

Banking services to small and medium sized enterprises (SMEs)

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CONTENTS

<i>Chapter</i>	<i>Page</i>
1 Introduction	1
2 Transitional undertakings - with effect from 1 Jan 2003	2
3 Behavioural undertakings - majority with effect from 1 Jan 2003	3
4 For further information:	6
 <i>Annexes</i>	
A Credit history form	7
B Money transmission services	8

1 INTRODUCTION

- 1.1 In March 2002 the Government published the Competition Commission (CC) report on banking services to small and medium sized enterprises (SMEs). The report found the four main clearing groups¹ to be charging excessive prices and therefore making excessive profits, with adverse effects on their SME customers. The CC identified other adverse effects on choice and the level of information available to SMEs from the practices of the four main clearing groups and of the other main clearing groups in Scotland and Northern Ireland.
- 1.2 The CC made a number of recommendations to remedy these adverse effects which have been agreed by the Office of Fair Trading (OFT) with the banks in the form of the two sets of undertakings outlined below. The OFT will be monitoring banks' activities to ensure that they comply with these undertakings.

¹ The banks concerned are Barclays Bank plc, HSBC Bank plc, Lloyds TSB Bank plc and the Royal Bank of Scotland Group PLC, in respect of NatWest and the Royal Bank of Scotland, for their SME businesses in England and Wales.

2 TRANSITIONAL UNDERTAKINGS - WITH EFFECT FROM 1 JAN 2003

Benefits for SMEs

- 2.1 The four main clearing groups are required to offer their SME customers in England and Wales:
- a business current account that pays interest of at least the Bank of England Base Rate minus 2.5 per cent, or
 - a business current account free of money transmission charges on the core money transmission services (shown in the attached list), or
 - a choice between the two.

Duty of the banks

- 2.2 The banks are required to write to customers before 1 January 2003 indicating the options they are being offered and prepare suitable promotional material to indicate offers to new customers. This offer remains available to that SME customer at all times unless the bank chooses to withdraw the offer and instead offer an alternative option indicated above.
- 2.3 If the bank makes an offer of one of the above options conditional on the SME meeting certain criteria, then the bank must offer another option free of any conditions.
- 2.4 If the offer of paying interest into business current account balances is unacceptable to a customer on religious grounds then the bank should explore alternatives that may be offered to that customer instead of interest payments.
- 2.5 SME customers must be contacted directly at least thirty days before any increase in charges for core money transmission services takes effect and the banks are required to publish information on increases in other money transmission charges or adoption of new charges using usual distribution channels.

3 BEHAVIOURAL UNDERTAKINGS - MAJORITY WITH EFFECT FROM 1 JAN 2003

3.1 The eight clearing groups listed below have agreed to improve conditions for competition and customer choice by making changes to reduce barriers to entry, increase transparency, improve choice and ease switching of accounts.

- AIB Group (UK) plc, in respect of First Trust Bank's SME business and branches in Northern Ireland.
- Bank of Ireland, in respect of its SME business and branches in Northern Ireland.
- Barclays Bank plc, in respect of its SME business and branches in England and Wales.
- Clydesdale Bank¹, in respect of its SME business and branches in Scotland.
- HBOS plc, in respect of Bank of Scotland's SME business and branches in Scotland.
- HSBC Bank plc, in respect of its SME business and branches in England and Wales.
- Lloyds TSB Bank plc, in respect of its SME business and branches in England and Wales.
- Northern Bank Limited¹, in respect of its SME business and branches in Northern Ireland.
- The Royal Bank of Scotland Group PLC, in respect of The Royal Bank of Scotland plc's SME business and branches in England and Wales and Scotland, National Westminster Bank plc's SME business and branches in England and Wales and Ulster Bank Ltd's SME business and branches in Northern Ireland.

¹Clydesdale Bank and Northern Bank are part of the National Australia Group.

Closing or switching accounts

BENEFITS FOR SMES

3.2 SMEs are not charged for the closing or switching of business current accounts.

3.3 Banks are required not to levy penalty charges on SMEs when they terminate a loan early at the same time as switching current account provider. The SME should also receive written details of the type and amount of any charges levied and may request a summary of the basis on which these charges have been calculated.

- 3.4 An SME may request a credit history (a statement of an SME customer's credit performance over the most recent 12 months that can be passed to an alternative supplier of bank services within the UK with a copy supplied to the SME). See attached example of a credit history².
- 3.5 The first two requests from the SME to provide a credit history in any 12 month period must be free of charge with no limits on the number of suppliers of banking services to which a credit history is provided.
- 3.6 Credit histories should be supplied within **seven working days** from, but not including, the day of request until 31 October 2003. After this time credit histories must be supplied within **five working days** from, but not including, the day of request.

DUTY OF THE BANKS

- 3.7 Banks are required to investigate ways to improve the speed of transfer of direct debits and security. Banks must also investigate the feasibility of a national branch-sharing scheme to allow customers of other banks, without a local branch presence in a particular area, to use their branches on fair, reasonable and non-discriminatory terms. The banks must publish the results of their investigations by mid March 2003.
- 3.8 Banks will have to agree with the OFT by the end May 2003 timescales within which accounts are to be switched.
- 3.9 Each bank must publish its general policy on whether or not it is willing to pay legal/valuation charges for transfer of security.

Limitation on bundling

BENEFITS FOR SMES

- 3.10 SME customers are not to be required to hold a current account to obtain a deposit account or business loan. Banks can though offer integrated products (a product that links together different types of business account and loans) provided that separate business accounts and loans are available as an alternative.

² Banks may apply to the OFT for certain items, not currently available on their computer systems, to be excluded from the credit history they supply until October 2003.

DUTY OF THE BANKS

- 3.11 Banks should be able to offer separate products by March 2003, if they are not already doing so. Banks are required to inform customers of any temporary technical problems which presently exist.
- 3.12 Where a technical constraint exists the banks should clearly state in the terms and conditions of loans or deposit accounts that such a requirement to hold a current account is temporary and should not levy charges for transferring funds between the loan or deposit accounts and such current accounts involved.

Price information

BENEFITS FOR SMES

- 3.13 Readily available information, such as tables of tariffs and interest rates, on banks' websites and leaflets and link to comparative information on other websites.
- 3.14 Making it clearer when an SME is incurring unauthorised overdraft charges.

DUTY OF THE BANKS

- 3.15 The banks are required to publish their tariff prices for money transmission services (shown in the attached list) and interest rates paid on current and short-term deposit accounts.
- 3.16 Banks are required to inform SME customers of a charge for the use of unauthorised overdraft on a business current account by either:
- (a) Informing them on the first occasion in a charging period that a charge and/or higher rates of interest has been incurred, and the amount of that charge and/or the higher interest rate applied, or
 - (b) specifying on that SME's statements for that account, or in a separate notice, that a charge and/or higher rate of interest has been incurred, and the amount of that charge or the higher interest rate applied and the amount of the overdraft above which such higher rate applies.

4 FOR FURTHER INFORMATION

4.1 CC report available on http:

www.competition-commission.org.uk/reports/2002.htm

4.2 Full sets of undertakings:

<http://www2.dti.gov.uk/ccp/topics2/monoplies.htm#banks>

ANNEXES

A CREDIT HISTORY FORM

Credit History

Business Name:..... [Legal Form]:.....

Business Address:

Customer since:.....

Facility agreements existing with [Name of Bank]

LOAN AGREEMENTS

Facility Type	Initial Facility Amount £s	Date Drawn	Amount Outstanding £'s	Repayment £'s	Repayment Frequency	Maturity Date	Security (Y or N)	Have payments been made as agreed?* (Y or N)

OVERDRAFT AGREEMENTS (OTHER THAN FOR MAIN CURRENT ACCOUNT)

Expiry Date	Limit £'s	Security (Y or N)

MAIN CURRENT ACCOUNT ONLY :

Sorting Code:

Account No:

Month	Min Ledger Bal. £'s	Max Ledger Bal. £'s	Av Ledger Bal. £'s	Credit Turnover** £'s	Overdraft Limit £'s
Jan XX					
Feb XX					
Mar XX					
Apr XX					
May XX					
Jun XX					
Jul XX					
Aug XX					
Sep XX					
Oct XX					
Nov XX					
Dec XX					

Have any cheques, standing orders or direct debits been returned unpaid for lack of funds on the main Current Account in the last 12 months? YES / NO
If YES, how many?.....

* Over the most recent 12 month period.

** Indicate whether including/excluding transfers between accounts maintained by the same SME.

B MONEY TRANSMISSION SERVICES³

Core money transmission services

- Cash in over the counter or received by post
- Cash out over the counter
- Cheque deposits and cheque withdrawals
- The establishment of direct debit instructions (but excluding any direct debit services, other than auto-credit, relating to direct debits in respect of which the SME is the originator) and the payment of direct debits
- The establishment and payment of standing orders
- Non-auto credit services
- Auto-credit services (including deposits received via BACS and CHAPS)
- The transfer of funds between the business current account and other accounts denominated in sterling held by the customer with the Bank in the UK
- The provision of a debit card for the withdrawal of cash from a business current account at ATMs operated by the Bank

Non-core money transmission services

- The withdrawal of cash from a business current account using such a debit card
- The exchange of cash (sterling) for other denominations of cash (sterling)
- Dealing with stopped, returned, unpaid or recalled payments
- The provision of bank drafts
- Special presentations of cheques
- Withdrawals other than direct debits made via BACS and withdrawals made via CHAPS
- The provision of sweep (also known as auto transfers) and set-off facilities
- Copy statements
- Dealing with status enquiries
- The provision of audit letters

³ Note that in the behavioural undertakings the sub headings core and non core are not shown in the schedule.