Criticism mounts for 'farcical' RBS-funded UK banking scheme

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Nicholas Megaw and Matthew Vincent in London

Banking Competition Remedies gave £425m to lenders to invest in services for business clients

Senior bankers are pushing the government, MPs and the EU to intervene in a "farcical" government-designed scheme to boost business banking after a series of setbacks, including news that the biggest winner was handing back almost half of its £120m prize.

Banking Competition Remedies was set up by the UK government to distribute £775m of money from Royal Bank of Scotland as a condition of its state bailout in 2008. However, executives at several banks — including some that successfully bid for awards — have criticised BCR for its secrecy and reluctance to take responsibility for the programme's slow progress.

"The NAO [National Audit Office] should have a look," one bank board member said. "It has been ill-judged, non-transparent, and a pretty good example of how not to do it." BCR handed out £425m to fund investments in new banking services for business customers. However, last week Metro Bank — which received the largest award — said it would have to give back £50m as it was scaling back its expansion plans and cutting investment in the wake of an accounting scandal.

On Friday, Nationwide, which received £50m, also said its progress had been "slower than expected". Starling Bank, meanwhile, said it had lent only £1m towards its goal of lending £913m by 2023. Starling, which unexpectedly received the second-largest award of £100m, insisted it was "on track" to meet its targets, but has previously acknowledged that its lending ability was being hampered because "start-ups . . . often have a limited capacity to service and provide security for debt".

A further £350m has been made available to pay RBS business customers to switch to rival banks, but the Financial Times reported last month that only 10 per cent of eligible customers had switched in the first 10 months of the 18-month scheme.

Executives are particularly concerned about BCR's perceived lack of accountability. Godfrey Cromwell, BCR chairman, has said it does not have to encourage customers to use the switching scheme, or assess the fitness of applicants because BCR are "engine drivers" whose role is only to "apply the terms of [the Treasury's] agreement with the European Commission".

Last week's updates have also exacerbated concerns that BCR awarded the prizes without properly assessing how realistic the recipients' targets were. BCR has refused to give details on its decision-making process. Mazars, the consulting firm, was appointed to monitor BCR's processes, but it does not interrogate the BCR's judgments.

The Treasury, meanwhile, has no power to review the decisions because it made BCR "entirely independent", according to a spokeswoman for the body.

Kevin Hollinrake, chair of the All-Party Parliamentary Group on Fair Business Banking, said "there has to be some oversight" of the scheme: "It's not about distributing the money then walking away . . . What a missed opportunity it would be — this could have really turbocharged competition in the SME sector, which we need to do."

Some executives are hoping that MPs on the Treasury select committee will step in to break the deadlock. "Everyone's had a private moan at the Treasury, but the Treasury says its hands are tied . . . that's where the select committee comes in," said one banker involved in lobbying efforts. He added that the current set-up had become "farcical — there's no confidence in the process".

Last year, the then Labour MP and Treasury select committee member John Mann said it was "absolutely" wrong for BCR to award money to Metro Bank and the matter should be investigated, but the committee's planning was disrupted by Brexit and the general election.

New committee members will be formally appointed on Monday, but are unlikely to decide on future lines of inquiry until after the Budget on March 11. Some bankers have also pushed for action from the European Commission, which demanded an improvement to business banking competition to make up for the state aid given to RBS. However, experts said Brexit sensitivities made an intervention from Brussels unlikely. "The decision to open cases against the UK is extremely political now. It's a big decision and involves the Barnier crowd . . . it might look vindictive", said one Brussels-based competition lawyer.

BCR said that Metro's decision to hand back some of its money was not unusual. Lord Cromwell said "strategy responds to changing circumstances", and on Friday he added that "awardees are beginning to make a real difference for SMEs by creating competition". It said a system and timeframe for reallocating the £50m would be announced shortly, but banks that missed out on the original prizes had been cautious about committing to reapplying. "If they approached us, we would of course be looking at participating, but only on the basis that the process is transparent", said the board member.

Ian Smith, chief financial officer of Virgin Money, said: "We'd welcome some clarity around how and when these additional funds are going to be deployed, particularly regarding the qualifying criteria if banks are invited to bid for them . . . We'd be more likely to support a speedy process, with transparent decision criteria focused on realistic outcomes".