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Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

8 March 2017

Dear Sir / Madam

Small businesses and productivity inquiry

The Financial Services Consumer Panel is an independent statutory body. We represent the interests of individual and small business¹ consumers in the development of policy and regulation of financial services in the UK. We welcome the opportunity to respond to the Business, Energy and Industrial Strategy Committee's inquiry into small businesses and productivity.

The Panel's main interest is in the problems faced by small businesses as consumers of financial services. However, there is a clear link between productivity and the ability of small businesses to access suitable financial products, and to receive fair and appropriate treatment from financial services firms. Our response highlights the main financial services issues that can have a negative impact on small businesses, make them less commercially effective, and substantially reduce their productivity. These are:

- **the lower level of consumer protection afforded to small businesses compared with individual consumers** - Existing consumer protections treat individual consumers of financial services differently from small businesses. There appears to be an assumption that a consumer, merely because he or she is engaged in business, is more financially literate/sophisticated and thus does not need the same levels of protection as an individual. Whilst this may be true at the larger end of the SME spectrum, it is patently not the case for the vast majority of smaller enterprises, where a business consumer may simply be an individual wearing a business hat. Consumer protections available to smaller businesses should be fully aligned with those available to individuals in relation to both general UK consumer law and the regulated financial services sector.

We welcome the recent FCA consultation on widening access to the Financial Ombudsman Service (FOS) for small businesses². The Panel has previously argued that small businesses should not be regarded as sophisticated until they reach a stage where they have a specified individual responsible for financial matters, typically a finance director or employed accountant. It continues to take this view generally but supports the FCA's proposal to introduce an objective threshold (based on headcount, turnover and balance sheet) for the purpose of access to the FOS.

- **the difficulty which small business consumers face generally in borrowing, which is often required for the proper functioning and growth of small businesses** - Since the financial crisis, small businesses have struggled to access the banking and finance products which they require. Whilst not all small businesses want or need to borrow, those that do part can find it difficult to access suitable products. There are also a number of other factors at play:
 - Complex terms and conditions, and a failure by providers to explain their products and services clearly and without jargon;

¹ By 'small businesses' we mean microbusinesses and smaller SMEs

² <https://www.fca.org.uk/publication/consultation/cp18-03.pdf>

- Lack of banks' expertise in the relevant sector – lending is centralised and inflexible³.
 - Lack of support to produce financial information and business plans of a kind acceptable to financial services providers; and
 - Absence of a financial history in support of applications for finance - this has become more significant since the demise of "self-certification".
- **the absence of suitable financial services products** – small businesses are in the difficult position that the majority of financial services products are designed either for individual consumers or for more sophisticated business customers. As a result, there are few products specifically designed and suitable for the smallest business consumers.
 - **the treatment of small business consumers by financial service providers** - Where smaller businesses are able to access the financial services products which they require they are confronted by a series of further problems:
 - Terms and conditions are frequently biased in favour of the provider, and can often be changed by the provider unilaterally; and
 - Where smaller businesses get into difficulty they often receive a lower level of forbearance than individual consumers.

The Panel believes that suitable financial services products for small businesses should be readily available and feature simple and clearly expressed terms and conditions which are fair to both parties.

An additional problem is that small businesses are more tied to their main bank than individual consumers are. Research conducted for the Competition and Markets Authority (CMA) found that small businesses can be reluctant to switch to a better deal as they believe they have a relationship with their bank, and that this will give them an advantage should they wish to borrow⁴. Research conducted for the Panel found that complexities with a business account are also a significant barrier to changing bank. In order to switch, smaller businesses need to know they will have an allocated business banking manager, someone to organise the switch, lower/more transparent charges, and the confidence that the bank will get it all right⁵.

Recent mis-selling of interest rate hedging products to small businesses and some of the cases emerging from the RBS Global Restructuring Group and HBOS Reading branch demonstrate how vulnerable small businesses can be to inappropriate behaviour by financial services firms. Issues of this kind have far-reaching impacts on the productivity of individual businesses and the small business sector generally.

- **the absence of impartial guidance for small businesses** - many small businesses need impartial guidance about the options available to them in respect of their financial arrangements. Many smaller business owners have the same financial needs as do individual consumers, and often run their business from their personal current account, or mortgage their home to raise finance. Many are not saving in a pension. However, currently there is little provision of assistance for them. For this reason, the Panel has argued for the remit of the Single Financial Guidance Body (SFGB) to be extended to the self-employed and microbusinesses. While the Financial Guidance and Claims Bill currently before Parliament will include the self-employed, it will not include smaller businesses.

³ Banking services to small and medium-sized enterprises, CMA and FCA, July 2014 - https://assets.publishing.service.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf

⁴ *ibid*

⁵ https://www.fs-cp.org.uk/sites/default/files/fscp_banking_culture_-_report_-_final.pdf

Yours faithfully,

Sue Lewis
Chair, Financial Services Consumer Panel