

Meeting of the SME Advisory Group



6 October 2021, Meeting held by Microsoft Teams

Present:

- Liz Barclay, Small Business Commissioner
 - Richard Bearman, British Business Bank
 - James Dalton, Association of British Insurers
 - John Davies, Association of Alternative Business Finance
 - Stephen Haddrill, Finance and Leasing Association
 - Suren Thiru, British Chambers of Commerce
 - Harry Palmer, UK Finance
-
- Nausicaa Delfas, Interim Chief Executive & Chief Ombudsman (Chairing the meeting)
 - Tim Archer, Lead Ombudsman & Director of Casework
 - Andy Wright, Ombudsman Leader
 - David Bainbridge, Head of External Relations
 - Nicole Harrison, Private Secretary to Interim Chief Executive & Chief Ombudsman

Apologies:

- Noyona Chundur, Consumer Council for Northern Ireland
- Alexis Lay and Martin McTague, Federation of Small Businesses
- Mike Conroy, UK Finance (Harry Palmer attending on this occasion)

Introductions

Liz Barclay and Harry Palmer were welcomed to the group for the first time. Apologies were noted.

Key priorities and updates

Nausicaa Delfas introduced herself as interim Chief Executive & Chief Ombudsman and welcomed the group.

She explained that since arriving in role in mid-May this year, she had been looking at the Financial Ombudsman Service's operating model and strategic approach, in order to improve its overall effectiveness. It is at an inflexion point, as it prepares for a world beyond PPI. She outlined the challenges the organisation was working through, particularly around waiting times for customers, explaining that some financial businesses had struggled during the earlier stages of the pandemic to respond to their customers' complaints. The Financial Ombudsman had received an additional c.90,000 non-PPI complaints than expected during 2020/21, considerably more than had been forecasted after consultation with the industry – and causing delays in complaints waiting to be investigated. Tackling this backlog remained a particular area of focus, with initiatives underway to improve the position as quickly as possible. She had also driven forward the Financial Ombudsman Service Board-commissioned independent review, which was concluding soon, and which the Financial Ombudsman Service expected to publish before the end of this calendar year.

Nausicaa introduced the Financial Ombudsman Service's team on SMEs, an area of real focus for her and for the organisation.

Building capability and capacity

Tim Archer noted that over the last two years, the organisation has been taking significant steps to build the capabilities in its SME team, supplementing the expertise we already had for assessing complaints from micro-enterprises. This has included:

- Continuing to develop a dedicated investigation team, who received specialist training for handling complaints raised by small businesses;
- Increasing resources – the team has more than doubled in size over the last year and now includes 45 Investigators and 12 Ombudsmen;
- Commencing recruitment for specialist contractor resource to help handle complaints relating to bank lending through the Government-backed loan schemes and business interruption insurance;
- Recruiting a panel of external experts across a range of subject areas that complement our in-house resource and have expertise in trade finance, tax, accountancy, commercial lending and insurance; and
- The valuable insight from this group (our Small Business Advisory Group).

Overview of our SME work – including demand and the impact of the work

Tim noted that the small business team had resolved over 2,300 complaints so far this financial year. It was on track to resolve 4,500 in total by the end of March 2022. This compares with around 4,000 cases over its first two years combined, so it is now more than doubling its output.

Tim added that the team had resolved just under 700 complaints in the first half of this year from newly-eligible larger small businesses, which compares to around 800 in the year as a whole last year.

Tim said that the dedicated SME team consistently receives over 100 calls per month (mostly from micro-enterprises) to its small business helpline, which helps complainants reach the right outcome.

Andy Wright provided some further details, noting that there had been an uptick in complaints prompted by the pandemic. For example, the Financial Ombudsman had to date received over 3,400 complaints relating to Business Interruption Insurance, almost half of which it had now resolved; and it had received over 2,300 complaints relating to lending by banks through the Government-backed loan schemes for businesses, of which it had resolved over 1,400.

Andy outlined the types of casework issues it was seeing in relation to Business Interruption Insurance (BII), noting that most complaints received continued to be about whether there was cover under the policy. The cases involve 60 insurers, lots of different policy wordings and around 25 different brokers – so they are taking time to work through. On the government backed loans scheme complaints, it was noted that the numbers of new complaints had fallen consistently in recent months, although there had been a slight uptick in the second half of September.

One attendee asked about the government backed loan scheme complaints and what issues were arising in complaints about account access. Andy explained that various behaviours by the borrower might cause the lender to investigate the account, and possibly to terminate the relationship. For example, the lender might be concerned that the borrower had significantly misrepresented the turnover or the activity of the business during the application process.

Open discussion

Nausicaa invited the group to share their **insight on the current issues affecting SMEs**. Some of the key themes emerging from the feedback and discussion from the group were:

- **Increasing costs** – A wide range of rising cost pressures now and in the near future, including manufacturing costs, staff costs both due to certain skills shortages and the furlough scheme ending, supply chain disruption increasing input costs, energy costs, rent arrears, increasing National Insurance employer contributions, business rates starting again, and the ending of the temporary reduced VAT rate for hospitality.
- **Repayment of debts** – SMEs were not generally, at this stage, presenting to firms with financial difficulties repaying the government backed loans with the banks or any of their other debts. However, there was a recognition that the level of indebtedness among small businesses was high, with many facing pressures from different sides. There was a concern that strong repayment performance now was disguising other underlying problems.
- **Communication** – There were concerns raised about the fact some SMEs were not coming forward to ask for forbearance.
- **Debt for small businesses** – One industry representative said demand for credit below £25,000 from small businesses was currently low and another that they were seeing a tightening up of the funding available to the non-bank lending sector.
- **Resolving complaints pragmatically** – The group discussed the current Financial Ombudsman [consultation paper](#) proposing temporary amendments to the way business-specific complaints data (in particular the “uphold rate”) is reported. There was strong support but with a suggestion from one trade body to consider whether this could be a longer-term initiative. Nausicaa explained this was one of a number of initiatives to try to get through the large backlog of cases more quickly, working with firms - this proposal was a short-term measure, caused by the specific circumstances of the pandemic and operational difficulties firms had experienced previously. Members would be responding to the consultation. Another trade body suggested future initiatives might address concerns from financial services firms about Claims Management Company (CMC) activity as well as offering a lower case fee for cases settled informally or pragmatically.

Looking forward, the group also discussed:

- Sharing insight on the recovery process for the government backed loans scheme complaints.
- Keeping lines of communication open around the recoveries processes – being mindful of any unintended consequences as a result of any decisions made.
- How the Financial Ombudsman Service works with the Business Banking Resolution Service (BBRS) to ensure a similar experience for small businesses.

The review of the SME Advisory Group - and future meetings

At the last meeting, the Financial Ombudsman had explained that the Terms of Reference provided for a review of the group at this point – being two years after it was established. With the significant uncertainty and challenges facing small businesses because of the pandemic, the decision had been taken to defer the formal review point until this meeting.

From the Financial Ombudsman’s perspective the group remained a valuable source of insight into the challenges facing small businesses and a useful forum for establishing stronger links with business representative groups. The attendees agreed.

It was agreed that having a specific theme or topic for discussion (as at the last meeting on fraud and scams) helped ensure the discussion is focused and effective. It was formally decided that the group should continue on this basis – with these minutes noting this for the record. David Bainbridge encouraged attendees to share thoughts on possible topics before the next meeting.

There being no further business the meeting was concluded.