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The Future of UK Banking: A Golden Opportunity

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The Independent Commission on Banking ('ICB') has now published its interim report to the Government. The ICB has been given a rare opportunity to help shape the UK banking industry: the last major review of banking, notwithstanding the Cruickshank Report of 2000, was the Radcliffe report 50 years ago. The ICB's interim report is just that and, by its own admission, the Commission still has much to do. If it has the appetite, the ICB can undertake a comprehensive and considered review of the sector, and make wide-ranging recommendations for overhaul.

We recognise that the ICB's work is taking place in the context of a fast-moving and somewhat uncertain environment in that:

– there are substantial changes that have, are and will continue to, take place in the regulatory and supervisory framework. These changes are not all taking place in the UK in isolation; some are also taking place internationally;
– whilst many areas of the banking sector may have stabilised to some degree, the processes of deleveraging and economic recovery are continuing;
– key asset markets, notably those for residential and commercial real estate, are still troubled to varying degrees; and
– banks and bankers continue to be vilified in some quarters, with insufficient consideration being given to the role of the sector in servicing and adding value to the wider economy.

Because of all of this, there is a real risk that regulatory changes in the UK, particularly those which result in 'super-equivalence', could have unintended consequences and could do lasting harm, both to the UK banking sector and to the wider UK economy. The potential value of the ICB's recommendations will depend on its sensitivity to this issue and on an open and honest interpretation of what went wrong with the UK banking sector. This paper attempts to present a balanced view of where the real problems lie, and to suggest practical and pragmatic suggestions for change.

Red herrings

Firstly, we can try to discount the characteristics, trends and events that are not to blame for the state of the industry. Many of these distractions are much beloved by pundits and MPs looking for a populist soundbite, and we might assume that many will be firmly in the cross-hairs of the ICB's review. However, a keenly perceptive and valuable analysis would not be waylaid by a sound misunderstanding of what went wrong.

Bonuses

This applies most obviously to bankers' bonuses. A vast amount of the opinion-forming reaction from the media, political sphere and even supervisory authorities has focused on bonuses. Their size relative to the UK average salary, their cycle-defying prevalence, the link between reward and effort – every element of bonuses has been covered by the press and politicians in exhausting detail for the past couple of years. Banking in general, to the detriment of reasoned debate on the subject, has been turned into a political football – but it is bankers' bonuses that attract the shrillest cries and entice political parties to compete to be the most outraged.

It is a fact that many bankers are among the best paid people in the country and that sometimes bonuses do not appear to be related to performance or shareholder value. It is indeed possible that there is a link between bonus targets and investment bankers' appetites for risk. It may also be questionable whether, with the current squeeze on banks' balance sheets, paying out billions of pounds in reward is a wise business practice.

Notes

1 The views expressed here reflect the views of the authors alone, and do not necessarily reflect the views of any of their organisations.

In fact, the increasing trend towards requiring deferred remuneration may actually result in higher total remuneration in the medium term. But it is also clear that this issue does not affect either systemic risk or the vigour, efficiency and sustainability of the banking sector. It may provoke public indignation and generate countless column inches, and indeed may merit review – that is not a matter within the scope of this article – but we suggest that it is a distraction from the fundamental issues that determine the financial stability and competition aspects of UK banking. Interestingly, it is also an issue that may decline in importance as capital requirements and transaction transparency increase.

Breaking up the banks

The debate around breaking up the banks seems to revolve around two issues: (i) the combination of retail and wholesale banking, and (ii) sheer size, both of the sector as a whole and of individual banks.

The combination of retail and wholesale banking has been blamed for tipping a money market crunch into a full-blown recession. Yet universal banking is the typical business model in countries such as France, which weathered the crisis relatively well. In the UK, the banks that were most badly affected by the crisis were, in the main, domestic players with 'plain vanilla' UK-centric loan portfolios and insignificant capital market activities. The diversification afforded by the universal model can provide a greater variety of funding sources, a superior product offering for customers, greater diversification of risk and a more stable portfolio of income streams. It appears to us that universal banks are sustainable and valuable, if they are properly managed and supervised.

Consideration of the size of the banking sector relative to the financial strength and size of the sovereign raises different concerns. It is clear from the experience in Iceland, Ireland and even, to some extent, in the UK and Switzerland, that the banking sector had been allowed to expand to a size beyond the capacity of the lender of last resort. In the UK and in Switzerland, consideration of this issue is further complicated by an international dimension, i.e. foreign operations of local banks and onshore operations of foreign banks. The issue feeds into the debate on capital requirements (see further below), resolution plans and the implicit guarantee given to banks regarded as 'too big to fail'. There is wide agreement that banks must not be allowed to absolve themselves of responsibility from the financial crisis, and with this in mind the ICB will no doubt consider recommending the removal of the effect of this implicit guarantee, which is seen as having allowed big banks to assume, in some cases, excessive risks with the taxpayer picking up the tab.[2]

But we should pause here to recognise that the absolute size of big banks does not, in and of itself, threaten the health of the British banking sector. Large banks did not cause the crisis by virtue of their vast balance sheets, market value or capital buffers. It seems to us more likely that, to the extent that the banking sector 'caused' the crisis, it did so because some of its number were simply badly managed (e.g. by either lending money badly or relying excessively on wholesale funding). Northern Rock, by any measure, was not a large bank.

Clearly, if sheer size and diversity precludes effective management, then that is a problem. Indeed, some argue that consolidating operations into large, universal banks simply scales up risk and may allow management errors to accumulate rather than cancel out, thereby increasing the risk of cross-contamination. But the size of larger banks also arguably allows them to diversify, benefit from economies of scale and offer a wide range of services to consumers and businesses. The TSC Report, has confirmed that there are economies of scale, and a minimum efficient scale, in retail banking.[3] We do not believe that focusing on the size of individual banks is the way to improve efficiency in the sector.

Breaking up the banks – whether by separating retail and wholesale activities of universal institutions or by cutting down to size those deemed too big to fail – may be the right answer to a different question. In considering how to ensure stability and effective competition in UK banking, the ICB would do well not to be preoccupied with network break-up, which is highly complex, perhaps to the point of being impractical. Simply telling Lloyds to divest 600 branches, for example, might herald a lengthy, difficult and expensive process of systems and process separation. The challenge of doing this, and of integrating such a branch network in another existing bank, may be sufficiently challenging so as to disadvantage such banks from bidding. With hindsight, relaxing merger control law for Lloyds' takeover of HBOS may not have been as beneficial to the stability and composition of the sector as many had hoped, particularly given that we now know the problem was more one of systemic solvency than an isolated lack of confidence in HBOS. But that does not necessarily mean

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2 For further analysis of this issue see the report by the Treasury Select Committee ('TSC') on Competition and Choice in Retail Banking, published 2 April 2011 (the 'TSC Report'), paragraphs 8-9; and, for the TSC's views on how this relates to competition, paragraphs 217-222.

3 TSC Report, paragraph 61. <www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/612/61202.htm> The TSC also found, however, that the associated benefits are likely to be outweighed by the negative impact on competition by those providers who are perceived to be 'too big to fail'.

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that now prising apart the combined entity would be an effective or economically sound corrective measure.[4] Any present concerns over market concentration could instead be addressed by focusing on switching and barriers to entry. In any event, market dynamics are more important than market concentration. The ICB should explore widely whether the market works and how it could be improved.

A question of capital

The question of how much capital a bank needs is a beguiling one. The stock answer at the moment in many quarters seems to be 'as much as possible'. However, excessive capital requirements, as a result of both regulatory intervention and market discipline, will depress bank profitability and thus starve the sector of fresh capital. It will also raise the cost of borrowing for all customers who cannot access the capital markets themselves, which means most of us. Lastly, backing banks with very large amounts of capital doesn't necessarily prevent failure. In the last crisis, there were banks that lost upwards of 25% of their assets, yet no-one is suggesting core capital ratios of that magnitude. One of the ideas often put forward to assist in resolving the 'capital issue' is a resolution plan backed up by functional subsidiarisation – the requirement that banks should have separately-capitalised subsidiaries rather than branches. Operational subsidiarisation, i.e. ring-fencing key retail banking services, has also been put forward as a viable way to reduce risk in the sector, but in our view is likely to present significant practical challenges. We would be concerned that functional subsidiarisation is not the cost-free 'silver bullet' that regulators are looking for. It would also militate against the single market in the EU and the free flow of funds internationally, to the likely detriment of the global economy.

In all events, we need to watch for unintended consequences. The City of London operates in a global context: if UK capital and solvency requirements are so high as to make the playing field really uneven, the UK will lose out. The UK must therefore be careful about imposing super-equivalent capital requirements. It is interesting to note that the Swiss authorities seem to be retreating from their robust 'Swiss finish' proposals. In any event, while capital strength, together with liquidity and leverage constraints, is undeniably important, the recent crisis suggests that good management and effective supervision are even more so.

Regulation and supervision

History suggests that UK households are prone to over-leverage, both on personal lending and mortgage-based borrowings. In times of plenty this attracts little attention, but when financial stress strikes, with a bear market for jobs, house prices and interest rates, leverage becomes highly problematic. Most of it is real estate-based, which provides some protection for the lenders (because the debt is secured), but only to a degree (because the security may not always be what it seems). The industry has catered to borrower demand by providing a wide choice of products, including those that, through high loan-to-value ratios, essentially assume upward movements in the price of domestic real estate. Such perpetual increases cannot be guaranteed and so borrower caution should be exercised. However, as the past few years have shown, and most obviously in relation to sub-prime borrowers in the US, many people are financially uneducated. Therefore, raw competition and market operation needs to be tempered by the application of common sense and ultimately consumer protection measures. Put another way, there is a tension between choice and competition on the one side, and prudence on the other. If neither lenders nor borrowers can be relied upon to apply common sense, then a degree of perhaps more prescriptive consumer protection legislation will be required.

Undeniably, the causes of the credit crunch and subsequent fallout include instances of poor management and poor supervision. It is clear that some business models did drive bad behaviour. The future Financial Conduct Authority will doubtlessly be tasked with closely monitoring and supervising such institutions – but this need not narrow the remit of the ICB. Rather, an open-minded appraisal should be made of the overall regulatory framework in the UK. Although it would surely be beneficial if the objectives and approaches of the different competition and financial regulators were more closely aligned, re-designing the regulatory structure alone will not solve underlying problems. The ICB must lift its head from the particulars of jurisdiction and precedence between different agencies, and instead focus on how to ensure that supervision is to be better targeted and more effective.

The banking crisis affected the UK disproportionately, in that we lost a number of substantial lenders and in that we have two leading banks essentially still in Government control. It is clear to us that this did not happen because of 'casino banking', the incidence of bonuses or because of sheer size of any individual bank.

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4 As the TSC Report observes at paragraph 181, government credibility would be undermined if a merger arrangement approved by one administration was unpicked by another. It would risk politicising competition policy, create incentives for political lobbying and uncertainty for business. However, as the TSC Report also notes, the need to respect the merger should not inhibit the ICB from proposing radical changes to the market as a whole.

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Banks are inherently fragile because they take credit risk and because they transform maturities, thereby assuming liquidity risk too. Whilst the failure of many businesses, even very large ones, will have a containable impact on the wider economy, the failure of a bank is very serious because of the impact on its customers and the contagion that such failure induces. So we certainly need well-run banks, and we need them to be subject to effective regulation and effective supervision. Since we see one of the main drivers of the UK experience to be management failings in some banks, we would like to see more discussion of what the industry and the supervisors intend to achieve in this critical area.

The inherent fragility of banks drives two supervisory issues: the micro issue of management and associated supervision covered above, and one macro element. Banks are likely to be more stable and therefore serve their communities better when they operate in a stable environment. The most important contributor to the last crisis was a bubble – that of credit. This suggests that, as well as effective capital, liquidity and leverage standards, we need macro prudential oversight that is geared to monitor the financial markets closely and to spot when a boom may actually turn into a bubble. The UK had no effective arrangements for macro-prudential supervision in the run-up to the last crisis. An effective regime might have:

- imposed some constraints on lending to households, in terms of cost or loan to value guidelines;
- imposed constraints on commercial lending, especially property-related activity;
- concerned itself with the funding models of certain sub-sectors within the banking industry; and
- worried about the interplay between very low rates of interest, asset prices and the pricing of risk by both borrowers and lenders.

This is what William McChesney Martin, former Chairman of the US Federal Reserve, was talking about when he said that the job of central bankers was to 'take away the punch bowl just as the party gets going'. There are serious challenges, both political and cultural, in implementing such a regime – but the alternative is an untrammelled free market, which governments and voters will find hard to accept post-crisis.

Competition issues

There is an obvious tension between accommodating stable, sustainable and profitable business models, ensuring the competitiveness of the banking sector and agreeing on workable solutions, fair supervision and consumer protection. Thus far, most commentary and analysis has been more interested in structural solutions than competition remedies, but this paper suggests that the latter may be key to successful reform. There is no inherent tension between effective supervision and competition. Effective supervision is crucial, but should supplement and enable rather than replace competition: market discipline is a more effective tool for protecting both consumers and the banking system than radical structural interventions. The ICB should therefore consider ways in which to stimulate and promote competition in UK retail banking.

Free if in credit

As the Office of Fair Trading ('OFT') and TSC have both recently held, personal current accounts are an important gateway product in retail banking, meaning that barriers to competition in the personal current account market need to be scrutinised particularly carefully.[5] The 'free if in credit' model of banking undoubtedly, in our view, acts as a constraint on competition and expansion. In the UK, current account maintenance is mostly 'free', as are associated operations such as moving money, cheques, standing orders, direct debits, and ATM withdrawals – so long as the underlying account balance remains in credit. The volume or frequency of transactions and whether they are undertaken remotely or in person at a branch makes no difference. The fixed cost to the industry of maintaining the network, systems and processes which provide these services is very substantial. In most other countries, individuals pay for current account services with either a flat fee or on a transaction basis.

When UK interest rates were high in the 1980s, forgone credit interest on deposit balances paid for this idiosyncratic system. Now, free current accounts are mainly paid for not only by this forgone credit interest, but also by cross-subsidies from other services or from cross-selling activities. As the Chief Executive of the OFT, John Fingleton, testified to the Treasury Select Committee earlier this year, the model is 'truly a cross-subsidy, because people who don't pay anything over the year for their current account clearly have cost

Notes

5 See TSC Report, paragraph 62-65, and the OFT's Review of barriers to entry, expansion and exit in retail banking, November 2010, para. 7.18. <www.oft.gov.uk/shared_oft/personal-current-accounts/oft1282>

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something to the supplier'.[6] This hides from consumers the real cost of bank accounts (the TSC goes even further in stating that it 'misleads' the consumer).[7] We recognise that it can be difficult for banks to establish the true costs of providing a personal current account to an individual customer. However, we agree with the TSC Report that greater disclosure of information on cost is a pre-condition to greater competition in this market.[8] The Financial Services Authority chairman, Lord Turner, opined late last year that free accounts were 'a classic loss leader' which lead institutions to aggressively sell other products.[9]

As well as blurring the landscape for consumers, cross-subsidised bank accounts damage the business case for entry or expansion, because profit cannot be generated from the core product, given its reputed loss-leading characteristics.[10] This barrier to entry or expansion prevents transparency and switching measures from being fully effective. John Fingleton stated that the OFT considers low consumer switching and consumer inertia to be the biggest barriers to competition in banking.[11] In order to release this potential, the ICB should consider alternatives to free-if-in-credit banking.

Note that the seeds of change in this area may already have been sown by recent regulatory activity. The OFT and the Competition Commission have shown a relentless interest in financial services in recent years, supplementing the 'Treating Customers Fairly' focus of the FSA and the activities of the Financial Ombudsman Service.[12] The scrutiny being applied to payment protection insurance, unauthorised overdraft charges and other revenue-producing activity means that banks are increasingly running out of ways to meet the very substantial costs of maintaining the UK's money transmission system. Something will have to give.[13] Yet as the TSC was repeatedly told, free if in credit banking – despite only being introduced 25 years ago – is ingrained as a concept in the UK, and it would be commercially difficult for a bank to move first and start charging a fee.[14] However, intervention by a regulator would be highly intrusive: effectively a form of price control. The ICB may therefore conclude that the best way forward would be to encourage greater price transparency in the short term, with a view to enhancing consumer awareness and expectations of how their banking may be financed in the longer term.

Enabling switching

If the costs of retail banking were transparent, and consumers could easily and effectively vote with their feet, it would provide a powerful economic constraint and allow competition to contribute to the regulation of the sector. But if consumers find 'switching' difficult, then even drastically improved transparency will not help to increase market efficiency.

There have been many initiatives by competition regulators over recent years to increase transparency and to facilitate switching. Although there has been a significant increase in multi-banking and multi-homing, absolute levels of switching have remained low.[15] This could be because everyone is happy with their incumbent banking provider; it could also be because consumers have little incentive to switch, given the

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6 Oral evidence taken before the Treasury Select Committee, 'Competition and Choice in the Banking Sector', 20 January 2011, Q809. <www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/uc612-viii/uc61201.htm> The TSC Report found at paragraph 80 that whilst it is undesirable from the perspective of 'fairness', cross-subsidy is not always wrong. For example, cross-subsidy exists in the airline industry where customers who book early are cross-subsidised by those who book later. However, pricing is far more transparent and customers can easily switch airline provider. The TSC found that these conditions are not currently present in the personal current account where cross-subsidy is opaque and switching costs are high.

7 TSC Report, paragraph 80.

8 The TSC has carried out useful work in assessing the true revenues, costs and profitability of personal current accounts (see paragraphs 68-77 of the TSC Report). The OFT found in 2008 that half of all personal current account revenue was earned from 'hidden' charges. See 'Personal current accounts in the UK – an OFT Market Study', July 2008, Annexe C (Free-if-in-credit personal current accounts), figure C.4. <www.oft.gov.uk/shared_oft/reports/financial_products/oft1005c.pdf>

9 Oral evidence taken before the Treasury Select Committee, 'Competition and Choice in the Banking Sector', 23 November 2010, Q48. <www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/uc612-ii/uc61202.htm>

10 See TSC Report, paragraph 88.

11 Oral evidence taken before the Treasury Select Committee, 'Competition and Choice in the Banking Sector', 20 January 2011, Q758. <www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/uc612-viii/uc61201.htm>

12 The TSC Report notes at paragraph 12 that in the past decade, the OFT and the Competition Commission ('CC') have conducted almost twenty inquiries into competition in different parts of the retail banking market. Many of these inquiries and investigations have focused on particular segments of the market, such as the personal current account market (2008), Cash ISAs (OFT, 2010) and store card credit services (OFT, 2004, CC, 2006). There have been two studies specifically on SME banking, by the CC in 2002 and the OFT in 2007. Most recently the OFT conducted its market study 'Review of barriers to entry, expansion and exit in retail banking'. There have also been a number of EU inquiries into the banking sector, including the European Commission's 2007 inquiry into retail banking.

13 The FSA has recently estimated that over 14 million customers now hold packaged accounts (in which customers pay a monthly fee for a package of services) and noted that such accounts 'now provide a significant source of fee income for banks.' See TSC Report, paragraph 67.

14 See paragraph 93 of the TSC Report.

15 See paragraphs 99-106 of the TSC Report.

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potentially low amount of credit interest forgone and difficulty of assessing and comparing likely charges and service levels.[16] But we would suggest that it could also be because normalising market forces are being prevented from working properly. To allow consumer preference to seep through and drive the market, the ICB needs to think in a customer-centric way.

Firstly, the ICB must acknowledge that people have an aversion to closing bank accounts. Switching services that automatically close the original account have proved unattractive to customers, presumably because people value the security, sentiment or flexibility afforded by keeping their original account open.[17] Secondly, the ICB should recognise that people don't like opening accounts either. The prospect of endless form-filling, small print and 'customer education' spiel from sales representatives is enough to dissuade most from going through with the application process, let alone the potential upheaval of the actual transition.

The ICB must consider the account-opening process and ask itself whether customer protection measures really work and whether the flood of information really gets through to prospective applicants. If the safeguards appear to be form over content, or are simply *too much* content, then their continuing usefulness should be called into question.[18] One option may be to supervise consumer protection more vigorously at the source by imposing minimum standards, rather than relying on spurious and ineffective disclaimers and warnings at the point of consumption. This could pave the way for true portability, where consumers would be free to walk into a bank, hand over their existing debit card and have their account (or, if they wished, any part of their banking activities) transferred in real time.[19] Changes could also be made to more prosaic processes such as anti-money laundering checks, which have become formulaic, repetitive and excessive. Customers would also benefit from the removal of multiple 'know your customer' (KYC) requirements, perhaps through a regulated central certification.

The road to interoperability

An increased focus on consumer preference alone will not lift barriers to switching. A further difficulty lies in banks being able to obtain a single view of customers ('SVOC'). Banks need a SVOC to be able to analyse fully customer profiles, permit more easily the safe transfer of prime account relationships and cross-sell appropriately and effectively. A SVOC requires a system that can readily summarise all aspects of a relationship with a customer. Currently, almost all the leading banks in the UK operate core banking systems that are old, bespoke and disparate, which makes SVOC and interoperability – the ability of systems to 'talk' to each other – a real challenge. The current systems are not only expensive to maintain, but in some cases very difficult and very expensive to change: it would be uneconomic and probably impossible to upgrade the systems and facilitate interoperability, as well as making far-reaching associated changes to current mandate flows in direct debit instructions, UK IBAN numbers and other essential infrastructure. There is no effective way of making such systems agile – they would need to be replaced. So the solution is to make the *next* generation of banking systems fully interoperable.[20] We recognise that this is a major task which will take some years to complete. We also know that it is hugely expensive, but the fact that some banks are already willing to pay customers to switch would suggest that such a move could be financed, provided that the sector moves away from 'free if in credit' to a more viable business model.

A further major obstacle to an effective switching process, and all the competition and innovation that that would stimulate, is that large incumbent banks have insufficient incentives to facilitate switching. As Mr. Fingleton recently noted, the OFT has no sanctions if a bank is slow in observing one of the transparency or switching initiatives being undertaken voluntarily by the industry.[21] Establishing a clear timetable around such reform would be a good start. The European Commission had to dictate the timetable to make investments in order to achieve the political aim that was the Single European Payments Area, knowing that these investments would necessarily be uneconomic. To bring about this change, a three-year transitional interchange fee was built into the EU legislation. The ICB could explore similar ways of financing the capital investment, perhaps through a 'switching interchange' paid by the bank that is receiving the new customer.

A question of policy

The dilemma facing the UK banking industry and its regulators is that if you want better outcomes, you need to invest. But if investment is secured and the new

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16 See paragraphs 89-90 of the TSC Report.
17 The TSC also heard this from various parties (see paragraph 108 of the TSC Report).
18 See in this regard paragraphs 85 and 87 of the TSC Report.
19 The TSC Report discusses the technological challenges of account portability at paragraphs 112-114.
20 The TSC heard similar arguments in respect of interoperability being a long-term goal (see paragraph 114 of the Report).
21 Oral evidence taken before the Treasury Select Committee, 'Competition and Choice in the Banking Sector', 20 January 2011, Q782. <www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/uc612-viii/uc61201.htm>

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systems put in place, the unit costs for the consumer are then actually dependent on volume secured by each bank. That is why for all the free choice they may afford, fragmented banking markets can be expensive; whereas concentrated banking markets can be highly efficient.[22] So the options for reform actually go to fundamental question of societal choice. The ICB can only go so far in making economic recommendations; the UK Government as the Executive must drive choices about the future shape of the industry.

In short, the aim should be to promote a competitive industry that works for customers and consumers, and avoids the unintended consequences that flow from forced restructuring. There is a tension inherent in this, which can even be seen with the recent Project Merlin deal between leading banks and the Government. The agreement supposedly balances state control over lending with the commercial independence of banks, but the outcome was a required GBP 10 billion of extra lending to SMEs that, left to their own risk analysis, the banks would not have lent. The precedent is a dangerous one: future governments may be tempted to implement successive versions of Project Merlin with potentially disastrous consequences.

Regulators usually have a mandate to investigate a problem and propose remedies and sanctions; the ICB unusually has a mandate to find solutions so as to develop and improve UK banking without having to define the problem. This means facilitating improvements in a number of areas:

- the execution of macro and micro prudential supervision;
- capital and liquidity adequacy;
- business models; and
- systems and process quality.

If the ICB can avoid being distracted by executive pay caps and second-guessing management decisions, and instead focus on resolving the real tensions, namely by (i) allowing free and effective competition to shape and help regulate the market, (ii) identifying viable alternatives to free-if-in-credit and (iii) working towards effective switching processes, then its conclusions could lead to real and lasting change in the sector. We hope that the ICB recognises what a rare and powerful opportunity it has.

Notes

22 The TSC and ICB have recognised that there is no necessary link between concentration levels and the degree of effective competition, but also considered that there is a tendency, all else equal, for markets to be less competitive when more concentrated (and the TSC Report found that it was legitimate to be concerned about the state of competition in the retail banking sector). See paragraphs 45-50 of the TSC Report and paragraph 3.12 of the ICB Issues Paper and Call for Evidence, 24 September 2010. <bankingcommission.independent.gov.uk/banking commission/wp-content/uploads/2010/07/Issues-Paper-24-September-2010.pdf>.

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