

Treasury Committee

Oral evidence: SME Finance, HC 805

Wednesday 9 May 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Mr Alister Jack; John Mann; Alison McGovern; Catherine McKinnell; Wes Streeting.

Questions 68 - 158

Witnesses

[I](#): Nikki Turner, Director, SME Alliance; Keith Elliott, Former CEO, Premier Motor Auctions; Craig Keech, Director, Legacy Consulting; Guy Stenhouse, Managing Director, Shancastle Investments.

[II](#): Lawrence Tomlinson, Chairman, LNT Group.

[III](#): Keith Morgan, CEO, British Business Bank; Suren Thiru, Head of Economics and Business Finance, British Chambers of Commerce.

Examination of Witnesses

Witnesses: Nikki Turner, Keith Elliott, Craig Keech and Guy Stenhouse.

Q68 Chair: Good afternoon. Thank you all very much indeed for being here this afternoon for this next stage of our inquiry into SME funding. We have quite a lot to get through. These are quite complicated issues, I know, that you have been dealing with for many years, so we will try to direct the questions to individual members of the panel. However, if there are things you want to come in on, please do. I am going to start by asking each of you to describe your own experiences of poor conduct in the SME banking market.

The Committee's focus, I should just say, is going to be on lessons that can be learned from your experiences, and what they tell us about the balance of power between small companies and the banks. We are not in a position to investigate individual cases, so the details that you share with us this afternoon are to help us in looking at that broader inquiry rather than taking up individual cases. I am saying that for the benefit of you, but also for those who are watching, many of whom, I know, will be enormously sympathetic, and some of whom have shared the experiences that you have all been through. Before we start, perhaps I could ask you very briefly to introduce yourselves for the record.

Keith Elliott: I am Keith Elliott, ex-CEO of Premier Motor Auctions in Leeds.

Craig Keech: Good afternoon. I am Craig Keech, ex-managing director of Automold Ltd, but now a consultant with the Legacy Partnership.

Guy Stenhouse: I am Guy Stenhouse. I am now managing director of a family investment company but, more relevantly, until Christmas I was managing director of a merchant bank based in Edinburgh called Noble Grossart.

Nikki Turner: Hello. I am Nicki Turner. I am a director of SME Alliance, which is an organisation that helps companies that have been abused by banks, so my case is several hundred cases, you could say.

Q69 Chair: Ms Turner, I am going to start with you. I just wondered if you could briefly describe to the Committee your experience with HBOS Reading and the specific way in which your business was treated inappropriately.

Nikki Turner: HBOS Reading is an unusual case, in that I have not come across any others where a lot of it was to do with bankers with a predilection for prostitutes and bling. Basically, HBOS Reading is the same as GRG or other business support units, and the goal was to strip people's assets and take their assets, with no consideration at all for what happened to the business owners.



HOUSE OF COMMONS

Worse than that, once Lynden Scourfield and his gang were rumbled, the bank, when we presented it with evidence, very disappointingly chose to try to bury what had happened. It took my husband and me 10 years to see people go to jail. That was not particularly our aim. Our aim was to get all the victims sorted, but because there was so much denial—they used the three Ds on us: delay, deny and dilute—we had to push that hard. Fortunately, Thames Valley Police eventually got involved, but even then it was not plain sailing. It was not plain sailing that the CPS would charge them. It took forever to get the CPS to charge people.

The remit of Thames Valley Police was understandably narrow, because it costs a fortune to prosecute these cases. It cost £7 million to prosecute the HBOS Reading case, to put six people in jail. How many crooks can you put in jail for £7 million? As long as our police forces are underfunded, they are naturally reluctant to take that path. It was a great result, and the NCA is now taking it over to widen the remit, which is fantastic, but it is a big problem that this kind of thing will happen unless the police are funded and the banks know that they are funded.

Q70 Chair: The first inappropriate treatment was by the bank you took the loan from, but it was compounded by having to fight so hard to get this investigated and prosecuted.

Nikki Turner: Yes. The bank started its own investigations into HBOS Reading in January, when someone was charged with investigating. He was given the actual job in July, and he had finished the report by February 2007. The bank knew what Lyndon Scourfield was doing but, rather than do anything about what Lyndon Scourfield was doing, it decided the best policy would be to blame the customers, close all the companies down and get rid of any traces of what was happening, which is what happened. That has been so much worse for the victims. Even now, plenty of victims still have not been compensated.

Q71 Chair: Mr Stenhouse, perhaps you could talk us through, briefly, your experience with GRG.

Guy Stenhouse: My role has been as an adviser, so I am not a GRG victim, but I have dealt with GRG. Most of my customers are doing positive things. It is an unusual market in Scotland because it is dominated by two banks: the Bank of Scotland and the Royal Bank of Scotland. In my experience, the Bank of Scotland, or Lloyds Banking Group as it is now, behaves well.

I always say, "Be suspicious of organisations that change their name". The Royal Bank of Scotland set up Specialised Lending Services, which was the original name of GRG. I first came across it probably at the very end of the 1990s, rather than in more recent times. It became pretty clear that there was something wrong with that organisation. You met people who had gone through it and had not had a good experience. We used to call it the marketing department of the Royal Bank of Scotland. I noticed that, in the Promontory report, they called out RBS for trying to



HOUSE OF COMMONS

say that people went back to the mainstream business, having gone to GRG. Nobody who had a choice stayed with the Royal Bank of Scotland after going through GRG.

I had lots of little brushes, but two very prolonged experiences with GRG. One was in the early 2000s, where there was a major company and a four-bank syndicate, including the Bank of Scotland, the Royal Bank of Scotland and two other small banks. It was a significant company with hundreds of people employed, and the company got into some difficulties, but was run by honest people trying to do a decent job. In my view, it was perfectly saveable.

The Royal Bank of Scotland, through GRG, or SLS as it was then, grabbed control of the process, and all the behaviours that you see in the Promontory report came out. Fees were coming from nowhere. Suddenly the interest rate was jacked up. Meetings were happening that we knew nothing about. Eventually, the company was taken through an insolvency process. The banks popped up as the major stakeholders in the resuscitated business and have made a lot of money as a result. I felt that was the agenda from the start. SLS/GRG was a rogue department, and was for a number of years.

The second major incident I had with GRG involved, again, a major company that employed hundreds of people. This was probably about five years ago. The company in that case was lucky, in that it had not given security to the banks. As well as the Royal Bank there was the Bank of Scotland, and the Royal Bank attitude was absolutely staggering. They came in like a cowboy out of the desert, slating their own team, slating the Bank of Scotland, telling us all what was going to happen. Fortunately, the Bank of Scotland did not play it that way, and we managed to get rid the Royal Bank of Scotland and left it with the Bank of Scotland. There are many other mini incidents, but you get the picture.

Q72 Chair: That is very helpful. You mentioned the Promontory report. Could you briefly set out your view on the Promontory report on GRG?

Guy Stenhouse: It is a good report. It is well written. I am sure there are various corners that it could have gone further into. Disappointingly, I note from it that RBS did not wholeheartedly co-operate when it was asked questions. However, the report was good and I felt it highlighted the sorts of things that I had personally experienced.

Q73 Chair: Mr Keech, I have the same question for you. Briefly outline your experience with GRG. If you have a view on the Promontory report produced for the FCA, it would be helpful to hear that.

Craig Keech: Thank you for the opportunity. We have identified just four or five examples of our experiences at the hands of RBS GRG. There are a lot more. We have tried to pick out from that the TSC Q&A with Mr McEwan and Sir Howard, and our experiences.



HOUSE OF COMMONS

One subject, conflict of interest, was brought up within the Q&A and the Promontory report. As an example, the bank directed us to appoint a non-executive director to supposedly help with our restructuring, who had previously signed, unbeknownst to us, a non-disclosure agreement with RBS GRG. After the person's interview with the liquidator's QC, he was considered to be a hostile witness. I do not need to add any more to that. You have to make your own judgments.

Also on the subject of conflict of interest, we have experienced GRG's collusion with an insolvency practitioner and the release of highly confidential information to third parties. Clear conflicts of interest existed where a senior GRG manager had a prior personal and professional relationship with an IP, whom he promoted for appointment and with whom he had previously worked in an executive capacity. Their relationship gave undue influence to the bank's decision-making towards our business and it was of substantial benefit to a third party.

I am pretty comfortable talking about shadow directors, because I was particularly pleased that Mr McEwan asked for me to bring these to his attention via this Committee. Two GRG senior managers met secretly with my largest customer, who represented 70% of our sales revenue, to discuss my company's future insolvency and the bank's provisional approval of our customer's plan to manage and control the prospective insolvency. The company directors had not even considered that an insolvency was required at the time. We had not been allowed the opportunity to discuss a mutually beneficial strategy with the bank, and the bank's security remained completely secure. The company they were discussing would not have affected the bank's security whatsoever.

Because my customer was perhaps not as tricky as our friends at GRG, I discovered the secret meeting before it took place, by accident. I asked my chairman to ring the GRG manager, to get the meeting cancelled or to demand our attendance. The bank refused our attendance and the meeting took place anyway. That decision cost my company tens of millions of pounds and potentially 250 jobs in the United Kingdom.

Q74 Chair: Did you have a view on the Promontory report? Have you had a chance to look at it?

Craig Keech: I have two more things I would like to bring up, Ms Morgan. I know you are short of time.

The first is charges. After we discovered the collusion between the IP and the bank, we were ready to fund the liquidator. We were very short of funds because RBS had taken most of our money. Nevertheless, we were getting together the money we needed. Just when we were ready to fund the liquidation, GRG hit us with a £1.2 million facility continuation charge. I have looked into the facility continuation charge and I cannot see any reference to it within Sir Andrew Large's report, the Promontory report or, in fact, any report. That level of charge does not exist. That



HOUSE OF COMMONS

same facility with no change in security or value only cost £36,000 18 months before.

The final one, if I may, is on gagging agreements. I do apologise.

Chair: No, please do mention those.

Craig Keech: The use of gagging agreements has been a constant and severe hindrance to us in seeking justice. They were obtained by the use of economic duress within financial settlements. In one instance, a gag was achieved by the bank in an out-of-court settlement between our company's liquidator and a national audit practice, where the bank was a senior charge holder but not even a party to the litigation.

Where a gag, outside of perhaps those that protect intellectual property or national security, is installed and employed to hide malpractice, bullying and activities that stand up to no proper scrutiny, it is surely an abuse and contrary to the wider public good. These devices were employed to avoid judgment by the courts and the authorities, including you.

With regard to the Promontory report, first of all, we were lucky enough—or unlucky enough—to have our case reviewed by the most senior man known to me within GRG. It was not an independent report, needless to say. At the end of the report, when we were asked back up to Bishopsgate and hoped that we would be treated fairly, the person stated, "Your treatment by the bank in these matters has been disgraceful but we are satisfied that the bank has done nothing illegal". I am not satisfied that it has. This has been untested, and is untestable due to gagging. He went on to say, "Therefore, no action is required by me or the bank".

On the Promontory report, Promontory can only report on what the FCA asks it to report on. The fact of the matter is that the dark practices that were going on within GRG at the time, within the report, have been skewed by the vast number of transactional cases, however regrettable they may be, and by the financial crash that took place in 2008.

Chair: Mr Elliott, just very briefly, outline your experiences with Lloyds and PwC, and the inappropriate treatment.

Keith Elliott: This is slightly different. Going back to 2008, I had sold my company. I say "sold". The deal was done; due diligence had been done, but it failed because they could not find the funding. Lloyds Development Capital, which is a 100% owned subsidiary of Lloyds, was always interested in the company.

In the middle of 2008, I was introduced to a director of PwC, to be my non-executive director. "Treat me as your critical friend", he said. In truth, he restructured the funding that we had and then, within two weeks, wrote to me and said, "The company is now under the control of the bank". Unknown to me, behind the scenes, Lloyds Development



HOUSE OF COMMONS

Capital wanted to buy it. This was called Project Tick. They did not tell me at all. I was given a letter to sign, to say that the bank would be able to sell the company and that it would be the decision-maker. I was advised and I refused to sign that. I then went to a venture capital firm. It immediately said it wanted to invest and take the company back to as it was before my non-exec arrived.

The bank said, "No, we want 50% of this business" and it put a deal to me. It was a very, very profitable company, and in 2008 we were having our record income. The bank said to me, "No. We want to own it and we want you out". It was now going to be called Project Tock. This was with the venture capital firm. I have since found out that I am one of the fortunate ones, insofar as I have been able to bring proceedings, or the liquidator brought proceedings. The proceedings were brought against PwC and Lloyds for professional negligence, breach of contractual and fiduciary duty, fraudulent misrepresentation, causing loss by unlawful means and conspiracy to injure.

The liquidator was fortunate and got funding of £10 million to bring this to court. The defendants fought and fought and fought, PwC being the worst, if I can say so, but one month ago the case had to be abandoned because we were threatened with an adverse costs order. Let me just explain that. We managed to get £5 million of cover from four insurance companies in case we lost, and that is all syndicated among the four insurance companies. Lloyds and PwC applied to the courts to say that the insurance may not pay out in the event of misrepresentation. It was thrown out by the court but, in the Court of Appeal, they won.

It is a bit like me going to the police and saying, "I think you had better stop Ms Morgan driving a car and get £100,000 from her, because she might have misrepresented to the AA insurance something that becomes very important". Two weeks before we went to court, they were able to come to the liquidator and the funders, and say, "Unless you drop this case, we will sue you for £1 million a day". This was the funders and the liquidator. The whole thing fell.

I had funding on my side of £10 million; Lloyds and PwC had racked up £6 million. You start doing the maths. I have to tell you; I have had so many people contact me with similar stories. I have lost £2 million, and do you know what? Forget it. I had a burly builder in my lounge a year ago in tears, and he has lost £750,000. Do you know what I told him? "Forget it, because there is nowhere to go". No one wants to know, and the barriers and the wheelbarrows that are put in place are just phenomenal. There are three points that I can make on that, which I can expand on. Lloyds BSU was a profit centre. The head of BSU wrote to the *Financial Times* and said, "BSU is a profit centre".

Chair: I am going to bring in my other colleagues.

Keith Elliott: By all means.



Chair: They may very well touch on issues that you are going to raise. At the end, I will ask all of you if there is anything you particularly want to say to the panel that you have not had the chance to explore. You all have such detailed cases that we could be here all afternoon just talking to each one of you, and I appreciate that, but I am very grateful. My husband would probably agree with you about not letting me drive a car anyway.

Q75 **Charlie Elphicke:** Mr Stenhouse, commercial lending, as you will know, is largely unregulated by the FCA. Is this something that SMEs are generally aware of, and is it something that should change?

Guy Stenhouse: Part of the problem is what is regarded as an SME. It extends from a chip shop to quite a big company. You have to be careful about adding to the regulatory burden in this marketplace. Part of the problem is that the banks do not make very much money out of this market. If you make it a lot harder for them, the danger is that some of them will withdraw from the market and you will cut the supply of credit.

If you want my definition of where you should have more of the retail-type protections, the banks at the "S" end of SME have an increasing tendency to ask for personal guarantees. That is when you step over the mark. If you are asking for recourse for your loan beyond the limited company to which you are making it, that is more a retail risk and people should have some protection. In the larger end of the SME market, I would be a bit careful. There are things that could be done. I would take a slightly different route. Time is always pressing, and I can give you some thoughts if you want me to, but I would be careful about bringing it inside the full regulatory fence.

Nikki Turner: I would say that 99% of the members of SME Alliance did not know that commercial lending was unregulated. I certainly did not know when I started. None of us knew that we were not protected by what was the FSA at the time I started. We are not protected by the FOS, the Financial Ombudsman Service, either, because while the FSA/FCA does not deal with individual cases, as we now know, the ombudsman can only deal with cases up to a certain size. It does not really cover small businesses.

None of us, I would say, were aware of this when we started fighting the banks. It is a progressive thing of discovering whom you cannot turn to or rely on. At the end of the day, many of our members have found that the only place you can go is to the court of public opinion, because there is no other option for you. You certainly cannot use the civil courts. Keith has made the point that, even if you have £10 million worth of funding, the banks have a bigger boat and always will have. They do not care how much money they spend because it is not their money; it is the shareholders' money, whereas in Keith's case he would eventually have to pay it back. It is a totally un-level playing field and, no, we did not know.



Q76 **Charlie Elphicke:** Let us turn to gagging orders. Mr Keech, you have a gagging order that prevents you from talking about a lot of what has been going on. What are you not allowed to talk about? What are they trying to cover up?

Craig Keech: I gave you some examples earlier of certain things that they have done. I moved on quickly, because I did not want to take up too much of this Committee's time. I would also like to bring up the subject of dereliction of duty.

Charlie Elphicke: Mr Keech, you are, by the way, under parliamentary privilege in giving your evidence, so you can tell us, hopefully, more details than you would be able to outside this room.

Craig Keech: Thank you very much. To some extent, that applies. I am under a series of gagging orders. The ones with RBS, thankfully, I think parliamentary privilege allows me to discuss today. There are some other complications, which I will not bore you with today.

Dereliction of duty was another issue we had. As a senior charge holder, GRG's decision to ignore the most senior insolvency practitioner's advice represented a breach of duty by an appointed IP, while the complainant IP's practice was a member of the bank's own panel. The complainant IP implored the bank to take action and he could not understand for the life of him why it would not. The failure to do so cost us millions and millions of pounds. GRG demonstrated a complete lack of reasonable due diligence, which led to substantial losses. Subsequently, the complainant IP's forewarning to the bank was proven, in my opinion. The IP in question settled out of court with our liquidator. The liquidation was funded by us, not the senior charge holder.

Charlie Elphicke: Could I ask you to focus on the gagging order? What are they trying to hide?

Craig Keech: Dark practices, Mr Elphicke. They are all things that were perhaps featured in the Promontory report, but unfortunately the report was skewed. We are talking about them acting as shadow directors. We are talking about their manipulation of service providers to everybody on this panel, the IPs, the accounting industries, et cetera. You were talking about whether there was any need for legislation. There is, but there is also a need for recourse, because I am confident that some of the people I met down at Bishopsgate would have undertaken some of these dark practices, legislated or not. Recourse was our issue.

If you had got out of GRG with enough money to buy a bus ticket, let alone sue the bank, you were lucky. Yet, Mr McEwan sat in front of this Committee and said, "If you are not happy with our complaints procedure, you still have legal recourse". That is so disingenuous. It is an insult to the public. It is an insult to this Committee. It is an absolute disgrace. I cannot tell you how incensed I was by that.

Q77 **Charlie Elphicke:** Did you follow the discussion I had with Mr McEwan



HOUSE OF COMMONS

about gagging orders and whether the bank would relent on them? What did you think of what he had to say on that?

Craig Keech: Again, Mr Elphicke, I thought it was disgraceful. The bank used gagging orders to restrict the authorities from finding out the dark practices of the Royal Bank of Scotland's GRG. It is as pure and simple as that. I do not want to hide these things. It is incredible. Mr McEwan should not have anything to hide, because he was not involved prior to this period.

Let me say something else. The Promontory report looked at the period from 2008 to 2014. Why? Nobody in this panel believes, and I do not believe many of the general public believe it, that just because a financial crisis came along the behavioural and procedural issues that all we know about at GRG suddenly appeared. This was not about pressures of work—far from it. It was not about pressures of work. They enjoyed doing what they did, certainly to me. They bragged about their ability to employ sharp practice. They were bullies. I did have a line for you to demonstrate that, but unfortunately it escapes me. I am getting a little bit excited about the past.

Chair: You are welcome to come back and write to us.

Q78 **Charlie Elphicke:** Mr Elliott, how do those of you mistreated by the banks feel about the way the FCA has subsequently investigated cases of SME banking misconduct? What is your take on this?

Keith Elliott: In my experience—forgive my tone—you may as well talk to next door's cat. It is as simple as that; I am sorry. I have had emails with Andrew Bailey. It gets kicked into the long grass. There is zero.

Q79 **Charlie Elphicke:** Is the FCA a paper tiger when it comes to this issue?

Keith Elliott: I have had no support from anybody at all. In fact, I have a document and I will hand it out afterwards. I call it "the perfect crime", because no one will look after it. I can go through the ICAEW, the FCA, the FRC, the financial ombudsman, the Serious Fraud Office, everybody, every single person. They do not want to know. It is the perfect crime.

Craig talked about Mr McEwan saying, "You have recourse". I will take exception to that, and just read this. This is a perfect crime for the following reasons: "Once a business has been put into administration, the business owner is no longer a director of the business and therefore unable to pursue legal remedies—only the administrator can do this". The company is now effectively under the control of the bank and the administrator, who is the accountant, and they will obviously not investigate or take action against themselves. You have to gain control of that company, which will be fiercely resisted, so until then you have no claim whatsoever even though you own the company, and you have to get an independent liquidator to bring a claim, which in my case was refused many times by Lloyds, including by the Lloyds chairman at two AGMs.



HOUSE OF COMMONS

Q80 **Charlie Elphicke:** Nikki, from your perspective, what would be a just outcome of the FCA's investigations into GRG and HBOS Reading? What is the right thing to do?

Nikki Turner: Sack the FCA and start again. I do not know, really. The right thing to do would be to put something in place that means people have to give information, give disclosure and be transparent, and then for the FCA or whoever is going to deal with it to deal with it without pressures from other departments. I do not think there is any doubt that what happens in the FCA is not necessarily down to just the FCA decisions. We all know that we do not have great industries in this country any more, but we have a huge banking industry that is the centre of European banking.

The FCA has two remits that are totally contradictory. One is market confidence and the other is consumer protection, and it is really hard for them to do both. If there is something going on that will make our banking system look absolutely dreadful, that is going to damage consumer protection, and who is going to tell them that? It is going to come from somewhere higher up: "No, we do not want to do that". The pressure has to be off the FCA to do anything other than the right thing.

We have had dealings with Hector Sants, and I know that he got really, really frustrated with HBOS in the end. He produced that censure report in March 2012, which we were told could have come out a lot earlier than that but for objections from the bank, and suddenly Hector was gone. That was a powerful, powerful document that laid out exactly what problems there were in HBOS, not on an individual level of HBOS Reading, although there were several redacted paragraphs. If the FCA is to work, it needs someone to take the handcuffs off.

Mr Jack: Before I start, I am going to declare that I have known Guy Stenhouse for almost four decades and I have sat on various boards with him over the last two decades.

Chair: You do not look old enough.

Q81 **Mr Jack:** No, and neither does he. We do not have any financial or business arrangements at the moment, but I thought I would just put that on the record. Can I turn to ad hoc redress schemes? Have you had experiences of ad hoc redress schemes, either as an adviser or as a business?

Nikki Turner: I have.

Guy Stenhouse: Yes.

Q82 **Mr Jack:** I am going to address my questions to Nikki and Guy, in that case. Can I ask you what your views are of these ad hoc redress schemes that the banks have put in place, Nikki?

Nikki Turner: I am not talking about my own case now, because I did not go along with the review that Lloyds was holding. We did a totally



HOUSE OF COMMONS

separate mediation on our case. I am very disappointed with the RBS one, which is a travesty. I do not know who sets up these schemes, but they seem to have this idea that you can have your life ruined, and then it takes 10 years to get any kind of compensation, and that compensation will be covered by 8% of what you lost in the first place, or whatever you are awarded. People say, "I have been offered £150,000 compensation. I have had my life ruined for 10 years". I equate it with this: "You have been offered two days of a top banker's salary for 10 years of your life". I get it that, if the banks were to pay out everything they had to pay to everyone who had suffered, they would go bust, so it is fair to say that the victims also have to be reasonable. But, in general, these schemes are set up really, really cynically and supported by the FCA, or even with the involvement of the FCA. They need to be a lot more independent, and there need to be people involved in these schemes who are not with the bank.

Mr Jack: Your personal experience is frustration, inasmuch as it is time consuming and not enough money for those who are successful.

Nikki Turner: Yes. As I said, I am talking about SME Alliance members here.

Mr Jack: Guy, what would you add to that?

Guy Stenhouse: I do not think they work well. It is like asking the known school cheat to set the exam paper; common sense tells you that it does not work. My most direct experience was dealing with the interest rate hedging product redress scheme. This is slightly different, in that the majority of the companies—I hear all the problems these guys have had—are still alive; there is still a board of directors there to pursue it. It was kind of bizarre. You met the bank, which went through a crazily stilted script. There was a person from an accounting firm who looked as though he had just left school and did not say a word monitoring the situation. They tended to come up with a potty first answer, and you had to scream, shout and appeal, and eventually you got something okay.

On the one that I think you are referring to, the GRG one, it shot through the floors. Who can you actually sue? They have gone. Also, for most people, if your company goes bust, you have no money, your life is ruined and you are trying to move on. Somebody trying to give you justice 10 years later is a complete joke. I do not trust the banks, and I do not think you should either. I am afraid I do not trust the FCA.

You need a faster redress. The really big issue here is speed. If you want to know what the solution is, in my opinion, we have one world class regulator in Britain, and it is the Takeover Panel. The reason the Takeover Panel works well is because it works with the consent of the industry and most bankers—including most of the people at RBS—want to do a good job. There are good bankers around and they outnumber the bad guys.



HOUSE OF COMMONS

The second thing is that it has a set of principles. If you go to the law, the lawyers get to work, and what a lawyer creates a lawyer can wheedle their way through. If you have a regulator who works on the spirit, you are in a much better place. The really vital thing the Takeover Panel will do is that—if you call them up on Friday lunchtime, they do not wait until Monday to give you an answer. You get an answer then. Now, the Takeover Panel is not the right one, but it is the principle of the Takeover Panel. You need to be able to go and get redress then, not later. It just does not work.

Q83 **Mr Jack:** The FCA is failing.

Guy Stenhouse: I am afraid so. It is not trusted. People see it being dragged kicking and screaming by the media and people like you.

Q84 **Mr Jack:** As was highlighted by Mr Elliott, the fact that the insolvency partner is the person GRG will deal with, and the bank is judge, jury and executioner, makes these schemes inadequate. I am not putting words into your mouth, but I just want to get your view.

Guy Stenhouse: It does. They are too slow and they are inadequate. Look at where most of the income of insolvency practitioners comes from. They cannot bite the hand that feeds them.

Craig Keech: Mr Jack, when you said “ad hoc” schemes, I ignored the fact that GRG had set up its voluntary scheme, so I would like to comment. I found it offensive that the FCA congratulated RBS on doing that. To quote Mr McEwan, “The situation we had here was around SME customers, and that was the group that deserved the review to see if things went wrong. Other customer groupings above this are very large corporates and have the ability to stand for themselves”. Goodness me. We can assume, then, after the Promontory report and after the guilt-ridden board at RBS decide to set up a complaints procedure for SMEs, they ignore even the most standard calculations of what an SME is.

Under their complaints procedure—I checked last week, just to make sure I was performing as this Committee requires me to do—you get to make a complaint, which you can appeal against if you do not like the response. It then goes to the ITP, if you have a turnover of £10 million and your debts to the bank do not exceed £10 million. Let me tell you, £10 million is 50% of the Royal Bank of Scotland’s own classification of an SME. It represents only 40% of the European Commission’s assessment of what an SME is. There are lots of others. HMRC is closer to the European Commission.

This is the big issue. According to RBS, its complaints team is up at Brindley Place in Birmingham, and you can still make a complaint to RBS. That is fantastic, is it not? But you do not have the chance to appeal, and guess what? The independent third party will not get to review your case. Correct me if I am wrong, but I was given the distinct impression



HOUSE OF COMMONS

that this Committee was asked to believe that Mr McEwan and Sir Howard Davies really felt guilty about what happened to SMEs.

Mr Jack: Steady on. We did not fall for that. Your blood pressure can come down again. By the way, you are very good when you speak from the heart and not from the text in front of you, and I suggest you keep doing that. You are doing a good job but we are going to have to move on.

Craig Keech: I have been waiting 14 years. I do not want to get anything wrong.

Keith Elliott: On this point, I find it rather offensive, quite frankly. You are effectively saying to the burglar of your house, "You can set up a recompense system for the people you have burgled. You can do it in your own time and, by the way, you can decide on the value of things that you are going to give them". That is effectively what it is. I am quite offended, and I think, "Have I got it right?" Yes, that is absolutely it. Perhaps everybody has been fooled; Parliament has been fooled. Who has been fooled? It is somebody here. In the middle of all this, you have good SMEs, as I described earlier on, in tears or whatever. Something has to be done. This is just not on.

Q85 **Rushanara Ali:** I wanted to turn to the Financial Ombudsman Service. The FCA is consulting on proposals to allow more SMEs to access the FOS. You have already highlighted much of your scepticism about the institutions that should have been there to help. Can you say a bit more about your views on this particular proposal?

Keith Elliott: This is extending the financial ombudsman.

Chair: Yes, the remit of the Financial Ombudsman Service.

Keith Elliott: At the moment, the Financial Ombudsman Service does not have the teeth at all. At a certain level, once you are over £100,000 or £150,000, you are out of it, so you are dealing with much, much smaller businesses. Anything employing a certain number of people is out of it anyway. That being the case, why has the FOS not come to anybody and said, "We need more teeth"? Why is it coming from the people who are the victims? Why have the FOS, the SFO or anybody else not said, "Look, guys, this is wrong. We need to do something about it"? It is because they have been happy with the status quo. They have just accepted it. It is only when things get too hard and it gets too hot in the kitchen, as it is at the moment, that people start thinking, "You do it, FOS"; "You do it". Hang on a minute. You had the opportunity and you blew it.

Nikki Turner: I think they came up with this decision when there was a lot of talk about starting a tribunal system. The APPG was talking about it, as were SME Alliance and Richard Samuel. That was the point at which the FCA said, "Should we be giving more powers to the FOS?" I know that, from SME Alliance's point of view, we would be disappointed if



HOUSE OF COMMONS

that was to be in place rather than the tribunal. Last year we interviewed some people from the FOS, and I asked them, "Out of the 2,000 people you employ, how many understand complicated financial products, like IRHP swaps?" The answer was, "Possibly five" so I asked, "What qualifications do you have to have to be an adjudicator?" They said, "None". I said, "I could be a hairdresser today and an adjudicator tomorrow" and they said, "Yes".

Q86 **Rushanara Ali:** You would prefer to see the APPG's recommendation.

Nikki Turner: The tribunal, yes. I am not having a go at the people who work at the financial ombudsman's office, because it is not their fault, but it is very irresponsible of the FCA and the management of the ombudsman to allow such a system to be considered reliable. There was a programme on TV about it, and you could see the people who worked there were genuinely distressed, but not as distressed as the people whose lives are ruined, because they say, "When we cannot make a decision, we go with the bank, because it is easier to upset one client rather than a whole bank".

Q87 **Rushanara Ali:** What are the key characteristics you would like to see in the tribunal model?

Nikki Turner: Speed, definitely. The only thing I worry about with the tribunal is whether the banks would still bring in their expensive lawyers to a tribunal setting. That has to be looked at, because I have seen it in whistleblower cases where they have been to the tribunal and it has cost the whistleblower £80,000 to £100,000, because the bank has brought in £2 million worth of lawyers. I would like to see a way of eliminating that. I would like to see a panel of judges who have no interest whatsoever in the banking sector.

Q88 **Rushanara Ali:** It should be financed independently. The FOS is financed by the banks.

Nikki Turner: I do not know. That is a difficult one, because who has any money except the banks? Maybe the banks should finance it, because it might be to the banks' benefit. At the moment, the banks are paying out billions of pounds collectively on legal fees and the whole entourage they have around them of IPs, accountants, auditors and God knows what, and it would be cheaper for the banks if there was a simple tribunal system.

Q89 **Rushanara Ali:** Are there any other characteristics that you would like to see? You have referenced the cap. Would anyone like to pick up on any of the other points?

Guy Stenhouse: The ombudsman is not the right body to get to go up the scale. The thing I fear with the tribunal is that it gets bogged down in legalese. You have to have some self-regulation, as with the Takeover Panel, which is funded by a levy that you hardly notice. The really key thing is speed. You have companies that are under extraordinary



HOUSE OF COMMONS

pressure. The people involved are in the most stressful situation they have probably ever endured in their lives, and they have hours and days. They do not have weeks and years. They just do not have that. You almost need someone like the headmaster. You go to the headmaster; sometimes he gets it right; sometimes he gets it wrong, but you get an answer. That is a better system than the perfect answer 10 years late.

Keith Elliott: It has to be independent. It has to be somebody independent, like the rest of the panel has said, not connected and going round the revolving door, which is what happens all over. You see their names coming up. I do not need to go there. It should be somebody independent, not what the Government say is independent, but genuinely independent.

It also needs the ability to have some teeth, and we are talking about criminal prosecutions. I am sorry. With any complaint, you go to a lawyer and you are suddenly into the civil arena. That means big fees and the lawyers just rub their hands: "Thank you very much, this is wonderful". I think Lloyds Bank paid £865 million last year in legal fees. The big law firms are just rubbing their hands and dipping their nose in the trough, obviously. There has to be the ability to have criminal proceedings against individuals. That will stop them, knowing that they cannot hide behind a corporate veil, pay millions and millions and say, "Right, on to the next one; on to the next one". It has to be black and white. If there are any areas of grey in this, we will be taken back to where we are, so we may as well stay where we are.

Guy Stenhouse: I really cannot see that asking the FCA to set up a tribunal service or whatever else can be supported when it would applaud RBS for setting up its current complaints procedure. I find it strange that, if a director of a UK company gets close to offending the authorities, he gets interviewed down in Victoria by "the BES", "the BER" or whatever it is called this week. Can we have the DTI back, please?

Chair: Or the DIT instead, just to confuse matters.

Craig Keech: It seems to me that there needs to be some independence. It should be independently funded. I would not criticise the FCA at all. I do not see how it can be impartial in these things. It is run by ex-bankers. Some of my ex-employees ended up on the HBOS desk at the FCA, overseeing the performance of HBOS, including the guy who was considered to be a hostile witness. On that basis, I agree with Mr Tomlinson. He started this off. He deserves our thanks, and he said, "We need to ensure that businesses are better protected and put on a fairer playing field with the bank to stop this abuse of power in the banking relationship. This means careful investigation of the types of behaviour outlined in this report and consideration of the conflicts of interest from which these perverse behaviours derive". He makes the recommendation of where you should go. I hope you are going to legislate.



Chair: We are going to hear from Mr Tomlinson very shortly.

Q90 **Rushanara Ali:** UK Finance launched a review into complaints and alternative dispute resolution for SMEs. What are your views on that? Are you supportive? Are you sceptical? Are you engaging with it at all?

Craig Keech: At the moment, I am not so sure that I know any alternative. We have been unable, because of gagging orders, to fight our corner for many, many years. We have come up against a lack of independent legal advice and independent insolvency advice, because of the critical mass of the banks, and in particular RBS GRG. I have no bad words to say about any of the other banks. I do not know any other way than the way that Mr Tomlinson has suggested you go. It is important that you do it.

Keith Elliott: A financial ombudsman that had teeth, did something and was independent surely has to be a great, great start. There is another issue. I am informed, and want to tell the Committee, that there is quite a damning internal Lloyds report, which you may know about, called the Turnbull report. It was commissioned by Lloyds, and the current board is well aware of it. The author apparently was promptly sacked and the report covered up. This could be quite historic. The report deals with the cover-up of the major frauds within Lloyds bank.

Chair: We are going to come on to that in a separate session, so thank you very much.

Q91 **Rushanara Ali:** When you said at the end, "A financial ombudsman with teeth would be helpful", it echoes "a customs union" or "the customs union". Could we give the current ombudsman much more teeth to improve it, or does it have to be an entirely separate, new organisation?

Keith Elliott: We have such a critical issue now in this country. This goes to the integrity of the whole system. How you deal with a problem is indicative of how you run a business. If you cut it straight off, you show that you are running a business well. Sadly, all the financial bodies, such as the FCA, for whatever reason, have demonstrated that they cannot be trusted again. This is a serious matter. When you come down to people's livelihoods, jobs and whatever, this is not big business. We are talking about small, small businesses, and the way that they are chewed up is horrendous, believe me.

Q92 **Chair:** I appreciate that time has been short this afternoon, but thank you very much for your evidence. I have one final, more general question. If there are points that we have covered today on which you want to go into further detail, or points that we did not get a chance to cover that you want write to us about, written evidence that is published by the Committee is covered by parliamentary privilege, so that is something to be aware of.

This inquiry is part of a broader inquiry on SME funding. I do not know whether you are still in business, Mr Elliott. Mr Keech, Mr Stenhouse and



Ms Turner, you advise others. We are going to talk, later on this afternoon, to the Business Bank and others about the way SMEs get funding, but the inappropriate treatment you have talked about goes to the heart of SMEs having no confidence, or having their confidence shaken, in the banks that they thought they might have had a good relationship with. Where are people—SME Alliance, or your clients, Mr Stenhouse—getting funding from if they are not getting it from the banks? What happens when people have had experiences like this? Where do they go for funding after that?

Nikki Turner: A lot of people are nervous about getting funding from banks, but people are still getting funding from banks. It is just that we all feel there should be a health warning on it. I have been surprised to hear that people are getting funding from RBS and Lloyds, and one hopes that the banks are getting better at dealing with people. A lot of our members are not getting funding at all because they have these legacy issues. We have legacy issues going back to when GRG was SLS. We have one member, Nigel Henderson, who has been fighting for 20 years and has an excellent case, but of course he is out of time with the courts, he has no money, he has lost everything and he cannot get any funding, either to fight his case or to restart his business, which he would not do anyway because he is now in his 70s. That is a very typical story for us.

Our biggest problem is not which bank we go to, to get the funding. No bank will give the majority of our members funding, because you might have the best business plan in the world for your business going forward, but you have debts that may be totally inappropriate behind you, so you cannot get any money. Even now—and I have settled with the bank—I cannot get a contract for a mobile phone, because my credit history is completely shot to pieces. This is why we need the legacy issues cleared up, and then we need people's records put straight.

Q93 **Chair:** In terms of recompense, having records put straight is another part that we have not touched on, but that is a very important point to have made.

Guy Stenhouse: You have to be quite careful about what you expect a bank to do, because it has depositors' money and it has to look after depositors' money. There is an issue with the costs within banks. They find it very difficult to serve this area cost effectively. Since the financial crash, for understandable reasons, the regulator has been trying to regulate into less risky assets. That is causing a move away by the banks from cash flow lending: "Let us look at the business plan. Is this a viable business?" They cannot do that any more. They are saying, "We are an asset-based lender. What debtors do you have? What stock do you have? I will lend you a percentage of those". In 10 years' time, this area of banking will broadly be done by my computer speaking to your computer. That is the way it is going to go.

You ask where they get their money from. It is an amazing mix. There is so much effort put into it. Friends and family take people a very long



HOUSE OF COMMONS

way. I do not want to make a party political comment here, but, to whoever put in place the EIS and the SEIS schemes, well done. They are not perfect, but do people get real funding to do real stuff? There are a lot of syndicates, clubs and crowd funding. There is not a non-vibrant SME funding world out there. It is quite good. It is just not really the banks.

Craig Keech: We need to be careful not to go too far. I deal with a number of British clearing banks, even today, and they look after us. They are a lot more understanding than they used to be and go out of their way to support where they can. I have a problem with British clearing banks in general because, coming from the manufacturing industry, I was always at a disadvantage, where German and French banks had longer terms for you to repay your capital expenditure. It stopped development, it stopped engineering and it was a big problem to us. We need to keep everything in context. We are talking here, in most instances, about the dark arts within the banks. We are all conscious that RBS is a public asset. We do not wish any ill to the bank overall. You guys know the people we are talking about. You know their names and you have to go and do something about it.

Keith Elliott: It has all been said by the rest of the team. Financing is much more difficult now. A lot of people are worried. Do they trust the banks as much? I concur with what Craig has just said. There are a lot of good people out there, but the bad ones need sorting out and sadly, because the bad ones are not sorted out by the good people who are there, it is tainting the whole lot.

As I said before, if you take out the cancer in an operation, you save the whole thing. Sadly, these guys do not seem to be learning it, or they are not picking it up or whatever. Alternatively, they think they have got away with it. Quite frankly, that is my belief. They think they have got away with it, they spend more millions with lawyers, and we go on and on.

Going back to what you said, Rushanara, why did the FOS or anybody else not do anything when the Tomlinson report came out? The FCA sat on it for three or four years. They have all sat in the background and then suddenly said, "You can take it over, Financial Ombudsman Service". I come back to the point that I am making. I wish that the banks would be called in and told, "If you have a problem, this is an amnesty for you guys. Let us dig out the problem and let us carry on into the sunset, so we do not need any more of these meetings, we know that everything is right and, in the future, we can have a resolution service or whatever". Then we bring the shutters down correctly and finally on it. That is what I would wish for, but hey-ho.

Chair: Thank you very much. That is very fair. Thank you all very much indeed for your evidence this afternoon. It has been incredibly fascinating and we are very grateful to you for your time and sharing

your experiences.

Examination of witness

Witness: Lawrence Tomlinson.

Q94 **Chair:** Mr Tomlinson, thank you very much indeed for coming in this afternoon. I am going to ask you to introduce yourself for the record, and then we will get straight on with the questions.

Lawrence Tomlinson: Lawrence Tomlinson.

Q95 **Wes Streeting:** Good afternoon. You will have heard your name and your report come up in the first panel, and some time has passed since it was produced. Could you begin by describing to the Committee the main findings contained within your report and the process you undertook to gather evidence on the banks' treatment of businesses in distress?

Lawrence Tomlinson: The key element of my report was that I was questioning RBS's behaviour in its restructuring unit while I was entrepreneur in residence to the Government. Because I did not really get any help from RBS, whereas I did with the other banks, we had to publish it, to bring them to task. The main findings for me were that RBS GRG was not a turnaround division. Section 166 confirms that. While people felt that they were going to get help, it was not the intention of the bank to help them at all. That is absolutely key.

Q96 **Wes Streeting:** What were the primary drivers or the factors behind this?

Lawrence Tomlinson: Bearing in mind it was five years ago and I had limited data to make these rather massive assertions about the bank's true motive, it seemed that they were there to make profit for the bank through the destruction of viable businesses, and the 166 has confirmed that. The fact that it was a profit centre was denied by Chris Sullivan several times. He denied also that he had had sight of the report, but it turned out he had forgotten he had seen that and had forgotten that it was a profit centre. Those were quite interesting comments to Andrew Tyrie.

Q97 **Wes Streeting:** In the previous panel, it was not just banks we were talking about, but other firms, like valuers or professional services, arose. To what extent did you cover those organisations?

Lawrence Tomlinson: Really, I was looking at RBS's so-called turnaround division and the relationship between the bank and its advisers. The independence of those advisers is questionable considering that RBS and Lloyds lend to 60% of the SMEs, roughly, in the UK. If you are paying those independent advisers, you can really lean on them, should you want to.



HOUSE OF COMMONS

Q98 **Wes Streeting:** We heard some pretty jaw-dropping testimony in the first session, but how would you characterise the balance of power between SMEs and the banks that service them?

Lawrence Tomlinson: I do not like to say, "This is all bad", so in my report five years ago I included a section called "solutions". It clearly identifies the massive imbalance in power for people who want justice and the absolute inability that they have to get justice. Banks use lawyers, paid for, in RBS's and Lloyds's case, by us as taxpayers, and spend millions of pounds to defeat some poor individual business that cannot afford to go to court, using the full power of the law and magic circle firms. It is impossible for people to get justice, even though, morally, we all know what has happened. They still have not had justice; nor have the perpetrators seen justice.

Q99 **Wes Streeting:** You published your report. How would you describe the way in which your report was received by RBS?

Lawrence Tomlinson: I had a very confrontational meeting with RBS in its headquarters, far more than it needed to be, because fundamentally I was trying to help RBS understand the problem that it had within GRG. It was unfortunate at the time, because Ross McEwan had only been in the job for three months, but people around him had a lot to lose, so I think he was very badly advised during his time, having set out to take advice from so-called independent advisers and independent people, on which the bank was spending millions and millions of pounds in fees to do a report. The bank should have done its own report in the first instance, which is what I would have done if it was my business.

Q100 **Wes Streeting:** RBS talked about your report having alleged that it set out to deliberately defraud its business customers. Did your report actually allege fraud?

Lawrence Tomlinson: They need to read the report, because that is not what it says. By the way, I am not saying they did not. They have very big lawyers.

Chair: Understood.

Wes Streeting: You are covered by parliamentary privilege in this Committee.

Lawrence Tomlinson: Am I really? Okay. That is not going to help me anyway.

Q101 **Chair:** Feel free to make the most of it.

Lawrence Tomlinson: That is what you say.

Q102 **Wes Streeting:** Your report was about RBS, but there is a wider audience of organisations, individuals and Government, which ought to have been interested. I just wondered how much of a hearing you feel your report received among those individuals and organisations that should have been interested.



HOUSE OF COMMONS

Lawrence Tomlinson: It is very difficult. My job became one of education of very many different groups of people, while the British Bankers' Association, which has roughly 60 full-time people and is basically a lobbying organisation, is talking against me, and RBS is able to brief the press. It spends millions with the press. I am just one guy who is standing up for the little man, the little lady or the small business.

It used to make me laugh, because we would get people contacting us in all sorts of ways and wanting to speak to someone in Mr Tomlinson's office. That was basically me and Fiona here, who has done a great job helping me. It was just us really. Then we had to go out and be interviewed on TV—something I had never done before—about it. As someone who had never been in GRG, to be absolutely clear about that—I had no major beef with RBS at the time—I thought, "I am trying to help you. Why have you become so defensive? Why are you going out and attacking me personally to get rid of this report?"

Q103 **Wes Streeting:** Notwithstanding that very well-resourced counter lobby, what was the response of Government and regulators specifically?

Lawrence Tomlinson: The FCA was initially very good. I went to the FCA a number of times. I would contact them and ask them how they were getting on, once they had started the section 166. As for Promontory, I met Sir Callum once. I was thinking, "This is going to be a bit of a whitewash", because Sir Callum was chair of the FSA during the time that this went on. Promontory had also had issues in the press where it had had to pay a fine of about \$13 million for whitewashing a Standard Chartered money laundering paper it did. I think it was banned from practising for six months in New York district. There were roughly those sorts of things. I was not very hopeful.

When the report finally came out—thank you very much for having it published—I thought, "My God, this could not be any more damning or confirm more what I had put in my report". If anything, it highlighted areas that needed further investigation, so I was extremely disappointed with Andrew Bailey's comment in his summary, when he would not publish the full report, missing out some really, really important things that were in the public interest. You have to wonder whether he is fit for that job if he is going to miss out these things, because it seems bizarre.

I do not have the exact phrase, but it said the actions of GRG were intentional, co-ordinated and a management strategy, and the management should have known or did know about them. How can you possibly miss that out of a summary and then try to stop the full report being published? It is just terrible. I think Martin Wheatley would not have written that small summary.

Q104 **Wes Streeting:** There is a lot to take in there. On the point you made about the Promontory report pointing to areas for further investigation, were you as disappointed as many of us were that, effectively, the rest of the road has been cut short in terms of the further investigative work



that is needed?

Lawrence Tomlinson: You would have to look at why the head of the FCA, Andrew Bailey, missed out that crucial paragraph and then tried to stop publication. Then you would ask about his reason for doing that. Was it to maintain shareholder value in RBS and protect RBS, rather than the customer who has been damaged? Then the second phase of the report, which should clearly have gone ahead, was cancelled. It is ridiculous that that is not done by an independent body. Promontory did such a good job, despite RBS being—I cannot remember the exact terms—basically unhelpful. I remember I was in America, watching it on the internet, when you interviewed the Promontory guy, and he just said that basically they were not helpful. Why were they not helpful, if they wanted to get to the bottom of this? Fundamentally, the fact is that they cannot afford to pay out the amount of compensation that would be due if they were found guilty of the things that they have done.

Q105 **Wes Streeting:** Much of this is about confidence, on the part of SMEs and victims of GRG, that the investigative work being carried out is genuinely independent and shining a spotlight on all the areas that are needed.

Lawrence Tomlinson: Confidence is key. Bear in mind that I was brought into the Department for Business, Innovation and Skills, as it was then, as entrepreneur in residence, to find out how we could increase growth in the UK at that time, and why things were not picking up as quickly as they could have been. It was with quite a heavy heart that I had to publish this, because I wanted to get lending back. I did think, “If I publish this, we will lose confidence in the banks”. But RBS was not making any inroads into doing anything about it, so I had to say, “Do I stop this and blow the whistle on it, or do I just hope that they stop doing it?” They clearly were not going to stop doing it, because they were making a lot of money.

Q106 **Wes Streeting:** The Chair said at the beginning of this afternoon’s session that as a Committee we are trying to do a lessons learned exercise, as much as we can. We cannot change the past, but we can try to make things better for the future. Reflecting on your experience right the way through, identifying a problem, producing a report, seeing how that report was regarded or disregarded, and then events since, what are the key recommendations that you think we should be pursuing? What are the most important lessons that need to be learned?

Lawrence Tomlinson: We do not want it to happen again. Five years ago in the report I highlighted: “What is to stop this happening again in 10 years’ time, or when we have forgotten about it”? Banks do not rob people; bankers do. You need to go after the individuals within the bank, not the bank. Why punish the shareholders? So far, we have seen it all across the world: “You have been a really bad bank. I am going to fine you £20 billion”, and they go, “We will pay that”.



Q107 **Chair:** The individuals do not have consequences.

Lawrence Tomlinson: The individuals are either still in their posts or they have moved to other banks, so why would they not do it again? It is an easy way of making money. These are the key areas to look at, going forward. We definitely need to have an independent inquiry into the next phase, because the next phase is probably the most damning part of it. If you think that the 166 was damning, I believe the next part will be even more damning. We need to look at who made the decision in the bank, because, as I say, banks do not make decisions; bankers do. Who made those decisions to ruin the UK economy? I think it was described in Parliament as the biggest theft anywhere ever. This is a massive amount of damage to the UK economy, while we were all being told in the press that RBS wanted to lend money.

The current management team at RBS, and Ross, have got hold of it and they have gone part way. They have made inroads into closing GRG, sacking Chris Sullivan or removing him from office, and getting rid of Derek Sach. Both came here and misled Parliament, whichever way you want to look at it. Then look at the chairman, who is now the chairman of another large organisation, who had to apologise on their behalf. Then you need to see who should be brought to book.

I know we have had people in from other banks today. If you looked at the pile of work that I had to do and the data that came through, there was a pile of complaints, say this high, for all the other banks. The RBS GRG would be nearly up to the ceiling, relatively. They did it on an industrial scale. The other banks were guilty of it, but they did it in different ways for individual cases. For example, Keith's case is a very different case to the RBS one, et cetera. There was no system to the other banks.

I looked into that, and Barclays was very helpful. I know some people will not like me saying this, but the other side of the coin is that they invited me in to look at their systems when I was entrepreneur in residence. They made amendments to their business support units, and they took on and genuinely tried to learn lessons. RBS did not at that time, but maybe it will now.

Wes Streeting: Let us hope so.

Q108 **Catherine McKinnell:** Following up on what you were saying there, did you look at Lloyds as part of the investigation into your report? Did you report on it initially?

Lawrence Tomlinson: Initially, we looked at all bank lending. I was working for Vince, Sir Michael Fallon and I cannot remember who else, but basically in that department. My remit was: "How do we grow the UK economy? How do we get growth back? What are the problems?" I started to look into access to finance. I would do a little lecture to some smaller businesses, and at the end of it I would ask them an open



HOUSE OF COMMONS

question, if they could do one thing. They would all say, "We cannot get access to finance".

Q109 **Catherine McKinnell:** In terms of the report, did you report on any other banks?

Lawrence Tomlinson: To follow on from that, we then came back and looked at that. We asked questions generally of the UK, and the GRG thing came through thick and fast. They were saying, "Not only will they not lend to me; they will not increase the lending", which they were saying they were doing in the press. They also said, "I have been put in this nasty GRG unit and they are doing all these really bad things to me". I did not recognise that behaviour at all.

I took all those, which were systematic and institutional, and we had other cases that were very complex, and each case was different. There were a number of cases from Lloyds that did not follow any pattern, but they were extremely nasty cases. They tended to be of a bigger enterprise value. We looked at those, yes.

Q110 **Catherine McKinnell:** I am just wondering when the decision was taken to only report on GRG, as opposed to any of the other banks.

Lawrence Tomlinson: I could go back and look at the pile of complaints from businesses involved.

Q111 **Catherine McKinnell:** It was just the volume.

Lawrence Tomlinson: It was time. I had other things, such as the enterprise guarantee scheme.

Q112 **Catherine McKinnell:** It was your decision to only report on GRG.

Lawrence Tomlinson: Yes, based on the evidence I had.

Catherine McKinnell: That is what I was interested in.

Lawrence Tomlinson: It was based on the data, but I wanted to give you the background to that. I did not have the evidence to do it.

Q113 **Catherine McKinnell:** As part of looking forward rather than looking back, even though it is very important that we have done and do so, there is the issue of redress and seeking redress. We heard from the panel how heavily weighted that is against obtaining redress. What do you think about the FCA's proposal to widen the access of the Financial Ombudsman Service? Do you think that will be sufficient? What are your thoughts on how we improve this?

Lawrence Tomlinson: The financial ombudsman is a complete waste of time. I have never seen it have a great outcome and it restricts what a business can do. It is very narrow. You just want to have justice for the business, really. You can look at regulating the space. The banks will tell you, "If you regulate the space we will lend less". I am not sure that is



HOUSE OF COMMONS

possible. That is where that would go. The answer is in the report, which is to have more competition in the marketplace.

As part of my job, I went to see the CMA and said, "You need to look at this imbalance of power in the lender versus the borrower". The CMA did not find that there was any problem with that, which is quite remarkable, considering that somewhere between 50% and 60% of all lending in the UK to SMEs was either Lloyds or RBS Group at the time. Andrew Tyrie is there now, and he knows a bit about banking, so let us hope he looks at it again.

Q114 Catherine McKinnell: In terms of the All-Party Parliamentary Group for Fair Business Banking proposal for a banking tribunal service, what are your thoughts?

Lawrence Tomlinson: Yes, hopefully that would help. Fundamentally, while you have the imbalance in the market the banks will continue to outspend everybody in terms of defending the case. You have many cases where they have spent £7 million to save £1 million and they have just destroyed a person's life.

Chair: We had heard it in previous testimony, yes.

Lawrence Tomlinson: You could be in tears over the whole job. It is unbelievably distressing just to go through it. I think these people know they are never going to get compensation to the amount of damage that they have had, let alone the personal damage. They want to see someone being punished for it. I think that is what is killing them most. Literally, you are seeing this killing people. It has killed people. People take their own lives. Until they came to me, it was like a classic abuse case. They were being told it was all their fault.

I would get so far down their case and then, in the RBS cases, I would say, "Did they ask you for this then? Did they ask you to put some more money in"? "Yes". "Did they ask you for this and this"? They said, "Oh, do you know my case"? I said, "No, but I have had 10 in before you and that is exactly what happened to them too". "Oh, it is not just me then". There was a huge relief: "I thought I had let my family down, blah, blah, blah". They want someone punished.

Q115 Catherine McKinnell: That is a bigger question, not necessarily for this Committee, in terms of how we change our legal system to hold individuals accountable for corporate behaviour.

Lawrence Tomlinson: Yes, but without this Committee it is difficult to see how we would have got to this point.

Catherine McKinnell: I am not saying it is not relevant to this inquiry.

Lawrence Tomlinson: I am saying thank you. I am fighting to say thank you.

Q116 Catherine McKinnell: It is something I have taken a personal interest



in, in terms of how we hold corporate behaviour to account and the way that operates currently under our legal system. There is an issue of what, as a Committee, we can recommend to improve things now. Have you seen any improvement in competition within the small banking and lending sector since you published your report? Have you seen any improvements in the way that the FCA is dealing with this? What can we do? What can we recommend? What change can we make to improve the way this is handled currently and going forward?

Lawrence Tomlinson: When I was dealing with dear Uncle Vince at BIS, he was very keen on challenger banks. I said, "Vince, all that will happen here is that you will get a challenger bank to £700 million or £800 million kind of worth. All the directors will be ex-bankers from a bigger bank", which most of them are. "They will get to a position where they can all make"—a made up number—"£30 million or £50 million each. Then they will sell to Lloyds". How is that going to help? It is pointless trying to get a challenger bank.

Metro is doing a good job. It has a nice IT platform and it is growing but look at the size of it. I would say that RBS and Lloyds will probably lend by lunchtime what it will lend in a year, potentially. If you look at the real scale of it, the issue is the dominance of the two players. We had an opportunity before Project Verde to split up Lloyds. I raised that with Treasury. I was laughed out of the place. Then we raised putting Project Rainbow on steroids and splitting the other bank up into three. The answer is there. They have 60% of the market. Do not allow anybody to have more than 10% to 15% of the UK SME lending market.

Q117 **Catherine McKinnell:** In terms of the capacity to deal with this issue, do you think the FCA currently has the capacity? One issue that I know—I am really sorry to bring the Brexit word into it—is taking up an awful lot of bandwidth across all government organisations is Brexit. That is possibly one factor. What are your thoughts, in terms of capacity and ability to bring about the change, or is it a desire rather than a capacity issue?

Lawrence Tomlinson: Look what I have done. Look what I have done as an individual to make a change and make a difference. It depends how much someone wants it. If you, as individuals, pick it up and run with it, you will get to where you need to be. It is very possible to do it.

Q118 **John Mann:** Here are a couple of questions. There is a vested interest in Government in not breaking up Lloyds, because there are shares to sell.

Lawrence Tomlinson: RBS.

John Mann: No, Lloyds.

Lawrence Tomlinson: Sorry, yes.

John Mann: You referred to the break-up of Lloyds, or the non-break-up of Lloyds. You were not the only one who proposed that. There is an



HOUSE OF COMMONS

even bigger vested interest when it comes to rocking the boat with RBS. If RBS has to pay out compensation to everyone properly on GRG, it could be argued that it would make the share value of RBS diminish, and therefore Government returns will go down. It would certainly make it harder to sell. In your view, how much was that an influence on the lack of action since you published your report?

Lawrence Tomlinson: If that is a reason for a lack of action, it is certainly not a viable reason. You need to look at UK GDP as a huge pipe. There is roughly £2 billion going through this pipe, and it has valves on. These valves are banks, and 60% of the flow is controlled by two valves. If you get £40 billion—which you will never get for RBS, or you might in 100 years—or you get £20 billion, that is kind of irrelevant to the effect it has on UK GDP. As Government, you should take a bigger view of what is important: UK GDP or getting £20 billion. That is the answer. That is what we said from the very start. To stop it happening in the future, instead of having two big valves controlling 60% of the lending down this pipe, you have a dozen or 10 valves. They are too big to fail, they are too big to manage, and they are too big to regulate, clearly, with Andrew Bailey in charge.

Q119 **John Mann:** You said that Sullivan and Sach misled this Committee. How did they mislead it?

Lawrence Tomlinson: I think there were 32 occasions where he and Derek Sach did not give the right answer. He was consistently asked by Andrew Tyrie if GRG was a profit centre, and said no when he actually meant yes. He was asked if he had seen the Clifford Chance report prior to its publication. He said he had not, when actually he meant to say he had. These are very easy mistakes to make, of course, because you are only on a couple of million a year, are you not? I am sure he got back to his PA or secretary, and she reminded him. I do not know. It is all beyond belief. Then you had the chairman at the time writing to Andrew Tyrie to apologise, but not saying that they had misled him. They just get let off, do they not?

Q120 **John Mann:** No Treasury Select Committee, and I am not aware of any other Select Committee either, in the last 20 years—although I believe it did happen 25 years ago—has taken a recommendation to Parliament, which we can do as a Committee, recommending precise action against people who have lied to Parliament. If this Committee was to do that in relation to those individuals, what do you think the impact would be on those impacted negatively by the GRG scandal?

Lawrence Tomlinson: All I can suggest is that, if you allow people to mislead you and you do not do anything about it, I could come here and tell you a load of pork pies and you would not do anything about it. Why would anybody take you seriously?

Q121 **John Mann:** One could interpret that answer as being that not just the reputation of Parliament but the workings of UK democracy would be at



risk.

Lawrence Tomlinson: That is for you guys, really. Can someone just come here and say things that are not true? Crikey, you are the head of GRG. You sit on a big committee and you look at the accounts. In 2011, I think, it made £1.2 billion. I cannot remember the exact numbers because I have been away from all this. You have to remember I run my own businesses a little bit as well. How can you not say that is a profit centre and deny things 32 times? It is not an accident. You have been briefed.

I come here. Fi and I sit outside. We go through some notes on the train. We sit outside and go through here. It is really easy for me. Do you know why? It is because I come here and I tell you the truth. I do not need briefing by a magic circle law firm and PR people. I just come here and tell you the truth, what I have found, and I have had a few issues along the way to get the story out.

Q122 **Chair:** Thank you very much indeed for your testimony this afternoon. You are obviously welcome to write to us, as I said to previous witnesses. Is there anything else that you wanted to bring to our attention that we have not covered in questions this afternoon? I know that is a very open-ended question. I am looking for very brief points. Is there anything, as you are here?

Lawrence Tomlinson: I would just like to really emphasise that GRG was the end of a process, but I do not think that the process started in GRG. Alister will tell you that he was badly affected by RBS main bank. You are looking at the end here. You are looking at the executioner, not how you got to be stood on the stand, ready for execution. Why did this all happen? We must all wonder. Does anyone have a view on that?

Q123 **Mr Jack:** I avoided the execution, but they tried to take very viable assets off us. As I said in the speech I made in Parliament, the business that they tried to take, which had a very good, solid, valuable asset, was making a profit. In the months they came and challenged us, it was making a profit, has made a profit every month since and continues to make a profit. I am in no doubt in my mind that this was about theft of people's assets.

Lawrence Tomlinson: You are one of nine people on a Committee. Probably half of you would not bank with RBS anyway, and you have had an issue in main bank. I get a feeling that this is starting in main bank. The reason you have this problem is because RBS decided, at main board level, that certain businesses were no longer core, so they became non-core.

If you go on the interweb, someone has taped a speech of John Hourican telling people exactly which assets were non-core. When you listen to bankers speak, it all seems very benign: "We are no longer in long-dated finance. We are no longer in capital heavy, so we need to rebuild our balance sheet because we are out of these".



Q124 **Mr Jack:** Through banking piracy.

Lawrence Tomlinson: I am not saying that.

Mr Jack: I am. Well, it was.

Lawrence Tomlinson: You need to understand the bigger picture. GRG is not what you should be looking at. You should be looking at why it started, who started it, why they were out of those assets and how they intended to use GRG to get out of those assets. The problem had already started with many businesses in main bank, from what I could see. There are interesting things in the 166. I cannot remember the exact wording, but they are sort of saying that GRG did not influence which businesses went into GRG from main bank, yet later in the report they say GRG was the ultimate decision-maker on which businesses went into GRG. GRG was deciding what businesses went in. It was potentially picking businesses out to satisfy its need to rebuild the balance sheet.

Q125 **Chair:** Thank you. As I said at the beginning, this is partly about understanding what happened, but the inquiry is about looking to the future as well. Thank you very much indeed for giving evidence this afternoon and for all the work that you have done on this. It has been appreciated.

Lawrence Tomlinson: I am going to enjoy my retirement now, Nicky.

Chair: Do not enjoy it too much. We will have to call you back at some point.

Examination of Witnesses

Witnesses: Keith Morgan and Suren Thiru.

Q126 **Chair:** Thank you very much indeed to our third panel. You might have heard some of the evidence earlier on this afternoon, although we are not necessarily going to go over that. We are going to try to look forward as well. Could I ask you both to introduce yourselves for the record?

Keith Morgan: It is Keith Morgan. I am the CEO of the British Business Bank. The British Business Bank is wholly owned by the Government, operating as a development bank to increase the access of finance to small businesses.

Suren Thiru: I am Suren Thiru, head of economics and business finance at the British Chambers of Commerce. We sit at the heart of a network of 53 accredited chambers of commerce across the UK, with links to markets around the world.

Q127 **Chair:** We are going to have a vote at 4 o'clock, so I am afraid that means we will leave you in splendid isolation for a few minutes while we



all rush off and come back. Let us start by looking at the current SME finance landscape. The question is to both of you. The British Business Bank's research has shown small business confidence and demand for finance is declining, with the number of small businesses hoping to grow actually decreasing. Obviously, it is British Business Bank research. It would be helpful to know about the factors behind that, and, Mr Thiru, to know whether that is a landscape that the British Chambers of Commerce recognises.

Keith Morgan: In terms of the current landscape, I tend to put this into a big picture. We have to look at what has happened since the financial crisis. If I just paint that thumbnail sketch, immediately after the financial crisis there were genuine issues of capital and liquidity in the banking system. You saw that many banks pulled back from lending and from lending to small businesses. We then went through a period, up until roughly 2014, in which there were continuing issues of supply and demand. From about 2015 onwards, we finally got to the point in the banking markets where the new lending that was issued to SMEs was larger than the repayment of old loans, which meant that the net increase was positive.

Frankly, since that time, it has not been very positive. If you look at the figures, they are very small increases. Roughly speaking, the stock of bank lending has been constant since that period. In parallel, there has been the growth of some alternative forms of finance, which I see as encouraging. The biggest item to point out is probably asset finance, which is delivered by a range of different participants. That has been growing at, roughly speaking, 10% to 12% a year over this period. That is finance that can be used to grow your business, which is good.

We have also seen a growth, from a small base, in peer-to-peer and other marketplace lending. In the last year, that grew by over 50% to SMEs, but, once again, from a small base. The amount of lending coming through peer-to-peers is still quite small, compared to what goes through the banking system. We are seeing SMEs exercising more choice around how they secure lending.

The final point I was going to make is about a different form of finance: equity finance. It is important for companies, particularly companies that are going to grow and want to grow quickly, where the risks of growth mean that equity is important. That has been growing healthily. In the most recent year, the amount of finance for equity has grown by over 90%, or about 90%, in value terms. Overall, you see a picture of improving alternatives and flat to stable bank lending during the period.

Q128 **Chair:** That is very helpful. Mr Thiru, does that sound familiar?

Suren Thiru: Yes, absolutely. We are a decade on from the financial crisis and there has been that shift from credit crisis to credit apathy. We see demand really weak at the moment. We have just completed some research with Wesleyan Bank, which shows that during the past year over



half of businesses have not applied for finance. That compares to just 16% that applied for a business loan, for example. We are seeing a huge gap there.

There are lots of reasons behind that. Some of the issues around the world economic climate feed into that, but there are also issues around discouraged demand. This feeds into the things we have heard in earlier sessions: the issues around trust, and the issues around transparency of banking products and services. There is a lack of competition in banking as well. There was a huge CMA report over the last couple of years, which sought to remedy these issues, but, from our point of view, it pulled a lot of its punches in some of the big structural areas. For example, one area that we are really focused on is fast-growing young firms, so not those firms with a bad credit history but those without a credit history, which are still struggling to get the finance that they need.

Q129 Chair: Does that mean that small firms are not growing? Some of the previous testimony was about friends and family finance, so really quite informal means of finance. Are your members growing, are they staying stable, or are they looking for very informal methods of financing?

Suren Thiru: In terms of financing, to go back to our research, when we look at what people who went for finance are doing, they are investing for growth, as opposed to cash flow issues, for example. We are seeing businesses sometimes using their internal resources to grow. A lot of them are sitting on their hands at the moment and making do with short-term investments to keep their business going, as opposed to long-term investments.

Q130 Chair: Are they building up cash reserves?

Suren Thiru: There is some of that. An interesting insight from our quarterly economic survey, which polls around 7,000 businesses each quarter, is that cash flow is becoming a real issue across the economy. We have seen that since 2016. In particular, if you break it down by subset, the retail sector and construction sector are really struggling at the moment. That is for a number of reasons: issues around payment practices, access to finance. Businesses are just not turning to finance to manage their cash flows as much as they have done. There are issues around how you pay suppliers and all these sorts of things, which feed into that issue.

Q131 Chair: For both of you, do you notice a difference regionally? I do not know if the survey shows differences in regional demand and businesses growing, and likewise in terms of demand in different parts of the country for support from or contacts with the British Business Bank.

Keith Morgan: We have looked very closely at the regional picture. It shows some differences and what I would call some imbalances, particularly, once again, when it comes to high-growth companies. If you are a high-growth company, you will possibly need some additional investors, some equity to support your growth. Interestingly, the records



HOUSE OF COMMONS

show that there are just as many high-growth companies in the north of England as there are in London, but London gets roughly 50% of all the equity investment and the north gets a much smaller proportion. There is an imbalance there, in terms of access to the equity, which is important for those growing businesses to fully reach their potential.

When I think about the solution to that, there are possibly two sides to it. First, is there the equity to offer? We have been doing work with the local enterprise partnerships to create the Northern Powerhouse Investment Fund, the Midlands Engine Investment Fund and, very shortly, the Cornwall & Isles of Scilly Investment Fund. Those will get a good portion of equity into those areas of the country. There is the demand point that is also being referred to.

Sitting suspended for a Division in the House.

On resuming—

Keith Morgan: I will not drone on too long, but the point I was making is that, regionally, there is a supply issue and a demand issue. On the supply side, as I was mentioning, we have £650 million of funding going through the Northern Powerhouse and Midlands Engine.

On the demand side, there are the same issues. You have less awareness of the range of options that are available. Of course, that is partly connected to the fact that there are not as many actors, players or participants in the full range of finance options in the regions. As I have mentioned before, that is particularly in the equity and the growth capital areas.

There are a couple of things that I want to let you know that we are engaged in now. First, in terms of providing better information, there is something called the *Business Finance Guide*, where we have brought together 21 different organisations, including the chambers of commerce, to create one source of information around what the range of finance options is. Interestingly, this year 85,000 copies of that have been downloaded electronically. That is not bad, because in fact we estimate that, roughly speaking, up to 100,000 companies apply for finance each year. That is an indication that people are searching for more information before they make their choices.

With respect to growing companies particularly, we are about to launch something called “finance your growth”. That is an online information hub that will allow people, wherever they are, and through a local or a regional lens, to understand what type of finance might be suitable for their needs, what the next steps in terms of providers of finance will be, and how they can become investor ready. We are working with a number of the people you have had as witnesses here on that. It is a collaborative thing with the Business Growth Fund, Innovate UK, the British Venture Capital Association and the Business Angels Association.



HOUSE OF COMMONS

We are all working on this collaboratively to get the best information, in this case electronically, online, across the country.

Q132 **Chair:** What do BCC members report regionally? Are there different experiences in terms of demand or access to finance in different regions?

Suren Thiru: When you look at the vanilla products, such as loans and overdrafts, there is pretty good coverage around the UK. When you move towards the newer types of finance, and angel finance is the prime example, beyond London and the south-east it is much sparser.

We are also seeing that there is quite a difference in the level of service across the UK from business banking providers. We run Business Banking Insight, which is a survey that looks at the level of service quality that business banking providers provide across the UK. It is in conjunction with the Treasury, with the Federation of Small Businesses and other key stakeholders. It is showing that there is quite a big difference in terms of level of service on things like value for money, how reliable the people you speak to are. It is across the UK and across sectors. I mentioned retail and construction. Those two sectors are struggling a little in terms of finance. We hear that quite a bit. We hear that much more collateral is needed. There are differences regionally and sectorally as well.

Q133 **Chair:** Presumably there are different needs. Retail is perhaps more dependent on consumer spending than construction. We have heard and taken evidence before about housing, particularly smaller housebuilders for example, struggling to get finance. I do not know how granular your survey goes, in terms of experiences of members.

Suren Thiru: It does not go down to that level. Anecdotally, we hear at the lower level that those with quite long supply chains are struggling the most.

Keith Morgan: On the housebuilding point, one thing that drives decisions in banking is the level of capital you have to hold against the loans. Risk-weighted assets is the way in which that is calculated. At the Business Bank, we are very aware that, if you are a small housebuilder, for example, the regulatory requirements are to hold a fair proportion of capital against those loans.

We think this is an area that we can work on and we started to do that. We have a risk-sharing guarantee, ENABLE, where we are prepared to take and share the risk with the banks. For the first one we have done a guarantee with United Trust Bank, which is a specialist in this area of small housebuilding financing and construction financing. We expect that guarantee to unlock up to £500 million of new finance for small housebuilders¹. That is a genuine risk-sharing mechanism that can be

¹ Keith Morgan later clarified that the guarantee is expected to unlock new finance for small housebuilders to build over £500 million of new homes, rather than unlocking £500 million of new finance.



HOUSE OF COMMONS

used in these areas. We are working on a pipeline of other opportunities with other specialist lenders.

Q134 **Chair:** Is there a definition of small housebuilders? Is there a certain size of company, a certain type of plot or anything like that?

Keith Morgan: Yes. Typically, they would fall within the definition of an SME, which is going to be fewer than 250 employees.

Q135 **Chair:** Some of the other evidence we heard was about the difference in terms of ask between male-led businesses and female-led businesses. Again, I just wondered whether either organisation had any data on the differences, in terms of requests for financing.

Keith Morgan: We are very focused on this. I will explain some of the research we are doing in this area at the moment as well. One area we have been very conscious of is at the start up end of the marketplace, when people become an entrepreneur for the first time. The figures there are that under 20% of new start-ups, new entrepreneurs, are female. That is quite a low proportion.

We have a programme we call Start Up Loans, which gives people up to £25,000 to start their own business. It is a very straightforward product. It is a 6% interest rate. You get mentoring support as well, which helps people get their businesses or their ideas off the ground. There, we are managing to attract just shy of 40% of women. Through targeting, there is a way of ensuring that you get a diverse base of recipients. It includes BAME as well, which is currently at about 20% of that particular initiative.

Elsewhere, the question we are looking into is what obstacles there are for women securing venture capital funding in our industry. We are doing it in a very structured way. We are working with the CST on this and with Treasury. We are conducting research. That will be brought together and published probably just after the summer. That is going to look into many of these questions. Why do we not find many women partners in venture capital firms, for example? Why are there fewer firms funded by those firms that have female founders? What are the connections between those? We do not have the results yet, but I can tell you that we are going to do a comprehensive piece of research to get to the bottom of it.

Q136 **Chair:** Mr Thiru, has the BCC looked at this?

Suren Thiru: It is not something we have looked at in detail, but it is important. It goes to a point around how we can make our banking services more inclusive, be it physically around branch networks, or digitally. There is a lot of work to be done in this area and to understand the need of businesses, because it changes. It varies by sector, by business size, by the part of the country they are in and the type of business they are in. For example, we hear from construction workers who want their branch to open later because they are working all day on a building site and they want to go to the bank in the evening, so there



HOUSE OF COMMONS

are little things like that. It is about understanding how the system works as a whole and some of the differences that crop up.

Q137 **Chair:** I picked this question up at the end of the first session. It was about trust in banks. Anecdotally, given some of the issues that have been highlighted this afternoon, do you get reports from customers and members that their trust in banks has been shaken, at least, by some of the events that have been seen? Is this driving the demand for alternative finance?

Suren Thiru: Trust is still an issue. The first point to say is that the majority of members are pretty satisfied with their banking service; a small proportion are not. The issues around the banking sector, be it TSB, be it RBS, are seen as being symptomatic of the wider sector. Businesses tell us they view banks as all being the same. That is the common quote that we hear. Initially it impacts one bank; it undermines trust in the rest of the sector. That is the key issue.

That leads to a wider point. We picked up on demand for finance earlier. Issues around trust are feeding into what is commonly called discouraged demand. Businesses are not going for finance in the first place because there are issues around trust. Some are lingering from the financial crisis. We have had technology issues around TSB and RBS as well. These have all fed into wider trust issues. This may be an issue going forward. I know the CMA, for example, is looking a lot at open banking as a way of dealing with some of the competition issues that we are seeing. People having access to their data can create further issues going down the line. We have to tread really carefully in this area.

Keith Morgan: Trust is very much an issue, as it is an issue with many large organisations. You can point at not just banks but other large organisations that have breached public trust. This is judgmental. I do not think there is a survey that tells you the answer to this. Trust is an issue, but my best judgment would be that it is not the fundamental issue that is driving demand or the dynamics in the market. One of the reasons for saying that is that, if you look what has happened over the last five years, acceptance rates by the banks have gone up. People's perceptions of what the bank will do to them have got better. That is at the same time as the actual demand for lending has gone down.

I have a positive view of the diversity point, which is that we have more things on offer at the moment. If you take the view of the customer who uses a peer-to-peer platform, they say, "It was more convenient. I got my funds more quickly. It was very straightforward". It is the actual customer experience that is delivering the growth in some of these alternatives. I would expect, if the banking industry is reacting, that it will try to pick up on some of these ways of working to make its interface and service better for the customer. Trust is an issue, but there are some other issues underlying it.

Q138 **Charlie Elphicke:** I was just looking at the figures, and I want to talk



about types of SME finance. Looking at the figures, they show that net lending last year was less than £1 billion to the small business sector. Where are they getting their money from if it is not from the banks?

Keith Morgan: Every business is deciding whether it uses its own internal resources or whether it wants to go and get something from the outside. Over this period of time since the crisis, we have seen, essentially, a degree of caution and conservatism being built into small businesses. Anecdotally, you will hear from the banks that the level of deposits from small businesses has been going up. Of course, the level of demand for new loans has not been going up. You have people who are being more resourceful with their own internal cash flows.

In addition to that, outside of the banking line of delivery, there is some evidence that people are going online, looking around at the other alternatives, deciding that they can make a decision. If you want to finance a pizza oven for your restaurant, you can go and get that on asset finance. That seems to be very self-contained. There are other options that people are pursuing in addition to that. There is probably just a degree of caution flowing through. If I had to guess, and it is only a guess, that results from people having been burnt once in the financial crisis and deciding they are going to run with a much stronger set of business finances.

Q139 **Charlie Elphicke:** Do you think the appalling behaviour of RBS and GRG has actually contaminated—dare I say polluted?—the entire market and made all small businesses think, “I do not want to go to the banks because they might take me to the cleaners”?

Keith Morgan: There are probably a number of factors that originate from the whole economic reaction around the financial crisis. There were very severe economic consequences for many people coming out of that, which led to moral questions as well as economic questions being asked. It is 10 years since the financial crisis. My guess is that small businesses are still thinking about their future, knowing that there was a one-in-20-year recession within living memory, so they are going to manage their finances more conservatively.

Q140 **Charlie Elphicke:** Turning to sources of finance, by tradition in the US there has been for many years massive equity finance to small businesses and a whole culture of sharing and ownership participations. We have not traditionally had that here, because our SME owner-managers do not like to share equity. They used to want to go down the banks and get the money they need. Has that changed? How could we get more equity participation if it has not changed?

Keith Morgan: I think it is changing. If you look at the comparisons between the US and the UK, and make the adjustments for the fact that the US is a much bigger market, roughly speaking, we have half the level of equity that you would see operating in the US market. If you compare that to other large European countries, France and Germany, we have a



lot more equity flowing through the system than they do. This comes down to whether we have enough institutional investors prepared to put money, which ultimately will go into small business growth finance, through the system.

This is an area that the Patient Capital Review looked at in some detail last year. The results of that were Government committing an extra £2.5 billion, which we are going to manage, to create an entity that will fund venture capital for the later stage of growth. That will increase the capacity for that later stage of growth. We are also doing some work with another £500 million to invest alongside the institutional investors, trying to draw some institutional investors in as well. Those are the types of things that will draw more money into the system and get more money into the companies that have particularly strong growth potential. That is where you see the difference between the US and the UK.

Outside of that, there is the regional question. Not every business is a superstar technology company. You have companies that will be growing and need growth finance. That is where initiatives such as the Business Growth Fund are very good, because they have a very strong regional cut across the country. There is a range of other smaller funds that operate in that way.

I am very conscious that the European Investment Fund has been a supporter of this type of finance over the period of time that we have been in the European Union. It is not clear what the role of the European Investment Fund will be going forward. That is an issue that the Chancellor has been clear that he is looking at very closely. The preference is that the European Investment Fund continues to have a role in the UK, but if it does not he said that he would look to capitalise the British Business Bank to fill any identified gaps that remain.

Q141 Charlie Elphicke: Turning to peer-to-peer lending, the British Business Bank has been highly supportive of that through the Funding Circle, and investing through the Funding Circle, as I understand it. P2P and crowdfunding both have a similar risk, which is the due diligence risk. You have had small businesses taken to the cleaners by big banks. What is the risk that an investor in a small business through P2P or crowdfunding could find that their investment is not really very good at all?

Keith Morgan: The very first thing that we have to expect from any market participant is they are very clear with their customers about the risks. That is where regulators look very closely and have been looking very closely in the past, particularly in the peer-to-peer marketplace. We have programmes that are open to a range of different participants. They come forward to us and, as a development bank, we look carefully at each of those proposals and we conduct due diligence. It is important, if they require regulation, that they have the regulatory approvals. In the case of peer-to-peer lenders, we will go and look at the quality of their credit processes. We will conduct an operational review of that.



HOUSE OF COMMONS

We conduct due diligence on the partners that we use. It does not remove the risk from an investor. That is the important thing. Banking, lending and investing money involves it not going right on some occasions. That is where the communications to the investors have to be very clear.

Q142 Charlie Elphicke: The FCA was looking at these sorts of areas and there was fear that it was going to regulate them out of all existence. Where has that got to and what is the current situation on the regulation side of things?

Keith Morgan: There is a line to tread to be sure that the right levels of protections are in place for customers and investors and, at the same time, that the regulations allow innovation and new participants to take hold. The view that you hear back from participants, and generally from people who are involved in fintech, is that the current balance is seen to be positive on that.

Q143 Charlie Elphicke: Finally, what is your overall assessment of the state of competition in the SME lending finance market?

Keith Morgan: Any objective assessment would say it is still a very concentrated marketplace. You have five large banks with between 80% and 90% market share, depending on which measure you use. When we were set up, one of the objectives that we were set was to help catalyse additional choice in the marketplace, so 95% of what we do is not through the big four banks and is through routes such as Funding Circle, asset finance, challenger banks and the private debt funds, as well as through the venture capitals, the angels, et cetera.

Q144 Charlie Elphicke: Suren, do you have anything to add on this whole area?

Suren Thiru: Competition is still a huge issue. One of the issues with competition is the flow of information. Businesses still view banks as all the same. They find it hard to differentiate between banks, depending on what sector they are in, what business they are in, and what part of the country they are in. One piece of work that we do is on business banking. That helps to increase that flow of information. Every big bank will have a customer insight department that looks at trends in businesses, seeing what customers want and that sort of thing. This provides it for the SMEs themselves, a bit like TripAdvisor. It provides reviews, how much a certain bank is recommended. Increasing the flow of information between the banking sector and SMEs is a way of improving competition.

You are right; 80% to 90% of our businesses are with the big four or five banks and it is very concentrated. In terms of products, it is concentrated in the area of loans and overdrafts to manage their business, as opposed to equity. Of course, equity is quite interesting in the way that the tax system treats it. There is a difference between debt



HOUSE OF COMMONS

and equity, in how they are treated in the tax system. That could be one area you look at as well.

Chair: I am afraid we are going to reach the dreaded subject of Brexit, briefly.

Q145 **Rushanara Ali:** It is not dreaded. It is a very important subject. On to Brexit, to what extent has the SME finance market already been affected by the Brexit vote? What do you anticipate to be looming once we leave the European Union? I was going to say "in the event of" and I realised it would sound like a Freudian slip for me.

Keith Morgan: We looked at some survey data recently. The question we wanted to understand was whether SMEs are making different decisions now because there has been a vote and people are preparing for Brexit. I was expecting different, but, interestingly, only a very small percentage of SMEs are intending to make changes, either to their investment intention or to their recruitment intention, as a result of the forthcoming Brexit. That was the first piece of information.

That does not mean to say that they are not affected by Brexit. SMEs are affected by their place in a supply chain. They could be providing components or value added into a supply chain where, ultimately, there is a company whose market position is very affected by some of the risks involved in Brexit.

Q146 **Rushanara Ali:** Like the customs union, perhaps. How much is the customs union a part of that issue around those that are likely to be affected?

Keith Morgan: All I am saying is that the issues of debate now that are consequential for larger businesses will indirectly affect the SME business population. We have not seen a direct impact on it, but I am very conscious that there will be an indirect impact. Economic logic would tell you that. Confidence in the marketplace and the general economic conditions will have a big impact too, so it has a strong indirect impact.

Suren Thiru: We have not seen any direct impacts on access to finance specifically. There are a couple of areas. The first area of concern for our members is investment funding and the European Investment Fund. In our view, the UK should seek to keep access to that type of funding, not least because of the funding itself, but also because of the years of expertise the institution has built up. That would be really hard to replicate. It already lends outside the EU.

Another area is the impact on businesses and business investment. We ran a survey this year to look at the biggest factors driving or impacting business investment. Brexit was third on the list, behind customer demand and the wider business environment. To break it down a little more, in our data we are seeing quite a big split between domestic activity, which is fairly weak at the moment, and European activity, which is really strong. We put that down to the improving global economy in



HOUSE OF COMMONS

key markets like the euro area and the US. It is one of a number of factors, but it is not the major factor. By far the biggest factor is customer demand.

Q147 Rushanara Ali: You mentioned the EIF. The Chancellor has stated that the Government stand ready to replace the lending. Mr Morgan, what discussions have you had with the Government on this subject?

Keith Morgan: The Chancellor has been very clear, as you said. He said that his preference would be to maintain EIB and EIF activity in the UK market. If that is not possible, they would be prepared to capitalise the British Business Bank to backfill any identified market gaps that result.

Q148 Rushanara Ali: Have you had a commitment on it being fully capitalised?

Keith Morgan: I am only repeating the words that he has said. There would logically be, and I would support, a position where you looked carefully at what kind of activity was being completed by the European Investment Fund, and you decided, from a UK point of view, on the best use of those resources.

For example, the activity that the EIF completes in venture capital is genuinely additive activity in the UK market. It is positive. It completes some activity in larger-scale private equity. In the larger-scale private equity, you could make an argument that it is something that the marketplace would fill. You have to look across the range of activities.

Q149 Rushanara Ali: I just want to know about the overall gap. In principle, are you assured that the UK Government would fill that gap? How you spend it should obviously be based on where the greatest need and results could be. I just wanted to be clear about whether you have had any direct discussions and if there is a commitment to replace it, plug the gap, or be left behind.

Keith Morgan: I think there is an in-principle commitment to replace the EIF activity. The quantum of that has not been debated.

Q150 Rushanara Ali: It may not be fully replaced.

Keith Morgan: That is one consequence of that, yes. It could or it could not be fully replaced, depending upon the work that was done by Government. I am just explaining that there has not been a full analysis undertaken yet.

Q151 Rushanara Ali: What is your view? Do you think it should be fully replaced?

Keith Morgan: It should be partially replaced. As I said, I do not think the work it does in large-scale private equity needs to be replaced. The EIF has, on average, put something like £250 million a year into the venture capital marketplace. That is something that should be replaced.

Q152 Rushanara Ali: Earlier on, one of you referred to the Patient Capital



HOUSE OF COMMONS

Review. Can you say a bit more about what you hope it will achieve? Will it go far enough, with the £2.5 billion that has been announced, in addressing the scale-up challenges that SMEs face?

Keith Morgan: The patient capital gap is a different gap from the EIF, so that helps you position it. The £2.5 billion allows us to commit about £330 million of new investment a year into the system in the first three years. I think that will go some way to promote particularly the later-stage growth that fast-growing companies need. Compared to the US, on average, a UK company gets two rounds of funding, whereas they get three rounds of funding in the US. On average in the US, a later-stage growth company will get roughly 46% more funding than in the UK. If we can target those resources in the right place, I think we will have an impact on growing more successful smaller companies to become larger companies.

Suren Thiru: The lack of patient capital is a key issue. It is different to some of the issues we discussed previously around competition. This is very much a structural issue in the profile of SME finance in the UK. It is something that we are fully behind. A survey we did a couple of years ago shows that over a third of businesses are not confident that they are going to get long-term funding, such as patient capital, so it is clearly a key issue.

We are very supportive of the work that the British Business Bank is doing in this area. It is about filling the gaps in the market. It is a structural issue. Historically, business banking providers have not provided this type of finance, so our view is that the Business Bank should be stepping in, in this area, ideally with greater funding than it has at the moment, because there is quite a big gap and it needs more funding to do so. It is clearly an area that needs to be dealt with. A lot of our members are trying to make that leap between S and M, and they need the finance in place. That is not necessarily there at the moment.

Q153 **Alison McGovern:** I have a few final questions, given your expertise. From your interactions with SMEs, do you generally get the sense that they recognise that commercial lending is largely unregulated?

Suren Thiru: I think there is not a great awareness of that. From our members' perspective, their focus is often on what methods of redress there are. Work the FCA is doing in this area, the process of increasing the size of business that it will look at, is an important step. That will help things like discouraged demand. If you are going for finance in the first place and you know there is going to be a bit of a backstop or someone you can go to for help, that will increase confidence about going for finance in the first place.

There are a couple of things the FCA needs to do, in order to deal with that. If you are dealing with bigger SMEs, you are likely to be dealing with more complex cases, so knowledge needs to be in place. The people and resources need to be in place to deliver that, because if you end up



HOUSE OF COMMONS

with long waiting times, more onerous processes, you defeat the purpose. It is a good idea in theory, but in practice there needs to be a bit of work done in that area.

Q154 Alison McGovern: If lending to businesses was brought within the FCA perimeter, do you think that would have a positive impact on supply of finance to SMEs? You were just saying that would boost confidence. Do you think that regulation could be a positive step?

Suren Thiru: It is more on the redress side. It is more if things go wrong. It may help to increase demand, because businesses will be more confident to go for finance in the first place if they have someone to go to if things go wrong. In the situation we have at the moment, unless you are a micro-firm at the small end or an individual, if you are having a dispute with your bank you have nowhere to go, other than down the expensive legal route. Having someone in place to deal with those more complex issues will help businesses go for finance in the first place, because they know there is someone there to help them if they run into trouble.

Q155 Alison McGovern: Do you think industry codes of conduct are effective?

Suren Thiru: They need bite. We have seen things like the late payment code having issues. It has been there for a number of years but it has not really had the desired effect. It needs some teeth behind it. Are there methods of redress if people break the code, if people do not act in the right way? That needs to be thought out, as well as the code of practice.

Q156 Alison McGovern: Mr Thiru, I think I know the answer to this question, but I am going to ask it anyway. Do you think taking a bank to court is a realistic option in the eyes of most business owners?

Suren Thiru: It would put a lot of businesses off seeking action in the first place because it is so costly. Businesses would rather run their business, as opposed to dealing with these complex issues. That is why there needs to be a process in place, an easy way for businesses to access help, should they need it.

Q157 Alison McGovern: Finally, I do not know if you were in the earlier sessions, but you will have heard the discussion about the tribunal proposal. Do you have any comments on that idea?

Suren Thiru: It is certainly worth exploring. It is about trying to bridge the gap between a business and its bank. Often, we get the situation where a business is dealing with the bank, and they are speaking to more than one person but not getting anywhere, so you could have an additional independent body. You also need to look at the process, how quick it is, how quickly a business can get through that process. If it is a costly, time-intensive process, it can defeat the purpose of having it and businesses will just not want to go through that.



HOUSE OF COMMONS

Q158 **Chair:** Did you have anything at all on the redress point, or from the evidence earlier on?

Keith Morgan: I can only give you a personal view, because this is not within the remit of the British Business Bank. It falls to HMT and the FCA. It seems to me that there is a certain piece of lending where customers can fall into the Consumer Credit Act 1974 if they are just one side of the line, and they do not fall in otherwise. Personally, I could see a very sensible progression where the financial ombudsman had a role for more small businesses, so that, if you had a complaint or you had an issue that was not dealt with by your bank, you could appeal to the financial ombudsman. I think that would go some way to incrementally increasing confidence in the market.

Chair: That is very helpful. Thank you both very much indeed. Thank you for bearing with us with divisions, the late start and everything else. Your evidence has been really helpful for this inquiry. We are very grateful for your time this afternoon. Thank you.