

Minutes – SME Advisory Group

5 April 2022, Meeting held at The Financial Ombudsman Service, Exchange Tower, London, E14 9SR and on Microsoft Teams

| Financial Ombudsman Service attendees | Industry attendees |
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| <p>Nausicaa Delfas, Interim Chief Executive & Chief Ombudsman (Chair of the SME Advisory Group)</p> <p>Colin Douglas, Interim Communications Director</p> <p>David Bainbridge, Head of External Relations</p> <p>Tim Archer, Lead Ombudsman and Director of Casework</p> <p>Andy Wright, Ombudsman Leader</p> | <p>Daryn Park, Senior Policy Advisor, Federation of Small Businesses (FSB)</p> <p>George Anastasi, Senior Policy Manager, Finance and Leasing Association (FLA) (joining remotely)</p> <p>Harry Palmer, Policy Manager, UK Finance</p> <p>Liz Barclay, Small Business Commissioner (SBC) (joining remotely)</p> <p>Noyona Chundur, CEO, Consumer Council Northern Ireland (CCNI) (joining remotely)</p> <p>John Davies, Chairman, Association of Alternative Business Finance (AABF)</p> <p>Suren Thiru, Head of Economics, British Chambers of Commerce (BCC)</p> |

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| Apologies | <p>James Dalton, Director General Insurance Policy, Association of British Insurers (ABI), Richard Bearman, Managing Director, British Business Bank (BBB), Alexis Lay, Board member, Federation of Small Businesses (FSB)</p> |
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| Item | Agenda |
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| 1. | Welcome and introductions |
| 2. | Key updates from the Financial Ombudsman Service |
| 3. | SME casework, including pandemic-related projects |
| 4. | The impact of the current economic environment on small businesses and what it might mean for our future casework |
| 5. | Closing remarks and AOB |

1. Welcome

1.1 The chair welcomed attendees to the meeting.

2. Key updates from the Financial Ombudsman Service

- 2.1 The Financial Ombudsman Service gave an update on its Action Plan, which was published in December. This included some of the work already underway to change and improve, including:
- making significant progress to reduce the backlog, which is down from 90,000 to around 37,000;
 - developing the prevention strategy, communicating effectively with stakeholders on what we're seeing and our approach to prevent complaints arising;
 - building on existing relationships to ensure effective collaboration amongst regulatory partners on industry-wide issues, e.g through the recently launched Wider Implications process;
 - investing in digital capabilities, specifically a consumer portal and work on intelligent automation; and
 - restructuring casework teams by industry verticals – though keeping the existing arrangements for a dedicated specialist team for our SME work.
- 2.2 The Financial Ombudsman Service confirmed it will be publishing a Discussion Paper on its funding model during Q1 of the 2022/2023 financial year.

3. SME casework, including pandemic-related projects

- 3.1 The Financial Ombudsman Service provided a summary of what it has seen so far this year in its small business casework.
- 3.2 It explained that its SME team had closed almost 4,800 cases this year (1,700 of these being from 'small businesses' which came into the jurisdiction of the Financial Ombudsman Service from 1 April 2019), more than in the two previous years combined since it was set up.
- 3.3 The Financial Ombudsman Service provided a summary of what it has been seeing on complaints relating to the government-backed loan schemes in response to the Covid-19 pandemic. It explained that it had now received around 2,900 complaints, of which it had resolved about 2,200. The vast majority of complaints (over 94%) were about the Bounce Back Loan Scheme (BBLs), with most of the remainder being about the Coronavirus Business Interruption Loan Scheme (CBILs).
- 3.4 The Financial Ombudsman Service explained that the top three issues complained about in the last year in relation to these Schemes were declined applications (though the number of such complaints had fallen significantly from Q2 onwards, following the closure of the BBLs), loan terminations and problems with the administration of the loan. It said that it had received only a very small number of complaints so far relating to the borrower being in distressed circumstances or the recovery process used by a lender.
- 3.5 The Financial Ombudsman Service also provided a summary of what it has been seeing on complaints relating to Business Interruption Insurance (BII) in the context of the Covid-19 pandemic. It reported that it had now received around 3,900 complaints, of which it had resolved about 2,900. It said that uphold rates remain low overall. It also explained some of the current areas of legal uncertainty affecting this casework.

4. The impact of the current economic environment on small businesses and what it might mean for the Financial Ombudsman Service's future casework

- 4.1 The group discussed the cost of living crisis and how this will impact SMEs. The Financial Ombudsman Service confirmed that the issue was also discussed by the Chairs and CEOs of the regulatory family at their recent meeting.
- 4.2 The group made a number of observations, including:
- While collectively we may not be seeing many issues with arrears and loan recovery action now, it was likely the issues would start to manifest themselves later this year. Many small businesses had taken loans (e.g bounce-back loans) to provide a cash-flow cushion if needed, which they were now eating into to pay higher wage, energy and supply costs, and increased tax.
 - Rising costs could make many SMEs unviable, in particular due to the cumulative burden of these additional costs coming together at the same time.
 - As most small businesses are owner-managed, there is a knock-on effect which affects consumer markets as many business owners have cut the wage they pay themselves.
 - Noting the regional differences around the UK, with problems exacerbated in some regions, e.g due to greater problems with access to cash due to branch closures, and due to disproportionate effects on some industries.
 - The Financial Ombudsman Service is likely to see complaints about recoveries action from lenders (including against guarantors), international payments, access to basic commercial banking services for some sectors, and the availability of finance for customers deemed high-risk by the high-street lenders.

5. Closing remarks and AOB

- 5.1 The chair thanked the group for a useful discussion and closed the meeting.