

News story: UK Government proposes new approach to boost banking competition and resolve RBS' State aid commitments

The proposal, put forward by HM Treasury with the agreement of RBS, has been designed to help small and medium sized enterprises (SMEs) access and benefit from greater choice in the banking services available to them.

As part of the State aid commitments agreed with the European Commission in 2009 and updated in 2014, RBS undertook to carry out five major divestments. Four have been successfully implemented. In line with its commitments, HM Treasury and RBS have put significant effort into achieving the fifth divestment, that of Williams and Glyn, which has to-date been unsuccessful mainly due to external factors. If adopted, this new plan would replace the need for the fifth divestment and would finally remedy the distortion in the UK's business banking market which flowed from the provision of state support, with greater speed and certainty than a divestment.

HM Treasury has been in constructive contact with the European Commission in recent months and HM Treasury will now seek formal amendment to RBS's State aid commitments. The Commissioner responsible for EU competition policy, Margrethe Vestager, plans to propose to the College of Commissioners in the coming weeks to open proceedings in order to gather evidence on the new plan. HM Treasury will carry out a market testing exercise in parallel. The opening of proceedings does not prejudice the outcome of the investigation.

The proposed package of measures includes:

- a fund, administered by an independent body, that eligible challenger banks can access to increase their business banking capabilities
- funding for eligible challenger banks to help them incentivise SMEs to switch their accounts from RBS paid in the form of "dowries" to challenger banks to use to incentivise switching
- RBS granting business customers of eligible challenger banks access to its branch network for cash and cheque handling, to support the measures above
- an independent fund to invest in fintech to support the business banking of the future

An HMT spokesperson said:

RBS must deliver on its remaining State aid commitments and this new plan represents the most effective way of delivering the pro-competition objectives behind them.

This new plan provides a clear blueprint to increase competition in the UK's business banking market, and would help RBS resolve one of

its most significant legacy issues which has held back the sale of the taxpayers' stake.

The estimated upfront cost of the proposed package to RBS is expected to be in the region of £750m. In keeping with the original commitments, the other large incumbent banks (HSBC, Lloyds, and Barclays) would not be eligible to benefit from the proposal. Further details, including precise eligibility criteria for challenger banks, will be announced in due course.