

## **GLI Finance – Response to CMA Retail Banking Review Provisional Findings**

We welcome the package of measures set out by the Competition and Markets Authority (CMA), which should go some way to improving choice and availability in UK retail and SME banking, balancing immediate actions able to deliver positive short-term impact, whilst laying the groundwork for longer-term structural shifts such as the emergence of bank application program interfaces (APIs).

CBI data shows that, as of 2013, UK banks were the source of 80% of all SME credit, while past CMA estimates suggest that 90% of all UK SME lending was done by five high street banking groups. Indeed, SME lending from high-street banks has been steadily on the decline for some time, as these institutions retrench in the face of higher capital requirements and a broader systemic shift in credit availability, which particularly hits SMEs. Therefore, we welcome the CMA's focus on these issues and believe these measures will go some way to redressing the systemic problems that stop SMEs getting the capital they need to grow.

Notwithstanding that, we believe further measures are needed to fully address the 'finance gap' facing SMEs. As our response notes, this gap is partly a function of the competitive structure of the market, but also speaks to a deeper problem with the SME banking sector and SME behaviour. Too often, the high street bank is the SMEs first and only port of call, with very few SMEs taking advantage of the diversity of different financing options available.

The 'Small Business Finance Markets Report 2015/16', published by the British Business Bank, found that awareness of alternative finance had increased in recent years, but there is still much to do to ensure that the sector moves fully into the mainstream. The report found:

*"Even with recent improvements, over half of UK smaller businesses immediately go to their main bank when they first identify a financing need and do not shop around for finance. It is clear that more can be done to increase small business engagement with the market.... Whilst 60% of smaller businesses are aware of Venture Capital as a finance type, only 22% are aware of a specific fund to approach. Similarly 40% are aware of peer-to-peer lending but 19% are aware of a specific platform."*

Page 21, Small Business Finance Markets Report 2015/16

We believe that a comprehensive government-led campaign, supported by industry groups, and industry itself, is needed to raise awareness of alternative funding solutions for SMEs. While some efforts have been made already, we believe a more fundamental shift is needed in approach, utilising the principles of behavioural economics which have been applied successfully elsewhere.

The main objective for an alternative finance awareness campaign would be to persuade SMEs that alternative finance solutions are not a niche option for tech-savvy borrowers, but a complementary force in the financial services universe that can offer them smart solutions to secure and fuel their future – and thus deliver a significantly positive and measurable economic impact for UK plc at a modest cost for the government. Work in this field has been led by the Government's Behavioural Insights Team (commonly referred to as the Nudge Unit), which utilises human behaviour insights to raise public awareness. These have been successfully applied in several areas of policy and we would urge the CMA to consider their involvement in such a campaign.

Beyond this, we would also endorse the submission from Funding Options, a GLI Investment Platform, on some of the technical points surrounding the development of APIs. We attach this below:

## Technical Response from Funding Options

3.13: “propose to the CMA for its approval a suitably qualified, independent person (the Implementation Trustee), whose services will be paid for by providers and with a mandate, approved by the CMA, to act as chair of the Implementation Entity”

*It is vital that this individual has requisite technical skills: recent failed exercises such as Midata have shown little understanding of the capabilities of modern APIs, which are far more fast and simple to implement than Open Banking Working Group (OBWG) progress and timelines would suggest. It is vital that this individual has both financial and technology (FinTech) expertise, gained in a modern environment (e.g. as opposed to technology experience gained with outdated bank legacy systems).*

3.13: “adopt and maintain open standards for APIs with full read and write functionality on PCA and BCA transaction data sets within a timetable agreed with the CMA”

*Read-only Business Current Account (BCA) APIs do not carry the fraud and anti-money laundering (AML) risks of full read-write APIs, and most dominant banks already offer read-only BCA APIs for services such as integration with SME accounting software; timelines for delivery of read-only BCA APIs, vital to shop around for financial services such as SME loans, should be months not years.*

6.229: “build on the OBWG work by ensuring the timely development and adoption of open API standards together with appropriate data and security standards”

*There is correctly a lot of focus on creating open standards for the provision of bank account APIs. However, a neglected implementation risk (of similar magnitude) is that banks may set arbitrary rules to govern which organisations have access to develop on the bank account APIs. For example, most recent financial technology (FinTech) companies use modern cloud hosting services (such as Amazon) and cloud software services (such as Salesforce), whereas major UK banks often have information security policies based on outdated technology paradigms reflecting internal systems.*

*There is a simple answer here, which is that the UK government has made strong progress in recent years towards consistent and pragmatic standards, notably the G-Cloud Digital Marketplace and the Cyber Essentials Plus information security standard. Therefore, we advocate that access to bank account APIs, certainly for low risk read-only access, is subject to meeting government procurement standards to ensure that access is not arbitrary, and entry barriers for challengers are kept low.*

6.122: “as a transitional measure, that existing supporters of Business Banking Insight (BBI) ensure that BBI continues to collect and publish survey information which permits comparisons between providers on the basis of their service quality, by continuing its funding”

*We reiterate the observation in our prior submission regarding SME comparison sites that this valuable data should be made available via API to all interested comparison services, to increase its market reach and impact. Note that the Business Banking Insight website currently receives barely sufficient traffic to even register on recognised traffic benchmarks such as Amazon’s Alexa service.*

6.134: “require the specified banks to make details of their BCAs, standard tariff overdrafts and unsecured small business loans available to two or more designated finance platforms... and prominently display hyperlinks on their websites to the platforms on which their products are listed”

*The display and positioning of such hyperlinks will be crucial to the practical success of this remedy, and we suggest that the Behavioural Insights Team (BIT), which the CMA correctly notes is a social*

*purpose company jointly owned by the government and Nesta, be engaged by the banks to provide independent guidance on how to make this remedy effective in stimulating choice and availability.*

6.122: “make available through two or more of the finance platforms designated under the SBEE Act, details of their BCAs, standard tariff overdrafts and unsecured small business loan products including prices, fees, terms, conditions and eligibility criteria”

*Noting the time that it taking to deliver common bank account API standards through the collaborative Open Banking Working Group, a relatively simple technical task, we suggest that standard setting for the provision of this data be put in the hands of a suitably qualified third-party (such as a professional consulting firm), tasked with delivery within a defined timeline of weeks.*

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