

Competition and Markets Authority investigation of retail banking

The role of comparison sites for small and
medium-sized enterprises in addressing the
adverse effect on competition

**Response by Business Finance Compared to
the above working paper
07 March 2016**

Introduction

Following our response to the CMA Notice of Possible Remedies (Remedies Notice) on the 22nd October 2015, we would like to re-iterate our overall support for the CMAs investigation into retail banking and for including SME banking within scope and in particular its additional research into the value of effective price comparison websites (PCWs) - 7th March 2016 working paper.

Who we are and what we do

For those who have not read our response to the CMA Notice of Possible Remedies, Business Finance Compared (BFC) is a leading SME focused Price Comparison Website (PCW) dedicated to helping thousands of SMEs every week to find the best products available based on their business profile. As part of the March 2016 Budget HMT announced its intention to designate BFC as one of three finance platforms that banks will be mandated to refer declined SME finance applications to, an endorsement of the robustness and effectiveness of the BFC platform.

Through BFC an SME can search the market, compare options (based on cost, service quality ratings etc.), find out which products they will be accepted for based on their business profile and apply all in one seamless customer journey. Our website enables SMEs to find and compare all major financial services products from loans to Business Current Accounts (BCAs) and we continue to add new SME finance products as the market continues to innovate.

We continue to develop the BFC platform to meet the market requirement for a 'one-stop shop' for SMEs looking at finance options; inclusive of both price and service quality comparison, eligibility tools and seamless integration with providers.

The perspective and focus of our submission

We are in a unique position to present the challenges that SMEs face and to comment on suggested remedies for AECs because we are an SME ourselves, but also because we have relationships with the thousands of SMEs who use the BFC website to search for finance and banking services. Our closeness to the SME market place enables us to present a unique perspective on the proposed remedies outlined by the CMA.

Key observations and recommendations

In particular we wanted to make the following recommendations and observations regarding the 7th March working paper:

- We agree with the overall sentiment of the CMA to implement remedies that meet the SME demand for a website which provides more than just price comparisons
- We would challenge that the BBF and BBI are the most developed existing solutions – based on visitor volumes for 2015 BFC has the same level of awareness (10% of SMEs) within a year of launching the platform and with no formal endorsement by the retail banks
- We believe other remedies are of higher priority for the CMA than mandating the creation of a PCW for SME banking services
- In our response to the Remedies Notice we identified the “Key Foundational Remedies” (3, 6, 7) that are enablers to any PCW solution being value adding to SMEs – namely those remedies that make transaction level data available and help SMEs to understand how this data can be used to improve access to finance at a better rate
- The most effective option being considered by the CMA is to help existing SME focused sites to widen their scope
- Mandating the creation of an industry-funded PCW would appear to be in conflict to the CMA objective of removing AECs
- The Nesta Prize Fund could be a good incubator of innovation but there is a risk of an unintended consequence of banks focusing on this remedy at the expense of existing innovations and value adding solutions, extending the timeline of any positive progress in the market, which is already long overdue
- The only approach that will deliver value to SMEs in a near term timeframe is one developed as a commercial and competitive venture, developed in collaboration with Banks but delivered and operated by an independent entity with a focus on creating sustainable solutions which add value for SMEs
- The CMA and Banks should be focused on Key Foundational Remedies we have identified and raising awareness of existing solutions
- We would strongly recommend avoiding the introduction of remedies that risk slowing the positive engagement between existing PCW solutions like ourselves and Banks.

BFC has developed a demonstration of the SME journey that can be delivered through our technology when Remedies 3, 6 and 7 are implemented. We would welcome the opportunity to take the CMA through this demonstration to evidence why we believe option (a) will be the most effective approach to addressing AECs.

We would continue to challenge any proposal to mandate an industry funded PCW due to issues with impartiality and corresponding customer adoption, and would question the rationale for adapting either BBF or BBI to be fit for purpose or using the NESTA prize fund to innovate from the ground up, when existing PCW platforms like BFC.com are already developing the recommended capability outlined in this working paper.

Detailed response

Our response contains detailed feedback on the CMAs conclusions from the Remedies Notice and its current thinking:

1. Issues with existing PCW solutions & what PCWs should cover
2. Other proposed remedies which are a higher priority
3. Our view on the options the CMA proposes
4. Feedback on the CMAs current thinking
5. Work BFC is doing to improve competition

Issues with existing PCW solutions & what PCWs should cover

3. CMA further analysis suggests that SMEs may value a website which provides more than just price comparisons: a 'one-stop shop' offering non-price information, including customer eligibility and service quality, together with, potentially, the ability to link seamlessly to providers.

Our overall experience from supporting c50,000 SMEs searching for finance is in agreement with the CMAs further analysis of the value SMEs would look for from a PCW. At BFC we have built a solution which enables SMEs to compare products based on non-price information and service quality. We have developed unique technology which enables us to provide SMEs with their eligibility for a product upfront so they can calculate their certainty of being approved before making an application. This technology enables us to deliver personalised quotes to SMEs and we are developing the platform to deliver this functionality to SMEs as part of a seamless customer journey linking directly through to providers.

13. Banks suggestion that comparison sites may not be effective for larger SMEs as larger and more complex SMEs are offered bespoke pricing

We would challenge this assumption.

Whilst we recognise that some transactions will remain sufficiently large and complex to render a fully online process difficult to deliver, provided Open Banking Data and standardised application processes (Key Foundational Remedies) become a reality, a personalised comparison of products however large or complex the business can be delivered. Where a fully automated quotation may not be possible to deliver online there is the opportunity to automate stages on the customer journey to make these more transparent and easy to complete for the SME e.g. customer validation and KYB, pre population of applications using publically available data and seamless handover of data between PCW and provider.

We have a concern that by only focusing on smaller businesses (whilst this represents the majority) you limit innovation and do not resolve AECs in the segment of the market which is most profitable and therefore receives the most investment and attention. With the use of bespoke pricing and bundling of products for larger/complex/profitable SMEs can create an incumbent advantage and barrier to switching provider which needs to be resolved for a competitive market to be established.

14,15,16,17,18. Views on the products to be covered by PCWs

In line with our response to the Remedy Notice we believe a PCW needs to provide SMEs with a comparison across as many financial products as possible, due to the majority of SMEs having a finance requirement "I need £25,000 for a growth project" rather than knowing what finance type or product they want to compare "I want asset finance". To empower SMEs to get the most appropriate finance at the best rate a PCW needs to provide a range of product options to mitigate the risk of encouraging businesses to use expensive finance. For example if you only enable SMEs to compare bank account overdraft products this could result in them using expensive short term debt facilities rather than more cost effective loans. If you only offer the comparison of bank accounts you risk only serving start-up businesses. Our research shows that one of the key trigger points for switching BCA in the current market is a need for finance where your existing BCA provider is not able to help.

We have developed customer journeys to demonstrate that combining our technology with Open Banking Data will enable personalised quotes across a range of product types to be delivered to SMEs in real-time. This process may be more challenging for certain loan products but without including these products in a PCW this may restrict competition between providers.

In response to banks concerns that the bespoke pricing required for more complex SMEs/Products needs to be delivered directly we would propose that PCWs are the platform through which banks provide this personalised pricing to a SME to increase price transparency. We have developed the technology to achieve this customer journey and are engaged with some of the banks to explore this solution.

Other proposed remedies which are a higher priority

Overall, we strongly believe that the CMAs focus should be on enabling the change that allows existing PCWs to deliver a value adding SME customer experience which would in turn positively impact customer adoption. Our view is that optimal value can be delivered by the CMA, regulators and incumbent providers by focusing on the barriers stopping commercial entities creating competitive solutions and collaborating with existing PCWs rather than directly building industry solutions to AECs.

The primary barriers to wider adoption of existing SME PCWs are availability of data (to enable personalised comparisons) and the adoption of PCWs as an acquisition channel by incumbent providers. As seen in the consumer market when the data required to enable accurate product and price comparison is available natural competition is created between providers which then drives customer adoption. PCWs now account for more than half of personal credit card originations. However, due to the latent level of switching in the SME market it will require the CMA and banks to raise awareness amongst customers of existing PCW solutions.

We would expect the resulting market dynamic to be positive for all providers, including the incumbent banks, who would be supporting and delivering significantly improved customer engagement, awareness and experiences to existing a new customers.

Prioritisation of remedies

In our response to the Remedies Notice we identified the “Key Foundational Remedies” (3, 6, 7) that are key enablers to any PCW solution being value adding to SMEs – namely those remedies that make transaction level data available and help SMEs to understand how this data can be used to improve access to finance at a better rate. We would like to restate our recommended prioritisation of remedies to deliver an improved SME experience.

Quick win remedies: i.e. those that are in existence today:

Remedy 4 – A PCW for SMEs

- The CMA should support existing SME focused PCWs

Remedy 5 – Compare options based on service quality

- CMA should engage PCWs such as BFC.com who already provide this comparison characteristic

Key Foundational Remedies: Core to BFC.com ongoing development

Remedy 3 – Improving access to transaction level data

- Vital enabler to innovation and biggest barrier to improving the SME journey and increasing competition
- Closely coupled with Remedy 9,13 and 14 to ensure all data is made available to support personalised comparisons and simple switching

Remedy 7 – Transparency of overdraft facilities

- The CMA should implement now with the support of the FCA and regulation

Remedy 6 – Simplify the BCA application and opening process

- CMA should promote Fintech companies that are innovating in this space
- Be aware of the unintended consequence of stifling innovation and removing a competitive driver by standardising application processes

Remedies effective only when a seamless customer journey is established:

Remedy 1 – Prompt SMEs when to switch

Remedy 2 – Public awareness of the savings

Remedy 8 – Redirect payments to new account for a longer period

Remedy 9 – Retain previous account transaction data

Remedy 10 – Include CPAs under Bacs/CASS

Remedy 11 – Partial switching

Remedy 12 – Changes to CASS Governance

SME Lending: All being supported by BFC.com

Remedy 13 – Data sharing with CRAs

Remedy 14 – Commercial open data

Remedy 15 – Banks to provide loans price and eligibility calculator

Our view on the options the CMA proposes

For each of the options the CMA is proposing we have provided our view on the feasibility of the solution and effectiveness it will have in addressing AECs. For each we have summarised our view on the pros and cons (including unintended consequences) of the proposed solution.

(a) Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons

We would challenge the view that the BBF and BBI are the most developed existing solutions. Based on visitor volumes for 2015 BFC has the same level of awareness (10% of SMEs) within a year of launching the platform and with no formal endorsement by the retail banks.

We are very supportive of 'help' from the CMA by adopting measures to help existing SME-focused websites to widen their scope to include price comparisons. However, we implore the CMA should expand the scope of option (a) to consider credible SME focused PCWs that exist in the market today as independent commercial ventures.

As mentioned in our response to the Remedies Notice we would continue to question the positioning of remedy 4 in light of established PCWs and recommend that the remedy be amended to "Providers to support SME PCWs in providing personalised comparisons to SMEs", with the CMA focusing on delivering the other outlined remedies that would enable PCWs to function effectively in serving SME needs and bringing more open competition into the market.

35. Existing SME focused comparison sites

We do not agree that the BBF and BBI are the most developed SME focused comparison sites. Upon review our assessment is that both solutions provide a directory of potential providers with very limited functionality to enable SMEs to compare options or save time in establishing what route to take. This is not a criticism of the entities managing these platforms as there is limited incentive for these parties to invest in developing functionality as evidenced from limited development of these two solutions in the past 12 months.

36. BBF Functionality "BBF does not provide indicative quotes, a ranking of the best offers or an indication of lenders' willingness to lend"

Our research, focus groups with SMEs and behaviour of BFC users validates that the features omitted by the BBF solution are all critical in the SME decision making process.

BBF and BBI provide a good service to users in terms of a searchable directory of providers with filtering functionality, and in relation to capturing and monitoring service quality but the overall functionality of these sites is considerably less than platforms like BFC. These platforms have not attracted a meaningful user base as they are not sufficiently promoted and do not provide a compelling enough proposition to users.

40. Some new entrants have recently launched websites (finance platforms) where SMEs can search across a range of finance providers and obtain an indicative quote from a lender and/or an indication of eligibility. At this stage the majority of these platforms focus only on lending and do not cover other banking products such as BCAs.

We would like to make clear that BFC enables SMEs to compare finance options across lending products, BCAs and Credit Cards.

41. This approach to developing our remedy would require us to identify ways in which the entities concerned could be given the incentive and ability to widen the scope of their offering to provide SMEs with a one-stop shop for the identification and ultimately acquisition of banking products, and to include a comparison of a wider range of providers.

We do not believe an incentive is needed for a commercially viable SME PCW to be created. As already highlighted increasing availability of data to existing PCWs and increased incumbent provider support is key to create a sustainable and scalable platform. From our perspective the only barrier preventing a wider range of incumbent providers partnering with BFC is a conflict with existing market dynamics because partnering may in the short term compromise the banks competitive advantage. However some of the incumbent banks we have discussed partnerships with see the potential for BFC to be complementary to their own offering and enable them to connect their customers with a broader set of finance options.

The reason BBF and BBI have not been developed to meet specific needs of SMEs and deliver a value adding customer experience is because they are operated and backed by parties not looking to generate profit. Platforms incentivised to originate customers for providers and help them to retain existing customers by delivering value adding customer experiences through a commercial relationship will deliver the most effective solutions and accelerate innovation.

(b) Mandating the creation of an industry-funded PCW

We do not believe this option should be explored any further by the CMA due to its conflict to the CMA objective of removing AECs. No matter how well the rules of engagement and governance are defined and implemented, customers are likely to be sceptical about the impartiality and customer centricity of a platform run by incumbent providers. As customer adoption is a key challenge in making PCWs for SMEs effective, this would appear to us to be a fundamental problem.

Mandating incumbent providers to create a solution will not be successful due to limited appetite to pursue this approach as evidenced by limited investment in the BBF and BBI solutions. As mentioned in our response to the Remedies Notice this approach is likely to stifle existing innovation as it runs the risk of being developed to meet incumbent provider requirements.

As identified by the CMA this option would require the CMA to specify the content and functionality of a PCW and making arrangements for its funding and governance which would be a significant distraction from more critical remedies.

The equity/value banks bring to the table is in the transparency of products and support of existing PCWs which is far more valuable than the cash they would invest to build a solution. We suspect the implementation of this solution would be slowed by the challenge of agreeing funding structures and ownership to such an extent a value adding solution would never be built.

This option is in conflict with the NESTA prize fund as the funding may come from the same parties and would significantly reduce the incentive for commercial entities investing time and money to take part in the Nesta challenge where the banks would be building a solution themselves to meet their own requirements.

(c) Building on the Nesta challenge prize to deliver an appropriate solution

We are supportive of Nesta's efforts to develop a Challenge Prize to incentivise innovation in the market and have actively contributed to working groups to discuss the scope and approach of a potential Challenge Prize. We are confident Nesta would develop a well thought through approach.

However, there is a high risk of the unintended consequence of the Challenge Prize would be that incumbent banks will focus on this remedy at the expense of exploring the value of existing innovations and value adding solutions. The Challenge Prize approach suggests that funding is required as an incentive for innovation yet the real value banks can provide to change the market is being more transparent regarding product pricing, sharing of data and promoting existing SME PCWs.

Even if this risk were not to manifest itself there is an underlying risk with the Challenge Prize created by the proposed timescale which in our view is unambitious. As identified by the CMA delivery timescales will span long beyond the CMA investigation and therefore an ongoing engagement from the CMA would be required to govern the outputs of the challenge and ensure their contribution to addressing AECs. There is a further risk to timescales of linking the Challenge Prize directly to CMA remedies.

We would recommend a sensible interim step would be for the banks to provide feedback on the existing SME PCWs with regards to what functionality is missing from the proposition before embarking on starting to explore building solutions from the ground up.

We believe the Challenge Prize could run in parallel to option (a) if required as the proposed access to an API sandbox would be a good incubator for innovation and designing solutions to deliver better customer experiences.

If the Prize Fund goes ahead, with regards to structure we are in principle supportive of the Nesta approach of tiered prizes and potentially splitting prize funding between established businesses and start-ups.

However, due to the size of the prize fund being discussed the best outcome we can see is some component applications that may deliver specific parts of a customer journey which may be adopted by existing PCWs but not until sometime later, extending the time horizon of progress. It is unlikely that the size of prize and recommended structure will create a sustainable PCW solution or robust platform. In our view it is unrealistic to expect a prize fund of circa £5m to be a sufficient level of investment to find a sustainable, compliant and secure solution when split across several winners.

Summary of feedback on CMA options

Option	Pros	Cons
<i>(a) Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons</i>	<ul style="list-style-type: none"> • Fastest route to increasing market competition • CMA support of existing PCWs will increase awareness and drive customer adoption 	<ul style="list-style-type: none"> • The existing proposal concentrates on two platforms which are not truly independent and do not provide sufficient value add to users at the expense of more sophisticated platforms
<i>(b) Mandating the creation of an industry-funded PCW</i>	<ul style="list-style-type: none"> • The banks would be engaged to deliver a solution and accelerate the implementation of other remedies which enable the development of improved SME customer experiences 	<ul style="list-style-type: none"> • Lack of independence may result in lack of trust from SME users • Risk of very slow process to agree governance and functionality requirements where the CMAs objectives is to positively disrupt the competitive advantage of incumbent providers (this could be seen as “Turkey’s voting for Christmas”) • Conflict with the Nesta Challenge due to commonality of funding • Slow implementation due to starting from ground zero
<i>(c) Building on the Nesta challenge prize to deliver an appropriate solution</i>	<ul style="list-style-type: none"> • Forces banks to accelerate initial access to API to prove the benefits • Competitive nature of the challenge prize will drive innovation 	<ul style="list-style-type: none"> • Risk that banks backing the Challenge Prize do not engage with existing SME PCWs until the prize fund is complete which will significantly delay innovation • Risk of not identifying a credible winner • Size of the prize fund is not sufficient to fund a sustainable model so would rely on the challenge identifying potential solution with further funding to make these solutions robust enough to expose to customers • Timescales are not ambitious and likely to move to the right when trying to agree objectives and secure funding • Risk of the challenge resulting in lots of impractical innovation in unsustainable business models

Feedback on the CMAs current thinking

53. Our assessment so far leads us to believe that the Nesta challenge prize offers the best way forward. Because it is driven by competition rather than regulatory design it seems more likely to give rise to innovative solutions and may also provide SMEs with a one-stop shop which does more than simply offer price comparisons. Were we to adopt this approach, however, we would need to consider a number of issues.

Our view is that the benefits called out by the CMA as rationale for the Challenge Prize being the best way forward are all delivered by option (a) with the added benefit of being realised faster and with a higher probability of success:

- Driven by competition
 - Existing SME focused PCWs are commercial ventures driven by competition
- Gives rise to innovative solutions
 - Existing SME focused PCWs are innovating with pace and are only held back by Key Foundational Remedies whereas a Prize Fund risks starting from scratch
 - Market winning solutions are more likely to be found from those who are already positively disrupting the market and have raised capital to fund development rather than from a heavily marketed prize fund
- Would provide SMEs with a one-stop shop which does more than offer price comparisons
 - Existing SME focused PCWs already provide far more functionality than price comparisons
 - For example BFC.com has a roadmap to address all AECs provided Key Foundational Remedies are implemented

55.... We would also need to consider whether a fall back provision is necessary.

A fall back provision is not required if providers are encouraged to support existing PCWs. The risk can be mitigated by the successful implementation of Key Foundational Remedies.

56. ...We identified a risk that, following this inquiry and prior to the prize award, existing provider-supported services might be discontinued. To mitigate this risk it may be necessary to consider requiring providers to continue supporting the survey underlying the BBI, say for a period of two years after the publication of our final report.

We would encourage the CMA to review the value of providers financially supporting solutions which have low adoption from SMEs and consider providers supporting existing commercial SME PCWs through providing transparency and data rather than on-going funding.

Work BFC is doing to improve competition in the SME finance market

BFC has been in operation for over a year and has engaged with more than 10% of the UK SMEs that are looking for finance solutions. We have built and are continuing to develop the platform to deliver the key functionality that customers require to effectively evaluate options, establish their eligibility and likelihood of being approved and to enable streamlined online application processing and decisions.

How BFC delivers an improved SME experience

As provided in our response to the Remedies Notice please see Fig 1, Fig 2 and Fig 3 as follow which show these prioritised remedies overlaid on a SMEs journey to finance as supported by BFC.com.

BFC has developed a platform to demonstrate the SME journey that can be delivered through our technology when Remedies 3, 6 and 7 are implemented. We would welcome the opportunity to take the CMA through this demonstration to evidence why we believe option (a) will be the most effective approach to addressing AECs.

The BFC platform is designed to increase value to the SME through every step into the customer journey:

- Breadth and depth of products and providers - BCAs (including overdrafts), credit cards, unsecured loans, secured loans, invoice finance, asset finance, trade finance, merchant cash advance, revenue advance etc.
- Customer validation and KYB
- Dynamic and personalised product matching
- Price, decision speed and service quality data
- Eligibility calculator and certainty of approval provided so SMEs can apply with confidence
- Application data capture and pre-population of product application
- Seamless integration to lenders through APIs

Credit Searching Challenges

52. We also note that our remedy on comparison sites may give rise to issues around the effect of multiple credit searches on an SME's credit rating since 'soft searching' is not an option for SMEs currently. We are therefore considering what, if anything, needs to be added as an ancillary to this remedy. We would welcome views on this.

BFC is working closely with CRAs to inform the development of a solution which enables credit data to be used within a SME PCW customer journey without negatively impacting the SMEs credit file. We would welcome the opportunity to discuss this with the CMA. There is development required by the CRAs to implement a solution along with agreement from the groups that govern the use of CRA data.

We would also encourage the CMAs to engage directly with the CRAs to understand the developments they are putting in place to enable the equivalent of a "soft search" to be completed on the commercial credit file of a SME.

We would recommend the CMA compares notes with HMT as the same issue will require resolution as part of the SEEB with the designation of CRAs to receive BCA data and Finance Platforms to manage mandated bank referrals.

Fig 1

CMA remedies package as fulfilled by BFC.com

- Remedies core to BFC.com
- Remedies rely on a seamless customer journey being in place

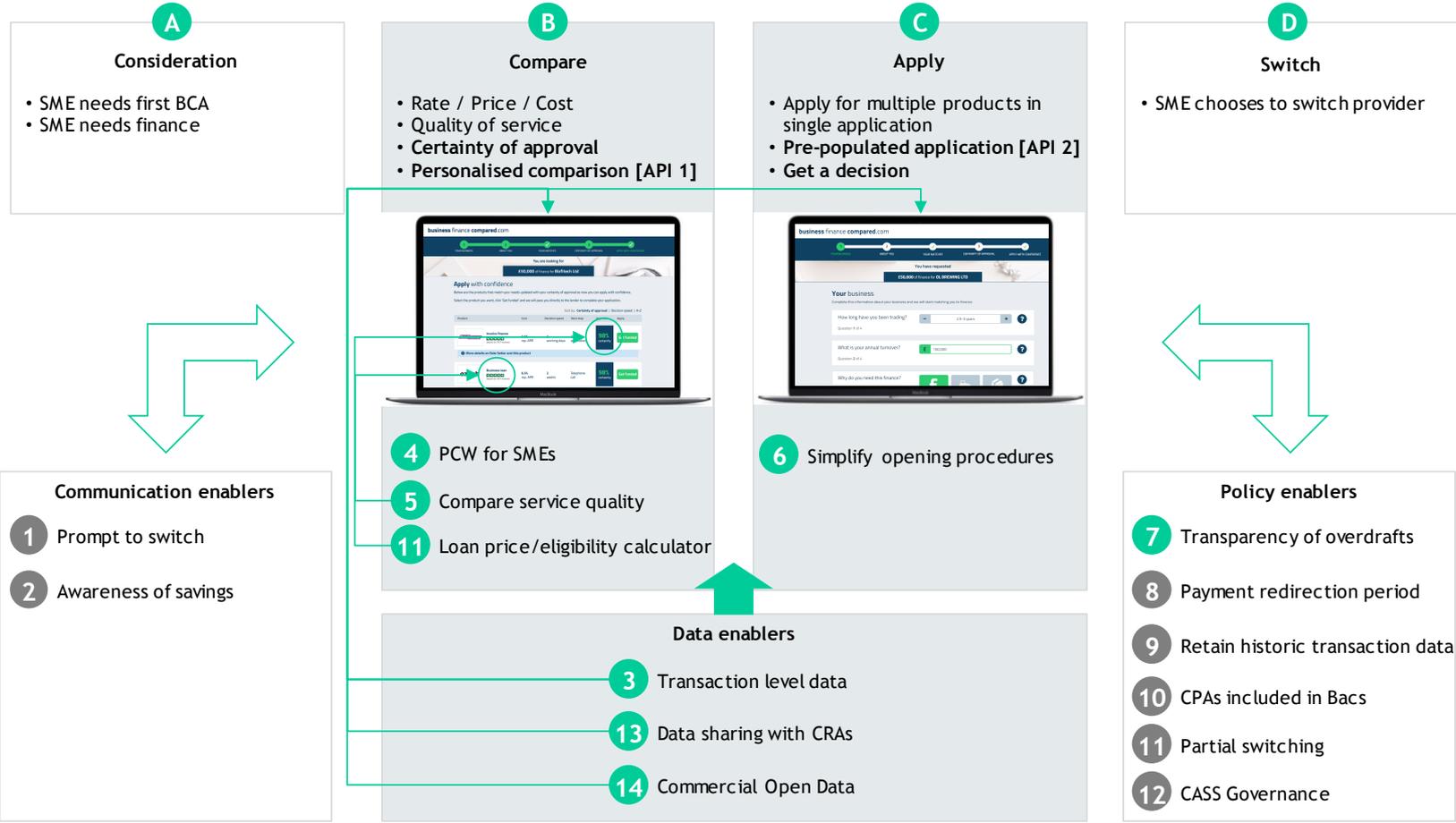
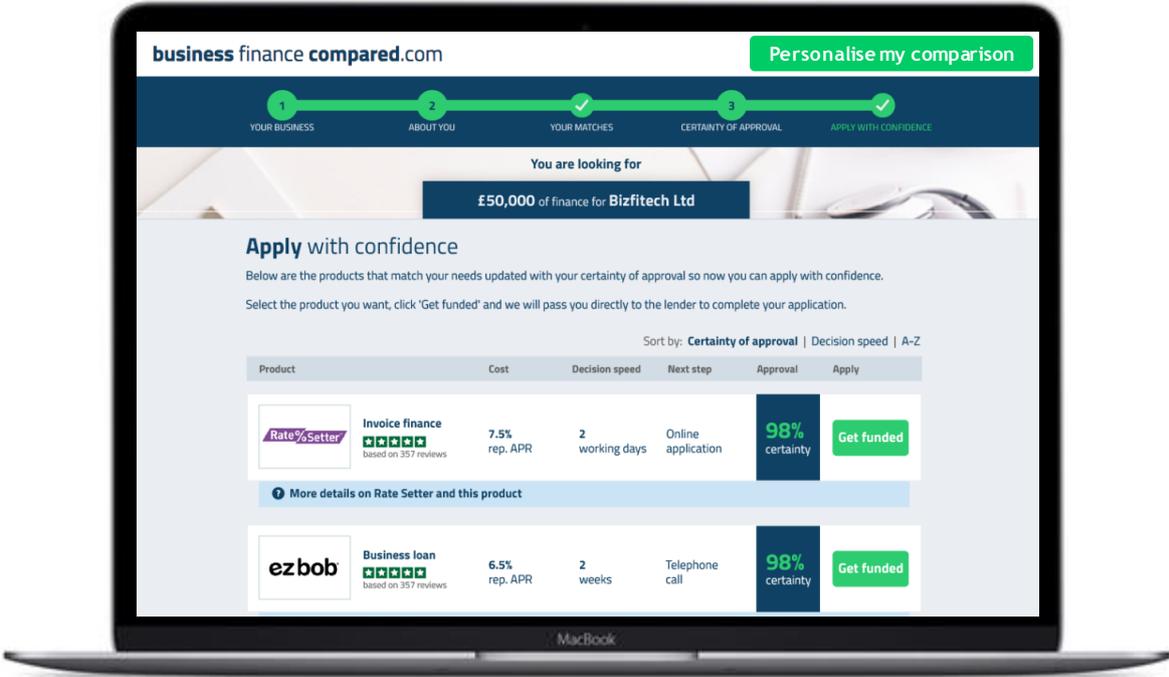


Fig 2

[API User Case 1] - enabling a personalised comparison



Data input

- Transaction level account usage
- CRA data
- Commercial Open Data including business plans etc.

Customer experience

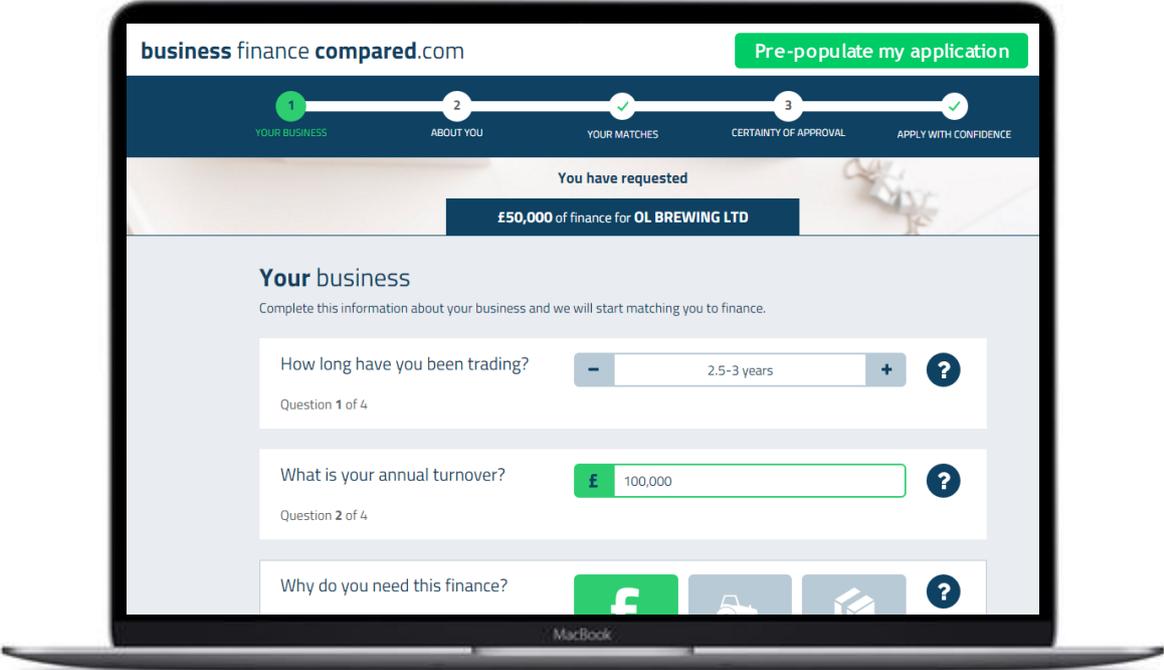
- Customer has choice to complete a personalised account comparison
- Single click (with consent) to link open commercial data used to calculate personalised comparison of BCA costs
- Same API used to enhance existing BFC.com feature of calculating certainty of approval.

Customer benefit

- Review the true cost of credit based on expected usage
- Calculate certainty of approval so you can apply with confidence
- Save time by only choosing to apply with providers who will approve you

Fig 3

[API User Case 2] - enabling a pre-populated application



Data input

- Transaction level account usage
- CRA data
- Commercial Open Data including business plans etc.

Customer experience

- Customer has choice to apply for multiple providers/products through single application in platform
- Single click (with consent) to pre-populate application form with personal and business credit information
- Decision in principle returned to customer

Customer benefit

- Save time completing applications
- Remove risk of transferring confidential information to multiple lenders