

How to hand challenger banks £425m — and ruffle a few feathers

Efforts to improve competition for business loans haven't gone well

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Starling boss Anne Boden has denied conflicts of interest

Baringa Partners might not have the cachet attached to McKinsey & Co in the world of management consultancy, but at some point the company caught the eye of a government-backed fund.

As a result, Baringa, best known for working with utilities, was asked to advise on handing out £425m to challenger banks in 2018 in the wake of the taxpayer bailout of Royal Bank of Scotland 10 years earlier.

Based in a trendy former warehouse on London's South Bank, Baringa was brought in to help Banking Competition Remedies (BCR), an independent body, increase competition among lenders by pumping up the challengers with RBS cash.

The quango duly filled the coffers of Metro Bank and digital lenders Starling and Tide, which saw off claims for the cash from rivals such as TSB and Clydesdale and Yorkshire Banking Group, now Virgin Money.

At the time, it seemed like a victory for plucky upstarts keen to shake up banking. But a series of blunders has blighted the awards process. Accusations of conflicts of interest between BCR directors and recipients, and doubts about the ability of the banks to deliver on their promises, have stoked concerns about the allocation of taxpayers' cash. Questions have also been raised about why Baringa backed Metro's application even though the bank had miscalculated its own capital reserves.

Some bankers and politicians believe BCR's decision making was not transparent — and are calling for it to be held to account.

“No one from the outside has a clue what's happening,” said Baron (John) Mann, the Labour peer who chaired the Treasury committee. “It's not just opaque, we can't be certain the attempts at [stimulating] competition are in any way effective . . . There's no public accountability of any kind.”

There have even been calls for the National Audit Office to launch a review.

BCR was formed in 2017 after RBS spent about £2.5bn attempting — and failing — to carve off a business bank comprising more than 300 branches under the Williams & Glyn brand. It was a European Commission punishment for the £46bn bailout RBS received in the financial crisis. Ross McEwan, then the bank's chief executive, convinced the Treasury hiving off Williams & Glyn was not possible.

A compromise was struck, and BCR was created, with two goals: to award £425m to banks that could inject competition into business banking; and to use £350m to guide business customers away from RBS. It was slow to get off the ground, taking months to appoint Lord (Godfrey) Cromwell, a former Barclays banker, as its chairman in May 2018.

Cromwell was a former co-chairman of the All Party Parliamentary group on Fair Business Banking, which worked with businesses that claimed they were mistreated by banks such as RBS and Clydesdale and Yorkshire.

Some analysts said these allegations against Clydesdale and Yorkshire, plus TSB's technology meltdown in 2018 could have been black marks against them.

Others pointed out that Clydesdale and Yorkshire, TSB, and Santander — which was vying for funding until its surprise withdrawal from the process early last year — had hundreds of branches and cash machines across the country, and so could have made a bigger impact on competition than digital upstarts. Cash-heavy SME customers often require branches to make deposits.

“Clydesdale and Yorkshire had a good case for being a challenger across the country,” said Ian Gordon, an analyst at Investec. “I was unclear how Starling and Tide were going to transform the market”.

Some of the winners are already struggling. Metro, which won the biggest grant — £120m — was forced last month to return £50m after it scaled back branch opening plans from 71 to 24 over the next three years. It was awarded the money despite regulators having uncovered an embarrassing error over its capital buffers last year.

According to a letter from Cromwell to the Treasury committee last year, Baringa advised BCR that Metro still deserved the award and “remained a credible applicant capable of delivering on its submitted business plan”.

Accusations of conflicts of interest have also dogged the process. Anne Boden, who founded Starling in 2014, worked with BCR director Aidene Walsh at Dutch bank ABN Amro, RBS, and briefly at Starling. Starling said: “Anne Boden and Aidene Walsh had a good working relationship, but are not close friends.”

A conflict of interest led BCR non-executive Nigel Vooght to step down last year.

Meanwhile, the growth targets on which the banks won the cash have come into question, as some use different measures. Starling, which claims to have 2% of small business current accounts, is targeting 6.7% by the end of 2023. Tide says it has a 2.5% share of small business customers, rather than accounts, and is aiming for 8% by 2023. Lending targets are also under the spotlight. Starling committed to lend £913m by the end of 2023, but has so far managed just £1m — about 0.1%.

Despite the setbacks, BCR is optimistic. Cromwell said the number of businesses switching accounts from RBS had doubled since it launched the fund. Sources close to BCR insisted the process had not been opaque.

Baringa declined to comment.