

Treasury Committee

Oral evidence: SME Finance, HC 805

Wednesday 23 May 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Stewart Hosie; Mr Alister Jack.

Questions 207-244

Witnesses

I: Rishi Khosla, Rishi Khosla, CEO, OakNorth, Amanda Murphy, Head of Commercial Banking, HSBC, and Ian Smith, Chief Financial Officer, CYBG.

Examination of witnesses

Witnesses: Rishi Khosla, Amanda Murphy and Ian Smith.

Q207 Chair: Good afternoon. Thank you very much for being here. I am sorry we are a few minutes late. We are expecting a vote at about 4 o'clock. The bells will ring and we will suspend the session; obviously, what happens then depends on how far we have got through this afternoon's questions. Thank you for being here. I will ask you to start by introducing yourselves.

Rishi Khosla: I'm Rishi Khosla, the CEO of OakNorth Bank.

Amanda Murphy: I'm Amanda Murphy, and I head commercial banking for HSBC in the UK.

Ian Smith: I'm Ian Smith, and I am the chief financial officer of CYBG.

Q208 Chair: As you know, this session is part of our inquiry into SME financing. We are looking particularly this afternoon at the relationship between small and medium-sized enterprises and banks. I wanted to start by exploring the approach that the banking sector takes when dealing with SME customers. You will be aware of some of the stories and issues that some banks have had with some of their customers. Do you have the sense that SMEs have lost trust in banks? I will start with the challenger bank over here.

Rishi Khosla: Obviously, we are a new bank. We have been operating since September 2015. If we look at what we hear from our clients specifically, we consistently hear that a lot of SMEs, especially when they are in growth mode and scaling up, do not feel as if the major banks support them in doing so. If you look at the number of SMEs going to the major banks for loans, it has dropped from 2016 to 2017. Over the last three years, net lending into the SME sector has dropped. From our perspective, we see that in fact.

If you look at what we have achieved in that period, we have compensated for the 17% of buffering—17% of the fall in net lending over that period. Again, in our view that indicates that there is something wrong with the way in which SMEs are being serviced by the major banks. They have lost trust as regards getting the transaction they need from a major bank.

Q209 Chair: Ms Murphy, what is your experience of trust in banks?

Amanda Murphy: Undoubtedly, when the financial crisis happened in the UK, companies questioned banks. They questioned how banks behaved and how they were governed. All the major banks have worked really hard to rebuild trust on the back of that. I can speak from what I see. I meet companies across the UK every day, and they tell us that it is not the trust, sometimes; it is how we make it easier for them to transact with us. How do we open up our portals to them? How do we bring technology to the fore? How do we help them as they are growing their business plans, not just through lending but through developing business plans? How do



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we make connections for them, so they can talk to other people who have been there and done that? How do we help them with new markets?

We need to look at it in a much more holistic way; otherwise, we miss the question. Look at businesses in the UK today, compared with 25 years ago. They were largely manufacturing businesses then. Today, SME is strongly comprised of service-type businesses. They borrow less, and their need for capital investment is less. We have to continue to evolve, so that we support those customers. That is not to say that every customer who wants to borrow can do so. I think one of the great things about challenger banks, the CMA, and all the work that has gone on around that, is that it is a very open and competitive field today for SMEs to seek finance.

Ian Smith: I echo my colleagues, in that I think the banks had to learn some important lessons after the 2008 crisis. A lot of hard work has gone into learning those lessons and putting into practice better ways of dealing with customers. I also echo that what SMEs need is not just simple provision of finance but advice and other support for their businesses. In those circumstances, our model, in which we provide relationship management and high touch, is an important part of the way that SMEs are looked after.

Q210 Chair: How has your bank's approach to SME lending changed, following the interest rate hedging product mis-selling scandal?

Ian Smith: The first thing we needed to do in those circumstances was to address the customers who felt they had been wronged. We have gone through a rigorous process of reviewing and dealing with complaints. For the most part, those complaints are resolved and behind us.

The second part of our response has been to renew our focus and commitment to SMEs, particularly in regional UK. I point to our commitment to lend £6 billion over three years to SMEs. In our first year, we have managed to lend £2.1 billion. That is evidence of our commitment to the sector.

Q211 Chair: A question for all three of you, but starting with Mr Smith, as you just gave us the number: how does that £2.1 billion sit in relation to the size of the bank or business lending? Can you give us an understanding of the scale of the £2.1 billion amidst all the other activities of the bank?

Ian Smith: Our SME business total lending average over the last couple of years is around £7 billion. Inevitably, that is a moving target, in that customers will repay loans, some will refinance elsewhere, and there is still a pretty competitive environment. Putting in £2.1 billion at the top of the funnel each year represents a significant portion of our business.

Q212 Chair: Ms Murphy, could you give us an understanding of the scale of SME lending for your bank?

Amanda Murphy: SME lending is roughly half our business. We go from the start-up right through to international companies. Above half of that would fall into the standard definition of SMEs. We have a fund, too. You



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have made your commitment for £2 billion; banks can come up with these numbers—£10 billion or £2 billion—but my experience in talking to companies is that those numbers often scare them. They think, “The bank has come out with £10 billion, but I want to borrow only £100,000, so that bank is not for me.” We have worked really hard in the last couple of years on localising that money into local funds across the country, so that we can say, “We have £100 million that we want to lend in Liverpool,” or “We’ve got £70 million that we want to lend in Southampton.” Obviously, we want to exceed that, and we are very lucky to be well capitalised and in a position to do that.

Looking at how we encourage SMEs—particularly the “S” part of SMEs—and make them comfortable in coming to their banks, we have to break down those numbers and what they mean: a second shop, an extension to a garage, or the ability to take on staff to help a fledgling business owner. We lend about £70 billion; roughly half will be on the SME side, but it is important for our growth that we bring it down in smaller, bite-size chunks across the country, to make it meaningful to businesses.

Rishi Khosla: As it stands, we have a total loan book of £1.25 billion, which is all SME focused, because ultimately that is all we focus on as an institution. Our objectives over the next four years include looking to do significantly more gross lending than Ian’s bank. I do not want to throw out a number, because we do not have a number out there, but we are looking to do significantly more than that in terms of gross lending, and north of that even in terms of net lending, over the next three years.

I go back to the point that if there was not a problem, we, as a new institution with a nascent brand, would not get that flow and have the confidence to build our business to solve that problem. Our view is that there is a real problem. That is why we set up the business, really: to focus on addressing and solving it.

Q213 **Chair:** OakNorth was given a banking licence in 2015, so perhaps this is more a question for HSBC and Clydesdale. We’ve heard that employees in business lending were asked to focus more on profits than doing the right thing by customers. Perhaps you could talk about whether you recognise that, whether the culture has had to change in your institutions, or how you guard against that sort of behaviour now.

Amanda Murphy: I think Ian started to talk about some of the things that the banks have put in. What we have to do is really go back to: how do we manage our people? How do we pay our people? What goes into their annual objectives? Do we have targets? We don’t have targets anymore. Do we have individual product targets? We do not. We have had to peel it right back to basics, to make sure that from the moment the customer starts to speak with us, we are doing the right thing in all cases, and that there are no unintended consequences through measuring something, or monitoring people on different things. We have worked for that.



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We have changed our objectives, we have taken out all the targets, and you never see scorecards, or those league tables of people, branches or teams; those days are long gone. We do a lot of monitoring and testing to make sure that those behaviours do not creep back in, and a huge amount of training. As you can imagine, I have roughly 5,000 people across the country, and there is turnover and a flow of new people into the business all the time, so we continually do training.

We also do a lot of moments of truth with customers. Once they have had an experience, maybe taking out a loan or opening a bank account, we will call and talk to them to check. Did you get the right level of service? Did you know what you were getting? Did you understand the attributes of the costs? Did the documentation arrive, and was it easy for you to understand? We have changed a substantial amount of our documentation to make it less banky, less legalistic, and more understandable for those out in the marketplace.

It is the job, too. Do I think that the journey is done? No, I don't; we have to continue this never-ending journey and have to keep working with teams to do this. We chase complaints as well, to make sure that we are not seeing those behaviours come out. If any issues ever come out through feedback from moments of truth, or if there is other feedback, from customers or others, or from sampling, action is taken immediately.

The concept of treating customers fairly and ensuring the best outcomes for them is at the core of everything we do. My experience is that the vast majority of people who work in the financial services industry want it to be core. They want to be proud of what they do—they don't want to open the newspaper and read that stuff. They don't want to have to look at their families and go, "Oh"—no one wants that. It is really important that we continue to drive that through our business.

Q214 Chair: Mr Smith, briefly, have you got anything to add—particular experiences from Clydesdale to do with changing behaviours?

Ian Smith: Banks that have been around for some time have all had to undertake a root-and-branch review of how things are done. We have followed a similar path to the one that Amanda has described, in terms of how we work with people, and how we create the right incentives. The only thing I would add to that summary is the importance of transparency—transparency in the way that products are designed and explained to customers, so that customers absolutely understand how they work. We have worked very hard on that.

Q215 Stewart Hosie: In 2016, the CMA said that competition for SME lending was not working well for customers. We have heard about the Clydesdale Bank's targets and the HSBC approach—the fund idea—and we have seen the growth in lending that OakNorth has done. Is it still the case that competition for SME lending is not working well?

Rishi Khosla: Again, I point to numbers. Our view is that competition is not working because, fundamentally, SMEs are not being as well serviced as the demand might require. To pick up on one of Amanda's points, it is



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not necessarily only the trust issue; in a way, it is how the major banks service a number of SMEs that is the biggest challenge. Again, I speak from personal experience. The reason why I set up OakNorth was that in my previous business I tried to get a loan from HSBC, and Barclays was unable to give one, but shortly thereafter I was able to get a much larger loan from an institutional lender on exactly the same credit. That was when the penny dropped for me that there's something broken here, and that fundamentally remains the case. I fully believe that competition is not working as strongly as it should to help SMEs that are looking to scale up.

Amanda Murphy: Obviously, I am coming at this from one of the established banks. We welcome the challengers—my goodness, the market has never been a more competitive environment. It has never been more transparent, and it has never been more competitive. That is really good for the consumer. The SME Finance Monitor released some really important statistics at the end of last year. Almost half the SMEs surveyed said they were permanent non-borrowers, and 83% said that at that time and place they were happy non-seekers of finance, up from 63% in 2012. While I appreciate that we have to keep that finance conversation going, we have to broaden it out as well.

On why people do not borrow, I talk to customers all the time, and I spoke to a customer a little while ago whose wonderful little business has just won a Queen's award. They talked about how, when they read in the papers that banks do not lend, they assume that banks do not lend. When we talk about big numbers, they assume, "It's not for me." That is why, if we are going to be committed and successful in driving growth in the UK's economy, it is really important that we have a joined-up approach through the Government, the banks and financial providers, and the media.

Q216 **Stewart Hosie:** Ian, if small businesses are choosing not to seek bank finance, how much of that might be driven by what their friends and colleagues in the small-business community have said about the way they may have been treated during the downturn and in its aftermath?

Ian Smith: I am sure that there may be some business owners who have listened to other people's experiences of how things worked out in the crisis, so I would agree with that. However, on Amanda's point about the extent to which SMEs actually want to borrow, that is often a feature of the attitude of those entrepreneurial businesses to risk, and their attitude to reliance on any form of support. I suspect that there are a number of factors, such as those that contribute to SMEs' willingness to approach banks or other lenders.

Q217 **Stewart Hosie:** Will we ever see a challenger bank reach a scale similar to that of any of the big four banks? Do you think that is possible?

Ian Smith: It is quite difficult to envisage, and I am not sure that it is entirely desirable.

Q218 **Stewart Hosie:** Assuming that it was desirable, or that a bank had the ambition to do it and was run properly, what are the main obstacles they would have to face in order to grow, scale up and challenge, with that



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number of branches on the high street and that amount of lending? What would be the main obstacles?

Ian Smith: It can be quite an expensive business to set up a full-service SME bank that supplies a broad range of products to allow customers to pick and choose what is right for them. The new entrants to the market, which are focusing on particular parts of SME financing, have a real part to play in that. The largest barrier to becoming a scale challenger, if you like, is the sheer expense of delivering the infrastructure that is needed.

Q219 **Stewart Hosie:** A final question for you, Ian. Do you think that the 8% bank corporation tax surcharge restricts the ability of challengers to compete with the larger institutions?

Ian Smith: I suspect that other institutions will speak for themselves. It does not feature as a constraint in our business.

Q220 **Stewart Hosie:** Rishi, I have one final question in this section. I understand the newer banks have to use a standardised approach to risk weighting, whereas their larger competitors are able to use internal risk models. You said you were able to borrow from a non-bank financial institution, which was interesting. Do you think there is an effect on challenger banks' ability to compete if they are forced to use a standardised risk model rather than an internal one?

Rishi Khosla: I think there is a massive disadvantage. Clearly, the amount in capital that we need to hold against our loan book is much higher under the standardised approach than under the internal risk model approach, especially when you look at some of the simpler mortgage-type lending where there can be an eight or 10 times difference in the amount of capital that you are looking to hold under the standardised model. When you break down the additional capital through risk-weighted assets, and picking up on your previous point about an 80% surcharge rate, again all of those things reduce the amount of lending that a newer institution can contribute back into the market, because you are holding more capital for the same pounds lent, and then you have the surcharge that reduces your amount of capital to be able to roll over in accrued profit.

From our perspective, both of those are real issues. Obviously, the surcharge is fully in our control. The risk-weighted assets are less in our control today, but obviously with Brexit that is an opportunity for the UK to take a view itself away from the EBA's guidance on how to treat risk-weighted assets—we hope in a more proportionate manner for organisations that are scaling rather than the large incumbents.

Q221 **Stewart Hosie:** I am not going to go down the Brexit route, other than to say I hope no one is suggesting we should use Brexit as an opportunity to make banks less safe.

Rishi Khosla: I fully agree.

Q222 **Rushanara Ali:** Commercial lending is largely unregulated, but some SMEs are no more financially sophisticated than individual consumers. Do you think that this lack of regulatory protection for SMEs is justified?



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Rishi Khosla: All banks are dual regulated by the PRA and FCA. Despite any internal behaviours, we have standard conduct rules as an industry to treat customers in a particular manner.

Q223 **Rushanara Ali:** That did not prevent some of the major scandals such as the GRG scandal.

Rishi Khosla: I fully agree. I can speak from at least our vantage point in terms of having set up an institution from a blank sheet of paper two and a half years ago. From that perspective we have in-built the whole concept of strong conduct within our culture. The only thing that is going to be good for a customer is going to be good for the business on a long-term basis, so ultimately it is about making sure that everyone is aligned to the long-term success of the business rather than short-term success. As long as you are aligned for long-term success you are fully aligned with your customer, and therefore a lot of our behaviour gets driven by understanding that we are building for the next decades rather than building for this year's bonus, which clearly is not how we remunerate.

Q224 **Rushanara Ali:** From your interactions with your customers, do you think they are aware that commercial lending is largely unregulated? If you could respond to that and then perhaps others could respond to the first and second points.

Rishi Khosla: In our very specific situation, we typically start lending from about half a million pounds up to about £30 million, so we are talking very much about SMEs that are the larger "S" and the medium, and they are really organisations that are scaling. I think they are very well aware, because they tend to be more sophisticated than the smaller SMEs where, like you say, there is not much differentiation between them and an individual lend.

Amanda Murphy: I don't disagree with what Rishi says. We have got a regulated industry, but what is really important is the behaviours in that industry and how we make sure that our behaviours reach the highest standards at all times, and that is by making sure customers have outcomes. The learnings have been stark and have been hard for organisations. I can speak for us, and we have certainly taken those on. It is really important that people understand the why and not just the what. By that I mean that you can have lots of regulation, but if you do not have people acting and understanding why it is so important to make sure customers have the best outcomes, then the regulations are punitive rather than encouraging. We have to understand that we want the best outcomes. We are really proud to have banked many companies through the generations, as businesses get passed over. Our lending has grown year on year, and we get most of our business from customer referrals—from customers saying that they have had a good experience with us.

Q225 **Rushanara Ali:** What about the level of awareness?

Amanda Murphy: I was sitting there thinking, "Have I ever talked about this with any company?" I cannot remember specifically ever talking about this. At the very small end, for certain products that are regulated, customers are aware because we specifically highlight that in the terms

and conditions, but I am not 100% sure. I am happy to take that away and come back to you.

Q226 Rushanara Ali: It would be helpful to know, because with terms and conditions with a lot of small print, it is very easy to miss that point. Do you actually coach people through it, and explain what that entails?

Amanda Murphy: We do when a product is regulated. I will take this away and come back to you on it, but I don't think that when a product is not regulated we talk about what that means specifically.

Q227 Rushanara Ali: It would be really helpful to know that. I have another question. Do you treat SMEs protected by regulation differently from those that are not, and is there an incentive to focus on serving those SMEs that do not attract regulation?

Amanda Murphy: No. We treat them exactly the same. They are looked after by the same people using the same digital platforms, because the products are regulated, rather than the relationship. A customer could have two different products, one of which is regulated and one of which is not. There is certainly no incentive to attract one type of customer or the other.

Q228 Rushanara Ali: Sure. Mr Smith, perhaps you can respond to all or some of those questions at your leisure. Actually, not at your leisure!

Ian Smith: I will try to capture the series of questions. In terms of the way that we approach customers, our focus is towards the smaller end of the scale in any event. We certainly do not differentiate in terms of thinking about the impact of regulation. We were signatories to the Lending Standards Board rules that were brought in last year. We are very committed to abiding by those. I also think it is probably important to see how those settle in and how those work.

We see that development as positive. It certainly should afford greater protection from a lending point of view to those customers at the smaller end of the SME scale. Anecdotally, what we hear when we talk to customers is that they have a perception that there is some kind of protection available. It is only when it is tested, when they are disappointed, that they find out that it is not. Generally speaking, that can refer to things like having accounts closed, or anything of that nature. I would submit that there probably is a bit of a perception gap.

Q229 Rushanara Ali: Who should take responsibility for making SMEs aware of those issues?

Ian Smith: I think banks are ready to play by the rules. I suspect that the responsibility might sit more with the rule-setters.

Rushanara Ali: Sorry, I didn't catch that last point.

Ian Smith: Banks will always be ready, in the way we are set up today, to explain products and services, and rules and regulations, to customers

that apply, but responsibility for the promulgation of those rules and regulations lies with the rule-setters.

Q230 **Chair:** So the regulators.

Ian Smith: Yes.

Q231 **Rushanara Ali:** A couple of final points about the regulators. How would the supply of credit to SMEs be affected by bringing commercial lending within the FCA's regulatory perimeter, and how much faith should the Committee have in voluntary codes as a means of ensuring good conduct in the SME lending market? Who would like to respond? I think I have about one more minute.

Amanda Murphy: From an HSBC perspective, as I say, I think we grew about 5% faster than the SME lending market grew last year. I don't think that access will be encouraged through increased regulation. The industry is heavily regulated. It is a different type of industry than it was 10 years ago. I think there is a very important partnership for the banks and regulators to play, and a role for both of them to play in ensuring that customers continue and, for example, as new digital platforms come in that the customer lens is always applied over them to make sure that that works too. Personally, I don't think that that is the burning platform today.

Q232 **Rushanara Ali:** Should we have faith in the voluntary codes?

Amanda Murphy: I have a lot of faith in them, speaking very personally. It is really important to me and my team that we do the right thing by our customers every day, and that is certainly how we are run. We would not be rewarded for doing the wrong thing—and I think most people who want to do the wrong thing do not choose to come into banking today.

Q233 **Rushanara Ali:** What about challenger banks?

Rishi Khosla: I do think the pendulum has swung in terms of how people behave in banking. To echo Amanda's point, I think people want to do the right thing. In terms of whether SME lending should come under the purview of the FCA's rules, as I said at the outset, we actually act in that manner already, even though it does not fundamentally come under the FCA rules in the same way as retail deposits and the like. We treat customers in one way, with the same values and the same mindset. That applies to both our retail depositors and our SME lending customers. I would imagine that is not too different from a number of other organisations in the industry.

Q234 **Rushanara Ali:** Can you see any situation where there could be cowboy activity by a bank—either an established bank or a challenger bank—that did not do that? Is there a scenario that you can conceive of? We have had such activity by well-known, established banks. Can you think through where that could happen, so that the Committee can make sure that the regulator takes that point on board seriously? It would damage your businesses if somebody came along and behaved in that way.



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Rishi Khosla: I fully agree. Clearly, it has happened in the banking sector before, so it can happen again. A lot of banking players are still healing from the impact of the crisis, so it is still fresh in people's memories. You have some very good players in the alternative finance sector, but you also have some players that are not so good. Look at the peer-to-peer space. As I said, you have some phenomenal players in that space that are really helpful to the ecosystem, but you also have players there that are not helpful to the ecosystem. Given that fundamentally no element of regulation, or very light-touch regulation, is applied to them, that is where I would point if I had to say there was an impending issue anywhere in the foreseeable future.

Q235 **Rushanara Ali:** Without naming names, it would be really helpful if you submitted further information about the kinds of practices you think we should be looking out for.

Rishi Khosla: Absolutely.

Chair: In the interests of time, I am going to bring Simon in. I do not know whether you had anything in particular to add to that, Mr Smith, but we might write to all three of you about that or other things. Equally, if there are things we have not covered or you want to say more about, please feel free to write to us.

Q236 **Mr Clarke:** In evidence to this Committee, the FCA said that "many SMEs struggle to resolve disputes with financial services firms and seek redress when things go wrong," whereas UK Finance said, "The vast majority of small business complaints are resolved to the satisfaction of the customer." Mr Khosla, one of those statements is clearly more or less wrong. How easy is it, in your experience, for SMEs to resolve disputes with their bank?

Rishi Khosla: Again, I speak from my own experience and from some of the experience we have from our borrowers. The biggest challenge they have with the larger banks is just figuring out who to speak to and who will be able to resolve their issue. Typically, it is a game of ping pong for them, where they get thrown from one person to another, to another, and back to the same person. Often, that is why they find their way to us—frustration at not being able to resolve something with one of the larger banks. I do think there is an issue there with some of the larger banks. Again, I know that from personal experience but also from borrowers.

Q237 **Mr Clarke:** Ms Murphy, do you think taking a bank to court is a realistic option in the eyes of many business owners you speak to?

Amanda Murphy: Honestly, no. Many business owners do not have deep enough pockets to take a bank to court. The press is very powerful for a small business owner today. Good banks and good financial institutions trade on their reputation. Without that reputation, they cannot grow their business, so the power of the press is very important. There is also an ombudsman, who is very effective. We are very fortunate, in that just slightly more than 1% of our complaints ever end up there. However, that number is still too high in my book, and we do a lot of work to try to



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improve it. Complaints are interesting. I am a fan of encouraging more complaints. That means your numbers go up, but then you are actually able to deal with issues. If people feel, "If I log a complaint, or write it down, I will get into trouble," they will hide those issues. If you are going to have a truly open place, you have to be able to do that.

Mr Clarke: I am sure that is a very healthy culture to encourage.

Amanda Murphy: First Direct has the best banking branch, probably in the world, and it has the most complaints.

Chair: Counter-intuitive.

Q238 **Mr Clarke:** Mr Khosla, what has been your experience of the ombudsman?

Rishi Khosla: To date it has been very limited—that is, none—because we have had a very limited number of complaints come through and none have gone to that level, because we have been able to resolve them very quickly. Clearly that is a benefit of having a relatively small scale, so I am not going to say we will be able to continue that for the next x number of years, but that is our objective.

Q239 **Mr Clarke:** Mr Smith, in a previous evidence session we were told that the Government should establish a financial services tribunal, which would have the purpose of resolving disputes between SMEs and their banks. UK Finance has come out against that idea, because it does not think the case has been made. What are your views on that proposal?

Ian Smith: We think that, certainly in the case of more complex disputes, there is probably some merit in that proposal. Provided that any mechanism is appropriately supported and resourced, it will probably help us to find the answer. The problem today is that each side is liable to come away unsatisfied from something like that. If it works well and it is well-resourced, we would support that.

Q240 **Mr Clarke:** Would you echo that, Ms Murphy?

Amanda Murphy: Not fully, no. I think it depends on what question you are trying to answer. I don't see enough urgency around disputes that don't get resolved. All of the leading financial institutions want to do the right thing for the customer. They want a resolution at the end of the day. I have worked in the industry for over two decades and I have not had an experience where we haven't been able to get a resolution at the end. There are other things that you could do that would help to encourage access to finance. We haven't talked at all about the ability to make connections overseas and how we bring that great British brand there, but I don't see that as a burning platform at the moment.

Q241 **Mr Clarke:** Mr Khosla, do you think there are any risks that the creation of such a tribunal might lead to a reduction in the supply of credit to SMEs as an unwanted by-product?



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Rishi Khosla: I do think there is the David and Goliath sort of issue, in terms of an SME going up after a bank. Although many disputes get resolved, they may not get resolved in the best interests or what the SME would view as a fair manner. Given that, I think there is a case for such a tribunal. Do I think it will lead to less lending within the space? No, I don't think it will, because I think the number of cases that will get there will be few and far between. But it will probably give a certain level of confidence for SMEs to say, "Actually I can go up against x, y or z bank." The biggest issue for any SME today is that if they have gone up against a bank, they will never—in their view—be able to get service from that bank again. There are a limited number of large banks. If the tribunal is very public, their ability to go to another bank is probably more limited—not that it should be, but in a practical manner. So it would need some careful thought in terms of the unintended, second and third-order consequences of such a tribunal.

Q242 **Mr Clarke:** This is to both Ms Murphy and Mr Smith. UK Finance has launched its own review into the complaints and dispute resolution landscape for SMEs. Were that review to conclude that there was merit in the idea of a tribunal, do you think the industry would, at that point, fund the creation of such a tribunal?

Amanda Murphy: Let us see what comes from the review.

Mr Clarke: I agree. I am just trying to establish whether there will be institutional willingness to follow the recommendation.

Amanda Murphy: Speaking for HSBC, we are always willing to discuss what is best for our communities and best for our customers—absolutely. But, if I can just say, we all want to lend. We do really want to lend to customers. We all have the ambition to grow our businesses. We want to see our customers and prospects. We want to see who has joined me and might join him. That is what we all want. The appetite is really there. The understanding of how to connect with SMEs is improving all the time. The tools to make it easier for SMEs are improving right across the industry all the time. The choice is better now than ever before. I think we have a shared interest in all of this.

Q243 **Mr Clarke:** Absolutely. I am sure that is true. In terms of understanding the Financial Ombudsman Service's current role, does it work well enough for the most complex level of disputes. Obviously, it is not just about volume, but about complexity.

Amanda Murphy: In our experience it has worked well. From a customer perspective it has worked well, but for some really difficult ones, you will always have a situation where you have two different opinions at the end of the day.

Q244 **Mr Clarke:** Would you share that perspective, Mr Khosla?

Rishi Khosla: Not having been through it, my viewpoint would be: for some complex transactions. If you think about something like the interest rate swap mis-selling scandal and those types of issues at a very nascent



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stage, would those be the right things where the ombudsman would be able to weigh in? I don't know what the depth of the skillset and technical knowledge is within the ombudsman to have a viewpoint on that, but ideally you want to be able to have foresight on those types of issues.

Ian Smith: It is clearly insufficient at this stage, but if it were to acquire that responsibility, we would hope that there would be sufficient time and resources available for it to upskill appropriately. *[Interruption.]*

Chair: Thank you very much. That bell was not a fire alarm; it just means that we have to go and vote. We will draw a line there, rather than keep you waiting. This was a short but sweet session. You have been very helpful and succinct in your answers. Most witnesses would be delighted to escape at this point in time. We may well have further questions for you. Likewise, if there are things that we didn't cover that you wanted to, we would be delighted to hear from you. We are grateful to you for being here this afternoon.