

Walkout threat hits bank compensation scheme for small firms

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Nikki Turner, director of SME Alliance, a group that represents business owners in dispute with a financial services firm, with her husband, Paul

The viability of a new banking compensation service for small companies has been thrown into question after business representatives said they would withdraw their support unless it is overhauled.

The banking industry has been working with business groups and MPs to establish the business banking resolution service, which is aimed at companies too large to access the Financial Ombudsman Service but lacking the financial clout to pursue claims through the courts.

Two of the groups closely involved in the design of the scheme have threatened to walk away unless their demands are met, which would seriously undermine the initiative's credibility before it has been launched.

Tens of thousands of small and medium-sized businesses were mistreated by banks in the wake of the financial crisis. The government rejected calls from campaigners and the Treasury select committee for regulation of commercial lending to improve the treatment of companies.

However, along with opening up the ombudsman service to more small companies, the resolution service is being established in an attempt to give companies another route to settle their disputes.

A series of redress processes have been run for victims of scandals such as the mistreatment of small companies at the hands of Royal Bank of Scotland's Global Restructuring Group, but these have proved highly contentious.

Nikki Turner, director of SME Alliance, a group that represents business owners in dispute with a financial services firm, said she had suspended participation in the main steering group designing the new compensation service until such time as its eligibility criteria "is properly considered and revisited".

The all-party parliamentary group on fair business banking said it would also leave the steering group unless wholesale changes are made.

Kevin Hollinrake, a Conservative MP and co-chairman of the parliamentary group, said there was an "impasse" between some business representatives and the seven major banks over various aspects of the new service. Chief among them is the exclusion from the process of anyone who has been through a previous banking redress scheme.

In a letter to Stephen Jones, chief executive of UK Finance, the City trade body, Mr Hollinrake said this rule would deny access to 85 per cent of the cases the parliamentary group deals with.

Mr Hollinrake said there should be a "sensible exceptions process for individuals that have documentary evidence to support their assertions that the outcome of their past redress scheme was not fair or reasonable".

This point is also being pressed to the Treasury by the Democratic Unionist Party, which props up the Conservative government, *The Times* understands.

Mr Hollinrake said a blanket exclusion of those who have been through previous redress schemes was "fundamentally unfair" because compensation was decided upon by banks who were guilty of the misconduct. "Bank-led schemes were not sufficiently independent," he said.

Andrew Bailey, chief executive of the FCA, is understood to believe that anyone who was excluded from a previous compensation scheme, for example on the grounds that they were too large, should be able to access the new service.

A spokeswoman for UK Finance said the service "is not intended to be a redress scheme for all SMEs that have previously had the opportunity for their complaint to be independently reviewed".

Lewis Shand Smith, chairman of the steering group designing the service, said: "We remain committed to the creation of a resolution service for businesses that cannot use the Financial Ombudsman Service and that is trusted, transparent and fair."