From the Campaign to “Give Nationwide Members a Say on the purchase of Virgin Money”

By email: NWVMvote@gmail.com

12 June 2024

Competition and Markets Authority
The Cabot
25 Cabot Square
London
E14 4QZ

Dear Sir/Madam,

Re: Concerns Regarding the Proposed Acquisition of Virgin Money by Nationwide Building Society

The campaign has over 5,000 supporters and its primary objective is to “Give Nationwide Members a Say on the purchase of Virgin Money.” Its website can be found at: https://nationwide-virgin-money-member-vote.org.uk

We are writing to formally express our concerns regarding the proposed acquisition of Virgin Money by Nationwide Building Society. As an organised group of consumers, and stakeholders in the UK financial services market, we believe this merger could significantly reduce competition within the banking sector leading to adverse outcomes for all consumers.

<u>Less choice</u>

First of all, the proposed acquisition would consolidate a substantial portion of the retail banking market under one entity. Virgin Money and Nationwide currently serve an estimated 20 million customers across the UK, offering a variety of financial products including current accounts, savings accounts, mortgages, and personal loans. The integration of these two entities would likely reduce the diversity of products and services available to consumers in the long run, as the competitive pressure to innovate and improve would diminish. Together, the combined entity is expected to command 15% of the UK mortgage market.

<u>Higher prices</u>

Furthermore, the reduction in competition is likely to lead to higher prices for financial products and services. Historically, competition among financial institutions has been a driving force in keeping interest rates on loans and mortgages competitive while offering attractive rates on savings accounts.

Nationwide, as the largest UK building society, is a particularly potent force for pricing discipline given it is a mutual society that is under normal conditions focused on delivering better financial outcomes for customers rather than shareholders.

However, in last few years, building up to this proposed acquisition, Nationwide has fallen down the mortgage and savings best buy tables. Instead of returning better rates to customers/members, it is clear that the board and management of Nationwide have chosen to accumulate capital to finance an acquisition. During the same period, we believe that the delta between average price of the best 5 mortgage rates has widened vs the Bank of England base rate.

If the acquisition continues, it is unlikely that there will be a return to the highly competitive pricing of the past due the post integration costs and a significant reduction in Nationwide Common Equity Tier 1 (CET1) ratio - from 28% to less than 20% - which will I impact credit agency ratings and funding costs.

Deterioration of terms

The consolidation of Virgin Money and Nationwide is expected to lead to a less competitive environment, resulting in less favorable terms for consumers.

Poorer service

Additionally, the merger could result in a reduction in customer service quality. Currently, Nationwide holds a market leadership position based on independent surveys of customer satisfaction levels. However, large-scale mergers often lead to operational challenges and cost-cutting measures, which could degrade the overall customer experience. This deterioration would be particularly concerning for customers who rely on personal banking services.

Increased barriers to entry

There is also the concern of reduced market access for smaller and new entrant financial institutions. The dominance of a combined Virgin Money and Nationwide group entity could create additional barriers to entry for new competitors and make it harder for existing smaller players to compete. This reduced competition could stifle innovation and further limit consumer choice in the long term.

In conclusion, while the proposed acquisition may offer some benefits in terms of economies of scale for the combined entity, the potential negative impacts on market competition and consumer welfare are significant and likely outstrip the benefits. We urge the Competition and Markets Authority to closely scrutinize this proposed acquisition and consider the long-term implications for the competitive landscape of the UK retail financial services market.

Put simply, we believe that if this deal goes ahead, there will be a significant structural shift in the UK retail financial services market - and not only will every UK consumer pay more for their mortgage, they will also earn less on their savings due to a reduction in pricing discipline by a differentiated and significant market player.

Thank you for considering our concerns. We trust that the CMA will undertake a thorough review to ensure that the interests of consumers and the health of the competitive market are upheld.

Should it be helpful to be interviewed as part of the CMA's investigation, we can make campaign representatives available to speak with your case officers.

Yours faithfully,

J Smith
For the campaign to "Give Nationwide Members a Say on the purchase of Virgin Money"