# Britain's challenger banks aren't mounting much of a challenge any more

## Inside Business: After the financial crisis it was hoped a fleet of scrappy new banks would shake up the market, but they've struggled to deliver

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Virgin Money: the last challenger bank with a genuine punch? ( Getty )

Britain's so-called challenger banks are looking increasingly challenged.

After the financial crisis, the government talked about encouraging a fleet of scrappy new contenders to take on the big four or five (if you consider Santander, which we probably should).

One of them would be spun out of Lloyds, and one from the Royal Bank of Scotland, as a remedy for the fact that those two received billions of pounds of state aid in violation of EU rules when they were bailed out.

# CYBG battered by markets over PPI and Brexit

## The bank lost money, its results were below analysts' forecasts, and the shares tumbled. Any miss is going to get punished in the current febrile climate

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An enlarged note minted by Clydesdale Bank, part of CYBG whose shares were hammered

Brexit pigeons are coming home to roost, as the latest CYBG results make clear.

The group, which owns Yorkshire and Clydesdale banks and is seeking the status of top challenger to the market's big guns in the wake of its merger with Virgin Money, endured a brutal kicking on the stock market after their release.

Nearly 10 per cent was wiped from its value during the morning session.

> How will CYBG and Virgin Money fare against the big five banks?

> CYBG set for Virgin merger but consumers shouldn't get too excited

The shares sell-off wasn't just about brexit. The bank fell into a pre-tax loss for the year to the end of September, thanks largely to a much bigger than expected provision to cover the cost of Payment Protection Insurance (PPI) misselling. Shore Capital had hoped for a better dividend than was offered too.

The baleful influence of Brexit, however, exacerbated the negatives in the bank's numbers.

Shortly after the EU referendum in June 2016, CYBG held a capital markets day when the banking group said it expected the impact of the leave vote to be felt 18 to 24 months down the line. Those comments have proved prescient.

Outside of the PPI nasty, CYBG has a decent enough story to tell. Merging with Virgin Money should give it a shot in the arm. It is growing its mortgage business faster than the market. The money RBS is having to pump into small business lending to facilitate competition as a consequence of its failure to spin off or sell what would have been known as Williams & Glyn should help CYBG, which is also outperforming in this sector.

But it is significant that the bank made note of the fact that some companies are sitting on their hands when it comes to investment, putting off decisions and hoarding cash in an attempt to protect themselves should our politicians wreck things for them.

That's entirely understandable.

The behaviour of the governing Conservative Party, and its noisy corps of extremists, is scaring just about everyone in possession of a working brain.

"Up and down the country, firms large and small are deeply concerned by the potential for a no-deal scenario, and business investment is already being choked off by the surrounding uncertainty," said Stephen Martin, director general of the Institute of Directors, as the bank was unveiling its results.

But no deal is what the extremists want, even if they won't quite come out and say so, regardless of the consequences.

In this febrile climate any misstep on analysts' forecasts is going to get punished. The market is in a fretful mood. Investors' nerves are entirely understandable.

This helps to explain why the bottom fell out of CYGB's share price.

In six months' time people may look back and see the stock as absurdly cheap. There is plenty of scope for this bank to grow its business, just as there is for other challengers such as Metro Bank – even TSB if it can sort itself out.

Trouble is no one's buying positives at the moment, and they won't be doing so until it's clear that disaster has been averted, either via Theresa May's dismal deal or through a Final Say referendum.