



## News Release

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### **CC LIFTS SME BANK PRICE CONTROLS BUT KEEPS OTHER MEASURES**

The Competition Commission (CC) has today published its final decision to lift the temporary price controls imposed in 2003 on the UK's four largest banks<sup>1</sup> servicing small and medium-sized enterprises (SMEs). However, the behavioural undertakings designed to make the market more competitive by making switching easier and prices more transparent and by prohibiting the bundling of different products and services will remain in place. The requirement on the four banks to publicize changes in charges will also be retained.

The decision is published on the CC's website at [www.competition-commission.org.uk](http://www.competition-commission.org.uk) and confirms its provisional verdict, which was published in August.

In addition to its decision on the existing undertakings, the CC is recommending to the Office of Fair Trading (OFT) that it should reinforce the awareness and the impact of the behavioural undertakings. In particular, it is recommending that the OFT should:

- actively monitor all SME banks' behaviour following the lifting of the price controls, and raise awareness of any worsening of their offers;
- work with the banks to ensure that SMEs become more aware of the banks' obligations to make it quick and easy for them to switch accounts; and
- explore with the British Bankers' Association the scope for imposing the obligations on the banks under the Banking Code at its next review.

The price controls were put in place following an investigation by the CC into the SME banking market in 2002. They required the four banks to make available to SMEs an account that offers an interest rate of at least 2.5 percentage points below base or free money transmission services, or both. They were intended as a temporary measure until the behavioural undertakings, which were designed to make the market more competitive, had time to take effect. The behavioural undertakings apply to nine banks including the four bound by the transitional undertakings.<sup>2</sup>

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<sup>1</sup>Listed in full in 'notes for editors'.

<sup>2</sup>Listed in full in 'notes for editors'.

CC Deputy Chairman Christopher Clarke said:

Having listened carefully to all the responses we have received since our provisional decision in August, we remain convinced that competition in this market, and the interests of customers, are best served by continuing to improve customers' awareness of the banks' individual offers and their ability to switch providers. This will provide the best competitive constraint on the banks.

This will no longer be helped by the retention of price controls, which were only intended as a temporary, protective measure and not designed to improve competition.

The evidence since our inquiry in 2003 is that even though the four largest banks continue to hold a large market share and switching levels, whilst improved, are still relatively low, the other banks not covered by the price controls have competed more strongly for SME customers and improved their market position. At the same time, SMEs have raised their expectations of what the banks should provide and are more likely to consider switching.

There is still room for improvement. We think that the price controls are no longer necessary and that the remaining competition issues are best addressed by the behavioural undertakings that remain in place.

This is why we are maintaining the measures which ensure that banks make switching easy for SME customers. We are also retaining and looking to strengthen customers' awareness of this obligation and the various products, services and charges offered by the banks. The OFT and small business organizations have an important role to play in further improving SME customers' awareness of their choices and rights as customers.

## Notes for editors

1. The CC is an independent public body, which carries out investigations into mergers, markets and the regulated industries. The Enterprise Act 2002 (the Act) transferred responsibility for decisions to vary or release remedies from the Secretary of State for Trade and Industry to the CC. The CC makes these decisions on the basis of the evidence and advice from the OFT. This is one such decision.
2. In 2002, following an investigation, the CC found that the market for the supply of banking services to SMEs was not working in the public interest (the relevant competition test at the time, prior to the Act which came into force in 2003). To address this, two sets of remedies were put in place. The 'behavioural undertakings' were aimed at making switching easier and faster, prices more transparent and preventing the banks from making the supply of SME banking services conditional on taking other services (such as loans or personal current accounts) from the same bank. The behavioural undertakings were given by nine banks: AIB Group (UK) Plc, Bank of Ireland, Barclays Bank Plc, Clydesdale Bank Plc, HBOS Plc, HSBC Bank Plc, Lloyds TSB Bank Plc, Northern Bank Ltd, and the Royal Bank of Scotland Group Plc. To safeguard customers until the market became more competitive, the CC also put in place a set of 'transitional undertakings'. These required banks to offer an account for SME customers that paid a minimum interest rate of 2.5 percentage points below base rate or free money transmission or both. The transitional undertakings were given by HSBC Bank Plc, Lloyds TSB Bank Plc, Barclays Bank Plc and the Royal Bank of Scotland Group Plc. The CC's 2002 report is available at:

[www.competition-commission.org.uk/rep\\_pub/reports/2002/462banks.htm#full](http://www.competition-commission.org.uk/rep_pub/reports/2002/462banks.htm#full).

3. During 2006, the OFT undertook a review of the transitional undertakings. In doing so, it also considered the impact of the behavioural undertakings on competition more generally. It submitted its advice to the CC in January 2007. The OFT's report, containing this advice and further information provided by the OFT to the CC following discussions, can be found at:

[www.offt.gov.uk/oft\\_at\\_work/markets/services/SME-banking/](http://www.offt.gov.uk/oft_at_work/markets/services/SME-banking/).

In provisionally deciding to release the transitional undertakings, the CC has largely agreed with the recommendation contained in the OFT's report. The only difference is that the CC has provisionally decided to retain one of the transitional undertakings that requires the banks to notify the OFT and publish increases in charges or the introduction of new charges.

4. Further information on the CC and its procedures, including its policy on the provision of information and the disclosure of evidence, can be obtained from its website at: [www.competition-commission.org.uk](http://www.competition-commission.org.uk).
5. Enquiries should be directed to Rory Taylor on 020 7271 0242 (email [rory.taylor@cc.gsi.gov.uk](mailto:rory.taylor@cc.gsi.gov.uk)).