by the CMA, also reflects this view, stating that it *"believes that through its 75 branches, it already has a good coverage of the major urban centres in the UK"*⁹⁰.

⁸⁵ GfK Survey Report, paragraph 118.

⁸⁶ See Tesco Bank case study, paragraph 58.

⁸⁷ See Tesco Bank case study, paragraph 33.

⁸⁸ See Metro Bank case study, paragraph 24.

⁸⁹ See TSB Case study, paragraph 37.

⁹⁰ See Virgin Money case study, paragraph 66.

Virgin Money goes on to state that it "*has no plans to expand its branch network in the near future, but it does not consider this to be an obstacle to its further expansion*"⁹¹."

- 7.16 In addition, as mentioned above, Barclays is introducing [...] which will further reduce the need for a branch network by SME customers.

Other factors

- 7.17 Barclays considers that the sector is undergoing significant change including the deployment of new technologies, increased levels of entry by new sector participants, changing consumer habits and demands and regulatory reform. Barclays considers that these developments have eroded any material restrictions to entry and expansion.⁹² Customer preferences/habits are key and, in the switching context, customers will weigh the benefits of switching against their wider preferences, for example, to have their accounts in one place.

- 7.18 IT systems. Barclays considers that challengers are often able to adapt more nimbly to technological innovations, since they do not have legacy IT systems which need to be changed on a large scale to keep pace with innovation. Barclays was established over 300 years ago, and is still delivering highly innovative propositions, yet keeping up with the pace of change is a constant challenge for Barclays. This point was noted by Tesco and Metro Bank in the CMA's case studies and emphasised in the CMA's prospective entrants paper⁹³.

- 7.19 Access to payment systems. While Barclays does not agree with the categorisation of this area as a potential barrier, it welcomes the CMA's recognition that the PSR is charged with assessing access to key payment systems and that the CMA's analysis will take account of the potential impact of any policy proposals that may be forthcoming from the PSR. As Barclays has stated previously, investment in, for example, IT infrastructure to allow use of the Faster Payments system is a prioritisation call for each new entrant. Barclays would caution against drawing conclusions based on statements from challengers in this regard⁹⁴.

- 7.20 [...]

⁹¹ Ibid, paragraph 67.

⁹² [...]

⁹³ Tesco Bank case study paragraph 55; Metro Bank case study paragraph 56; and the CMA's prospective entrants paper, paragraph 4 (c).

⁹⁴ See Tesco Bank case study, paragraph 43 "*In practice, connecting to the UK interbank payment systems through a competitor means that the payments services we offer customers can be no better than our sponsor bank and, as we have experienced, a lesser offering in a number of instances*"; Metro Bank case study, paragraphs 47-48 relating to "*IT issues at one of the banks through which it accessed*" the Faster Payments infrastructure.

- 7.21 Information asymmetry. Barclays considers that current developments are diminishing this perceived barrier. The Enterprise Bill will give credit reference agencies access to more BCA data and Barclays is working with the Government on its standardised API framework that enables sharing of data and information between providers and other third parties.
- 7.22 FIIC. The CMA suggests that new entry appears to be relatively small scale and targeted at particular market segments. In addition to the points mentioned at paragraph 6.1, Barclays highlights that, due in part to the FIIC model, new entrants are making a strategic choice to actively participate and compete in certain customer segments.

Entry/ Gateway products

- 7.23 The CMA observes that "*like PCAs, BCAs are an important route to sales of other SME retail banking products*"⁹⁵. Whilst BCA may potentially provide this route, there is evidence that BCAs are not a gateway. The CMA has investigated whether larger banks used BCAs and PCAs as gateway products to cross-sell other retail banking products and whether any differential level of margin contribution and/or cross-selling acted as a barrier to entry or expansion.⁹⁶ The CMA found that, based on its initial analysis the "*retail banking products provided to SMEs and personal customers, including BCAs and PCAs, are profitable when considered separately from the banks' overall retail banking propositions*".⁹⁷
- 7.24 This result is consistent with Barclays' own experience, and contradicts the theory of harm that BCAs are used by banks as gateways for sales of other SME products..
- 7.25 The CMA has also suggested that PCAs may provide a gateway for BCAs. Figure 19 in Appendix B to the UIS suggests that just over 30% of BCA customers have their main PCA with the same bank. The corollary, however, is that nearly 70% of BCA customers use a different bank for their main PCA. The evidence does not support the hypothesis that the PCA acts as a gateway for the BCA. Further, even a high percentage of customers who choose to get a BCA with their PCA provider would not necessarily indicate any weaker competition for BCA customers, as it could simply be the function of customers choosing their preferred supplier in an informed way.

⁹⁵ UIS, Appendix B, paragraph 14.

⁹⁶ UIS, paragraph 28.

⁹⁷ UIS, paragraph 29 (a).

8. **2002 SME Undertakings**

- 8.1 The CMA states that it is concurrently reviewing the undertakings that were put in place following the 2002 Competition Commission investigation into SME banking (the "**2002 SME Undertakings**") and requests any submissions in relation to any change of circumstances since the 2002 SME Undertakings.⁹⁸
- 8.2 Barclays considers that, since the 2002 SME Undertakings were put in place, there have been a number of developments in the sector, including consolidation by banks such as Santander and the entry of new providers, as referred to above. As such, if the CMA is minded to retain the 2002 SME Undertakings, Barclays considers that they should be extended so as to apply equally to other providers.
- 8.3 Barclays has previously provided comments in relation to bundling⁹⁹.
- 8.4 In relation to tariffs, at UIS paragraph 32 the CMA states that, "*[w]hile banks have fewer different BCA offerings compared with PCA products, they usually offer customers a choice of BCA tariff and the tariff may vary depending on, for example, the type of SME. A further complication in comparing prices is that it is common for both BCA and PCA providers to make special offers to new customers, for example a one-off reward for switching or a period of 'free banking' for BCAs.*"
- 8.5 The 2002 SME Undertakings resulted in similarly structured, but relatively complex, BCA tariffs across all providers. While this made tariffs broadly comparable in theory, the complex structure of tariffs meant that comparison remained difficult. As explained above, Barclays has recently changed its BCA tariffs from this complex structure towards one that is simpler for customers to understand and compare. Customers are now better able to understand exactly what they will pay and when (with only two price plans). This type of innovation in the structure of pricing goes to the heart of addressing the CMA's concerns about retail banking markets and will potentially lead to better customer , with customers making better informed choices.
- 8.6 Barclays considers, however, that there is a need for more advanced comparison tools to be developed in the SME banking market, with the aim of enabling customers more easily to make informed choices between providers. Such tools would also allow pricing innovation,

⁹⁸ UIS, paragraphs 161-162.

⁹⁹ [...]

and more tailored pricing structures, without reducing customers' ability to compare product features and prices.

- 8.7 The CMA anticipates publishing a provisional decision on change of circumstances in parallel to the provisional findings in this market investigation thereby aligning both timetables. This seems, to Barclays, to be a sensible approach.

9. **NI Order**

- 9.1 Barclays submits that the CMA should review the NI Order, with a view to its early termination. Substantial regulatory developments since 2008 were reflected in the 2011 review, and the remaining requirements are contained in Articles 4 to 8 of the NI Order. Since 2011, there has been further substantial regulatory change which affects the relevance of these Articles.

Article 4 - Duty to communicate clearly

- 9.2 This Article does not appear to add materially to other obligations on firms to communicate clearly, including:

9.2.1 BCOBS 4.1.1, which requires firms to communicate in “*easily understandable language and in a clear and comprehensible form*”.

9.2.2 Regulation 47 (1) (c) of the Payment Services Regulations, which requires information to be provided or made available “in easily understandable language and in a clear and comprehensible form” .

9.2.3 From October 2015, obligations contained in the new Consumer Rights Act.

Article 5 - Duty to provide details of Charges and Interest Rates to Customers when selecting a PCA

- 9.3 The Payment Accounts Directive is due to be enacted in the UK by September 2016. It sets an EU-wide standard for transparency of charges, including common terms and glossaries. This may reduce the relevance and value of Article 5, and might in any event require the Article to be reviewed for super-equivalence. Banks are also required to provide details of charges and interest rates under BCOBS and the Payment Services Regulations.

Article 6 - Duty to notify a Customer before deducting overdraft charges and debit Interest

9.4 In essence, this Article mirrors the requirements of Clause 91.1 of The Lending Code. While recognising that the Lending Code is voluntary and is currently under review, Barclays considers that this Article does not add material value for its customers.

Article 7 - Provision of switching information and Article 8 – Switching provision

9.5 Most notably, CASS was launched UK-wide in 2013. As well as delivering the switching service itself, the industry has also taken (and continues to take) steps to raise awareness of and confidence in the service. As such, Barclays considers the value of the switching provisions is substantially reduced because Article 7 seeks to raise awareness of the ability to switch through provision of information; and Article 8 seeks to raise confidence in switching by helping to ensure customers do not incur related bank charges.

9.6 In Barclays' view, these Articles are therefore largely superseded by the ongoing operation and promotion of CASS.

9.7 As well as offering little material benefit to customers, Barclays is also concerned that the NI Order may cause customer detriment by being a barrier to innovation and competition. Tesco states the following in the CMA's case study about compliance with the NI Order:

“Tesco Bank stated that the Northern Ireland PCA Banking Market Investigation Order 2008 ('NI Order') which was introduced by the then Competition Commission, provided specific rules governing the switching process of PCAs. This included, for example: suppressing interest and charges for three months following the opening of a new PCA and annual reminders to how customers can switch. Due to the additional time required to achieve compliance with the NI Order, a decision was taken by Tesco not to include Northern Ireland in the initial launch¹⁰⁰.”

9.8 In summary, Barclays considers that a review should be undertaken by the CMA and that a harmonised UK-wide regulatory regime would offer the best outcome for consumers in Northern Ireland.

¹⁰⁰ Tesco Bank case study, footnote 1, page 4: https://assets.digital.cabinet-office.gov.uk/media/555de4e2ed915d7ae200000b/Tesco_Case_Study.pdf.