

News story: Agreement reached on RBS' State aid will boost competition in business banking

A plan to resolve RBS' final State aid commitment, worth approximately £835 million, has been agreed in principle between the UK Government and Commissioner Vestager of the EU Commission.

It will see RBS fund and deliver [a package of measures](#) to improve the UK business banking market and is designed to boost competition, helping small and medium sized enterprises (SMEs) benefit from greater choice and offers on banking services.

The measures will also help address potential distortions in the UK business banking market that resulted from state support for RBS.

Following market testing and responses to the Commission's consultation, the government enhanced the package of measures announced in February this year to make sure that it delivers its pro-competitive objectives and is equivalent to the divestment of Williams & Glyn, as mandated in 2009.

The revised package consolidates the previously announced remedies into two enhanced measures:

- a £425 million Capability & Innovation Fund, administered by an independent body, comprised of 15 grants that eligible challenger banks and other financial services providers can compete for to increase their business banking capabilities. These awards will range from £5 million to £120 million.
- £350 million of funding to incentivise SMEs to switch their accounts from the business previously described as Williams & Glyn to eligible challengers, comprised of £225 million paid in the form of "dowries" to challengers to use to incentivise SMEs to switch their business current accounts, £50 million to facilitate the switching of related loans, and £75 million set aside by RBS to cover customers' switching costs. This fund is intended to facilitate the switching of 120,000 (3%) SMEs and includes safeguards to maximise the likelihood of achieving this target (including the possibility of extending the scheme outside the Williams & Glyn customer base in certain circumstances).

RBS will also fund c. £60 million of additional implementation and other costs.

Full details of the remedies, including precise eligibility criteria for challengers, will be announced in the autumn.

The UK Government will now work with the Commission to formalise the revised plan, including the next steps on implementation. On this basis and subject

to the support of the College of Commissioners, the Commission will adopt its formal decision under EU State aid rules in the autumn.

The Economic Secretary to the Treasury, Stephen Barclay said:

The announcement today will help boost competition in the business banking market and marks another significant milestone in resolving a major legacy issue at RBS.

It builds on the recent settlement with the Federal Housing Finance Agency and together they show the progress being made to resolve RBS's outstanding issues.

Why has the package changed?

The proposed package announced in February comprised four elements:

- 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 free access to its branch network for cash and cheque handling for up to 3 years, to support the measures above
- an independent fund to invest in fintech to support the business banking of the future

In March and April HM Treasury undertook a private market testing exercise speaking to challengers, other financial institutions (including fintechs) and SMEs. At the same time the Commission carried out its own public consultation. The government listened to the feedback received from the industry and have used it to make a series of enhancements that will further improve the impact the package has on competition in the SME banking market.

Funding for free branch access has been redistributed to the Incentivised Switching Scheme as feedback showed this would have a greater impact on competition. Similarly, the Innovation Fund has been reallocated to a combined Capability and Innovation Fund to maximise the immediate impact on competition. There was also strong feedback indicating that the incentives to encourage the customers in the Williams & Glyn pool to switch to challenger banks would need to be significantly increased. This is why the Incentivised Switching Scheme has been increased.

The revised package now comprises two elements:

- a £425m Capability & Innovation Fund, administered by an independent body, comprised of 15 grants that eligible challenger banks and other financial services providers can compete for to increase their business banking capabilities. These awards will range from £5 million to £120

million.

- £350m of funding to incentivise small and medium sized enterprises (SMEs) to switch their accounts from RBS to eligible challengers, comprised of £225 million paid in the form of “dowries” to challengers to use to incentivise SMEs to switch their business current accounts, £50m to facilitate the switching of related loans, and £75 million set aside by RBS to cover customers’ switching costs.

Original Measures	Original Costs	Revised Measures	New Costs
A. Capability Fund	£300m	1. Capability and Innovation Fund	£425m
B. Incentivised Switching Scheme	£175m		
C. Branch Access	£45m	2. Incentivised Switching Scheme	£350m
D. Innovation Fund	£200m		
Total measures costs	£720m	Total measures costs	£775m
Total costs (includes running costs)	£758m	Total costs (includes running costs)	£833m

RBS’s State Aid requirements

Divestment Commitment	Status
RBS Insurance (Direct Line Group)	Complete (February 2014)
Citizens Financial Group (not an original divestment obligation, but added to the revised EC term sheet in 2014)	Complete (October 2015)
Global Merchant Services (Worldplay)	Complete (November 2010)
RBS holding in Sempra	Complete (May 2011 – when the last Sempra related assets had been sold)
Williams & Glyn business (original decision in 2009)	To be replaced by alternative remedies package

Other Commitments

In addition, there were a number of behavioural commitments RBS had to meet. There have been no violations by RBS of these commitments.