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APRIL 3 2019, 12:01AM, THE TIMES

Small firms can afford to be optimistic about banks' dispute schemes

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Ignoring the monstrous carbuncle that is Brexit, in many ways it is a great time to be a entrepreneur. After years of neglect, the government has directed Royal Bank of Scotland to pay almost £1 billion in grants and incentives to smaller lenders to improve financial services for the nation's 4.9 million small businesses.

week, even as RBS is coughing up the £1 billion to boost competition in small business banking as its final state aid penalty for its £46 billion bailout, it is also the subject of complaints from its customers over the way it used the government's Enterprise Finance Guarantee.



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RBS is the UK's biggest lender to small firms, so as with Lloyds and Payment Protection Insurance, it inevitably attracts the most complaints. But it is breathtaking that after the drawn-out and deeply damaging saga surrounding its global restructuring group for struggling businesses, RBS finds itself facing more allegations of misleading customers over what they were on the hook for under the guarantee.

RBS is not alone. HBOS takes the prize for actual criminal activity for the treatment of small businesses, at its Reading branch, leading to six convictions in 2017. The bank's review into complaints has been attacked for excluding some victims.

A clutch of banks mis-sold complex interest rate hedging products to firms in the early 2000s, leading to a regulator review that has paid more than £2 billion in compensation but left many dissatisfied due to perceptions of unfairness and a lack of transparency.

So it is with scepticism that many have greeted plans by both the Financial Ombudsman Service and a body funded by banks to set up forums allowing small businesses to bring complaints about their treatment by banks.

Until now only very small businesses could take their case to the ombudsman service, anyone else had to go to court. That was unrealistic for many already in financial difficulty. From this week, the service will consider cases brought by businesses with annual turnover up to £6.5 million.

From September, there will be a dispute resolution scheme paid for by the lenders and run by Lewis Shand Smith, the former chief ombudsman. It will cater for businesses from the ombudsman cut-off of £6.5 million to £10 million and have panels of experts to review cases. It can award compensation of up to £600,000.

There is caution among small businesses. One concern is whether the ombudsman service has the necessary expertise. Another is the potential size of awards. What if the damage has been greater than £600,000?

Another is the scope. Some want the schemes to look at all past cases, whether they have been through one of the previous reviews or not. That is understandable but not a practical wish.

Then there are the participants. Seven banks, including all of the big lenders, have signed up to the scheme for larger

been sold on, in that case to the private equity house Cerberus, the problem may be outside the power of the scheme.

However, there are reasons to be optimistic. Between the two schemes, 99 per cent of small businesses will be eligible. Lenders have to comply with ombudsman service rulings by law, and will sign legal agreements with the other scheme, promising to hand over compensation required and, crucially, to supply relevant documents, an area where they have been either incompetent or tactical in the past.

The Shand Smith scheme may not be prepared to look at cases which have been through past reviews but it hopes to consider uninvestigated ones dating back to 2000. That is a significant win for small businesses.

The real test will be outcomes. The bank-financed scheme in particular will be scrutinised for any evidence that it is in thrall to the industry. It will therefore have to demonstrate that it is not, perhaps erring on the side of generosity to small firms.

Both schemes should look out for warning signs. If problems start to occur with a particular bank or a specific type of lending, they should be addressed quickly. Ending the adversarial nature of the relationship between banks and their clients which has been so depressingly common really could help smaller firms and boost the economy.

Katherine Griffiths is Banking Editor of The Times

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