Treasury Committee

Oral evidence: SME Lending, HC 204
Tuesday 10 June 2014

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Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Steve Baker, Stewart Hosie, Mr Andrew Love, Mr Pat McFadden, Mr Brooks Newmark, Jesse Norman, Mr David Ruffley

Questions 261 - 391

Witnesses: **Richard Pyman**, CEO, Shawbrook Bank, **Anders Bouvin**, UK CEO, Handelsbanken and **Martin Morrin**, Chair of the Asset-based Lending Association and Managing Director at RBS Invoice Finance, **Frances Coulson**, Managing & Client Services Partner, Moon Beever Solicitors, and **Prof. Mark Watson-Gandy**, Thirteen Old Square Chambers gave evidence.

Q261 Chair: Thank you very much for coming to give evidence to us this morning. Our experience in our constituencies is of a lot of small firms telling us that, if they can find finance at all, there is only one source of finance, if that. They are in an oligopoly or virtual local monopoly. I find this in Chichester. I was in Thurso a few weeks ago. By coincidence, there is a Member for Thurso who is not here today. John Thurso, believe it or not, represents Thurso. I had a meeting with 50 small businessmen of his up there. It is the same story. Why is this, should we put up with it and what can be done about it? Why don't I start with you, Mr Pyman, and then I will move to Mr Bouvin?

Richard Pyman: The principal reason for the perception of businesses that there is only a one-stop source of funding lies in a lack of awareness of the growth of alternatives. We feel that there is—certainly in the market that my institution is involved in—a growing element of competition, but I think the awareness of that functionality is not quite in place as yet. Certainly Anders will speak for his institution, but there are a number of challenger banks operating, who are not always providing the whole gamut of banking services but providing funding in specialist areas. Their appeal just needs to be more broadly understood.

Q**262** **Chair:** Okay. Do you agree with that, Mr Bouvin?

Anders Bouvin: I think our situations are a bit different here, as Mr Pyman indicated. Today we announced our 175th branch in the UK. Last year we opened 28 branches and since the beginning of the crisis we have opened 127 branches. We feel that when we open up in new communities across the UK, surprisingly enough, people know quite a lot about us and many have experience with us. Therefore, we get many referrals from day one I would say.

Q**263** **Chair:** Do either of you have any experience of dealing with the regulators for obtaining licences?

Richard Pyman: Not personally. Our institution began in 2011, so I know they went through change of control provisions and so on in 2010 and 2011.

Q**264** **Chair:** You do not have any idea whether that was smooth or difficult?

Richard Pyman: I believe quite properly it was a somewhat protracted process. I think they were quite a lot—

Chair: But a properly protracted process?

Richard Pyman: To the best of my understanding. I was not directly involved in it.

Q**265** **Chair:** Do either of you have any experience of the way regulators are treating competition now that it is an objective?

Anders Bouvin: It is probably a bit too early to be able to draw any firm conclusions. We have had positive dealings with the FCA and the PRA and they are keen to understand our model. I think they are very much aware of our track record, which is important to us. So I think it is a bit early to draw any more conclusions than that.

Q**266** **Jesse Norman:** If I could ask you, Mr Pyman. Obviously, in Herefordshire many small businesses are very short of capital, very short of lending. If they want to get that from your institution, how do they do it?

Richard Pyman: We have three areas of product that we offer to SMEs. One is in the area of commercial mortgages, which is accessed through a series of intermediaries and brokers that we deal with that are nationwide. We have a business providing asset finance. By that I mean equipment finance for hard assets, so vehicles, coaches, diggers, dumpers, plant and machinery. That sort of thing. We largely access those customers through direct sales force across the country. We have also recently announced the acquisition of an invoice finance business called Centric Commercial Finance, so our spectrum of products has grown in the last 10 days that we can offer to SMEs. Centric accesses its client base through a range of what they call key business introducers, by which I mean small corporate finance firms, small accountancy firms and also, in all of our businesses, by word of mouth, by reference from existing customers who have found the service to be helpful, swift and efficient.

Q**267** **Jesse Norman:** How do you assess the ability, quality, and willingness of the major banks to lend money into the small business market?

Richard Pyman: I would suggest that they are lending less to the small business community than they were pre the crash. There is also a sense that businesses are cautious about approaching the big banks. We believe there are a number of reasons for that, which we put in our evidence. They have a—

Q**268** **Jesse Norman:** They might get re-priced on all their facilities; that is one question.

Richard Pyman: Partly that. I think that there is a sense that there is very little delegated authority within the branches of the largest banks. There is a sense that they are cautious as to whether they will be talking to somebody within the local branches who really understands their business and is close to it. With some small businesses there is also a sense that they will be asked to move all of their banking business to a particular bank as a condition of getting what they want to get at, which is perhaps a mortgage, an invoice discounting facility or whatever it might be. In our business, we very much make it a virtue that we offer the product that the customer wants and we do not try to bag in a whole lot of others. We also try to ensure—and I think we are successful in this—that they are talking to somebody who has the authority to make the decision. I think it is fair to say that Anders would make similar comments about the Handelsbanken model, which addresses some of the same perceptions.

Q**269** **Jesse Norman:** Let me make a comment and then I will ask you perhaps to lead off on the questions that have been raised and also that. The comment is this. It is incredibly easy to sell mortgages because mortgages are well-defined products, but when you are dealing with small business lending you have to understand your credit.

Richard Pyman: Yes.

Jesse Norman: Isn't that a principal reason why the big banks have almost got out of the business, or not got out of it but have felt much more hesitant about staying in the business or extending themselves in the area of small business lending when that is what the lifeblood of the economy absolutely relies on? To you first, Mr Bouvin.

Anders Bouvin: Me, yes. The way our model in Handelsbanken is organised is that we have a devolved leadership model, where we fundamentally believe that decisions regarding customers—definitely including SMEs—should be taken by the people who are best placed in the organisation to understand their needs. That means we have accepted the consequence of that and have devolved powers to our branches and empowered our branch managers to take all decisions regarding their customers, including SMEs.

Q**270** **Jesse Norman:** How empowered are they, because obviously that is a complete antidote to the "computer says no" model?

Anders Bouvin: Yes, absolutely, they are fully empowered. Basically I would say all decisions are taken in the branch. If we are talking about very large credit, that might need a second signature but that credit cannot be approved unless the branch manager has said yes and is prepared to take the risk.

Q**271** **Jesse Norman:** How large is large, when you say a second signature?

Anders Bouvin: Basically I would say 90% or so of SMEs' needs can be catered straight away by the branch manager.

Q**272** **Jesse Norman:** What you would say is to go to your recently opened new branch in Hereford and talk to the manager there. That is your line to SMEs in my constituency?

Anders Bouvin: Yes, I think so. Since we take customer satisfaction very seriously, and it is the cornerstone on which the bank is built, I would like to add that there are no targets set from the centre, whatsoever, towards the branches to sell products, nor to achieve certain lending. It is all about establishing relationships with customers—we have a long-term view in Handelsbanken—and then empowering the people who are best suited, i.e. local people, to take all decisions regarding the customers.

Q**273** **Jesse Norman:** What are your long-term expansion plans for Handelsbanken?

Anders Bouvin: One thing we do not do in the bank is set absolute targets and try to predict the future. As I mentioned, today we announced our 175th branch and we grow branch by branch, customer by customer. We have no set target regarding how many branches we intend to open over any period of time.

Q**274** **Jesse Norman:** That is very coy. Do you see a large market opportunity for you or a small one?

Anders Bouvin: I think so, absolutely. The evidence that I have given of how many branches we have opened points in that direction. Without any doubt, the UK is Handelsbanken's most important growth market. I would like to point out we have been here since 1982 but over the last couple of years the expansion has really picked up. I believe that there are still very many opportunities for us to continue to grow in this country.

Q**275** **Chair:** How many branches do you plan to have in five years' time? Most businesses have a five-year view, 10 is too far but most have a five-year view.

Anders Bouvin: Mr Chairman, as I said, we do not engage in that kind of fixed planning so I do not really know. It is all about doing the right thing, not just when you do it but also in the long term. It is all about finding the right people and doing things in a proper way.

Chair: All right. As you said, Jesse, that is somewhat coy.

Q**276** **Stewart Hosie:** Can I welcome what you have both said? People in branches have the authority to take decisions. The Handelsbanken model is a devolved decision-making model. That sounds extremely good and I am sure will be very welcome to our constituents. Mr Bouvin, *The Independen*t did note that your customers need to be, and I am quoting this, "Pretty well heeled or have decent financial prospects". To what extent is your expansion driven by simply taking the best customers from elsewhere, rather than necessarily lending to businesses or individuals who might find it more difficult to get credit?

Anders Bouvin: All business is local, as I have mentioned. We have 175 branches across the UK in a variety of communities from Morpeth and Ilkley to central London. The business we do reflects that footprint in the UK. What we seek to do is locally engage and do business with customers who we want to form a long-term relationship with and who wish to have a bank that has this long-term perspective. We do not want to engage in the boom and bust, the in and out. We want to have a long-term bank, a stable bank, and therefore we have to run the bank in a prudent way. We are looking for those kinds of customers. I must say that in many cases the customers come to us because of our values. They can relate to those values themselves, especially SMEs I would say. If you look across the UK, we have a large variety of customers of all kinds and many of them have been refused by the high street banks.

Q**277** **Stewart Hosie:** A long-term plan is good, long-term stability is good, never engaging in activities that would lead to boom and bust are good.

Anders Bouvin: Yes.

Stewart Hosie: So would you reject the assertion made that you are simply taking the best customers from elsewhere?

Anders Bouvin: As I said, many of the customers who move their business to Handelsbanken have already been rejected by other banks.

Q**278** **Stewart Hosie:** Thank you. That is helpful. Mr Pyman, you note that your risk appetite does not extend to higher risk areas, so let me ask you the same question. Does that fundamentally mean the same thing, that you are taking what are the best customers from elsewhere rather than necessarily opening the door to those who might find it more difficult?

Richard Pyman: We are also picking up customers who have been either turned away by the clearers, which would suggest the opposite. In addition, we are picking up customers who are concerned about approaching clearers for the reasons that I gave earlier, but also because of the sense that it might be a protracted process. One of the great benefits of a decentralised model, in terms of credit approvals, is that you can turn things round quickly for people. If you are a small business that has just won a new order and needs a new piece of equipment and you need it on site in two days, there is value for you in a bank that is prepared to turn the decision round within a couple of days or sooner. That is the model that we have established. I do not think that we are just creaming off the best customers by any means. We do carefully select the business areas, which I mentioned earlier, which we are expert in and which we really understand. We are not trying to be all things to all men.

Q**279** **Stewart Hosie:** Are the clearing banks turning down business that they could get a real return from, that they could generate real value from, if you are now picking them up and being perfectly happy with them with the strict conditions you have?

Richard Pyman: Speaking for my institution, the evidence is there in terms of our growth. If you look at our overall numbers, we ended last year with loans to customers of £1.4 billion. We are aiming to get to about £2.5 billion by the end of this year. You might say that is only a very small item in the context of the overall economy, but it is nonetheless a reasonable contribution towards the lending. The fact that we can achieve that growth within our risk appetite parameters of not wishing to lend at the higher risk end of the spectrum, suggests that the answer to your question is yes.

Q**280** **Stewart Hosie:** Mr Bouvin, the same question to you: do you think the major clearing banks are turning away good business based on strange decision-making?

Anders Bouvin: It is well reported that for many banks it has not been business as usual these last couple of years. If that is the reason why they might have turned down perfectly viable propositions I would not know. As I said, we have increased our lending to SMEs since 2010 by 86%, £3.2 billion to £7 billion. We see lots of opportunities in this area and it has been one of the fastest growing areas for Handelsbanken.

Q**281** **Stewart Hosie:** That is very helpful. Just one final question to you, Mr Pyman. When you mentioned risk appetite you said it does not extend to high-risk areas, but you said some of your peers do that and you have been surprised by the extent of this. What did you mean by that?

Richard Pyman: What I meant was that I had been a little bit surprised that, for example, some competitors had increased their loan to value criteria in respect of property. It has been quite well trailed that property values have been rising materially, certainly in some parts of the southeast and London. We have sought to stick to our guns in terms of not pushing our risk appetite any further while other competitors have taken a different stance, which they are entirely entitled to do.

Q**282** **Stewart Hosie:** Just one final question: will your shareholders eventually put you under pressure in that regard?

Richard Pyman: No.

Stewart Hosie: Thank you.

Q**283** **Chair:** What proportion of your business are rejects from other banks? You must ask them.

Richard Pyman: I am afraid I do not know the answer to that.

Q**284** **Chair:** Could you give it to us?

Richard Pyman: Yes, sure.

Q**285** **Chair:** Mr Bouvin, same question?

Anders Bouvin: No, I do not have an exact number either.

Q**286** **Chair:** Could you come back to us?

Anders Bouvin: Sure, we can try to find that number.

Chair: Because I am sure that your team will be asking. Steve Baker has a quick question and then Andy Love.

Q**287** **Steve Baker:** Just picking up on some of the things that have been said, to what extent do you feel under political pressure in your business to undertake riskier lending than you might otherwise?

Anders Bouvin: On my behalf, none at all. We are growing as fast as we can and the bank is stronger than ever, so there are absolutely no growth restraints within Handelsbanken. I think our track record regarding our growth so far evidences that.

Q**288** **Steve Baker:** If I may on that growth and the prudence of it, what proportion of your lending, particularly Handelsbanken—I should say I am one of your customers as well—is related to property?

Anders Bouvin: I would say about 60% to 65%.

Q**289** **Steve Baker:** Of the proportion that is not related to property—so the rest of it—what proportion of that would be syndicated lending to large businesses?

Anders Bouvin: Quite little. As regards property, there could very well be SMEs where we have bricks and mortar as collateral but syndicated very little.

Q**290** **Mr Love:** If I could ask you both about the Funding for Lending Scheme. Mr Pyman, your organisation is eligible for nearly £2 billion under the Funding for Lending extension, yet you have not spent any of that in the first quarter. Why?

Richard Pyman: We do participate in the Funding for Lending Scheme within our commercial property business to a relatively modest extent, and very shortly we are going to be participating with regard to our asset finance business. We were perhaps the first institution whose asset finance collateral became eligible for the Funding for Lending Scheme under the Bank of England. We are enthusiastic about the Funding for Lending Scheme. We think it is helpful. We think it has been a positive influence. We think the influence is somewhat diminished by two factors: first, it is a somewhat protracted process to gain approval for your assets, for your collateral to go in and be diligenced by the various Bank of England diligence teams and lawyers and so on; secondly, the advance ratio that you receive against that collateral is relatively modest and the level of over-collateralisation is very strong. As a consequence, the amount that can be borrowed against the pool of receivables that you proffer as collateral is lower. That is not to say that overall we don't think it is a good thing and hasn't been beneficial, but I just make those two points as they chime in with our experience.

Q**291** **Mr Love:** I want to come back to that, but let me ask Mr Bouvin. You do not participate in the Funding for Lending Scheme at all, yet you have had a massive increase in lending to small businesses?

Anders Bouvin: Correct.

Q**292** **Mr Love:** That does not seem to match. Why no involvement in Funding for Lending?

Anders Bouvin: If I start with the last question first. In Handelsbanken we believe that it is correct and good business to manage the bank in a way so we can remain independent both from Government support, taxpayer support, as well as extra support from our shareholders. We believe that gives us many competitive advantages managing a bank and running a bank in a prudent way. Therefore, during this financial crisis we have not had to receive any form of support either from shareholders or Governments, or had to dispose of any assets. On the contrary, we have continued to build capital and liquidity during this period of time and if we look at the bank today we are stronger than ever. So being independent and self-sufficient we believe is very important.

I would like to add that these types of schemes all have a start date and an end date, and our horizon is much longer than that. Our horizon is to establish relationships with customers and support them forever. We would not change anything in what we do because there happened to be a window of cheap money or a window of support. Our credit policy would not change, and we would not lend money based on the fact that we had an opportunity to have some cheaper money because that would go against the fundamental values. As you said, nevertheless, since the Funding for Lending Scheme was introduced, we have provided net lending for over £2.8 billion, which would put us in fifth position of all institutions' net lending increases over this period of time, including the ones that subscribe to Funding for Lending. So our growth is not in any way dependent on any of these schemes.

Q**293** **Mr Love:** It would seem your objection is a matter of principle and also the practicality of when the scheme may end; it may end sooner rather than later. Are there any changes to Funding for Lending that would make it more attractive, or is it an in principle decision?

Anders Bouvin: Lending is not a bottleneck in Handelsbanken. As I say, we have a common tier 1 ratio of 19.5%, a capital base of 24.5%. We are one of the strongest banks in the world, so that would not change anything. A matter of principle, perhaps, but I would also say a business reason. We see a business advantage in being independent, being able to stand on our own legs when it comes to our funding. During this most recent financial crisis, Handelsbanken has been able to fund itself cheaper than almost any bank in the world. In a certain period of time when international capital markets, as such, have been closed, Handelsbanken is one of the few banks who have been able to open it.

So we can see business advantages when it comes to our own funding. One basis point's cheaper funding for Handelsbanken equates to about £12 million in profit, so it is good business to run a bank prudently and in a way so investors are reassured that you do not need support either from them or from Governments.

Q**294** **Mr Love:** Mr Pyman, you mentioned about the bureaucracy of the Funding for Lending Scheme. We will park that to the side. You touched upon concerns you had about the way it operated. Are there any changes that would make it more attractive to you?

Richard Pyman: I would not want to overplay the point because I think it is a helpful contributor, as I have said. As I have also explained, the level of over-collateralisation that is required for the Funding for Lending Scheme is pretty gold-plated. Were a more realistic level set closer to what I would call an ordinary AAA rated level, rather than a quadruple or quintuple A level, that would clearly make it more attractive.

If I could come back on one point that you made earlier as well, in terms of the overall availability to a bank like us of FLS. It would never be the right thing for us to do—or within the remit of what the regulators would want—to encumber a high proportion of our balance sheet with the FLS. We would only wish to encumber a small proportion of it because, quite prudently, there are encumbrance limits that are set so that the depositors are not disadvantaged relative to other creditors under the Funding for Lending Scheme.

Q**295** **Mr Love:** What sort of proportion would that be?

Richard Pyman: Perhaps 15% or 20%, something of that order. That is why we are talking about the sort of numbers that we are talking about now. We might be up to a couple of hundred million pounds or £250 million in due course under Funding for Lending but on an overall balance sheet that is trending towards £2.5 billion to £3 billion, that sort of thing.

Q**296** **Mr Love:** Mr Bouvin, let me ask you a question that would occur perhaps to one of your SME customers. If you could access Funding for Lending and make the terms and conditions of the loan more attractive to SMEs, why is that not good for business?

Anders Bouvin: Because, again, we do not think that is the case. We have access to very good funding sources, in a relative perspective very cheap funding sources, and—

Mr Love: As cheap as Funding for Lending?

Anders Bouvin: Yes, I would say in most cases, absolutely.

Q**297** **Mr Newmark:** Richard, in your submission you noted two barriers to obtaining credit from large clearing banks: the fact that SMEs are not talking to people who understand their business, and the second one was lack of delegated authority to make decisions. How does this restrict credit to SMEs?

Richard Pyman: As I mentioned earlier, I think that SMEs want access to funding when they want it and they want it relatively quickly. The sense that if they talk to the old, very large banks and they have to go through a very elaborate process before they are approved puts them off. It gives them a concern that they might be explaining themselves to the person who is sitting in front of them but that person does not have any signing authority. Therefore, first, the concern is that the message will be lost up the line; and secondly, the concern will be that by the time the answer comes back from the bank the business opportunity will have gone. The way we try to address that is to give authority to those in the field. We have senior, experienced people who understand the business model of the SME, who understand the equipment they are lending against or the asset they are lending against and understand the contract that the individual business is about to enter into, and they are empowered to make a degree of decisions there and then. As Anders has said, where they require a second signature in his model, it can be dealt with swiftly and quickly with a minimum of bureaucracy.

Q**298** **Mr Newmark:** You talk about local empowerment, but what challenges do you face when giving local staff the power to make credit decisions, for example, staff training and inconsistency between branches, or does inconsistency not really matter as it is more personalised? How do you deal with those challenges?

Richard Pyman: No, that is fine. We do not have branches, per se, but the way we deal with it is that for products we have careful criteria. We have boundaries within which we will lend and boundaries outside which we will not stray. Therefore, we and the board can be comfortable that the people who are exercising their delegated powers are doing so within a controlled environment.

Q**299** **Mr Newmark:** Anders, local empowerment has been described as core to your philosophy. I have to say I am not a customer of yours but certainly from my constituents' standpoint you guys seem to be doing a good job. In what way does Handelsbanken empower local staff, if it is different from Richard's, and what decisions are made locally that would be made nationally in an incumbent bank?

Anders Bouvin: Let me describe what would happen—take you through a journey—if you were to become a customer of Handelsbanken. First of all, you would have to visit your local branch and in that branch you would meet people who come from your local community. The chances are you will know at least some of them or know a bit about them. These people in our branch, my colleagues, are then empowered to take all decisions regarding customers. What will happen is that we will have a conversation—the famous Handelsbanken cup of coffee—and bear in mind that there are no sales targets set, there are no product targets, there are no volume targets. It is all about understanding the customer, the customer's conditions and the customer's needs.

Once there has been an agreement to do business and to move the accounts across, the same people you have met will do the paperwork. Of course, in many other organisations that will be sent to a central processing centre, with all the risks associated with that from a customer point of view. Once the documentation has been completed, you continue to be serviced again by the same people in your local branch. We do not have call centres because customers do not like them. They like to be recognised and to be well known. I think from the customers' point of view we differ quite a lot from many of the alternatives.

Q**300** **Mr Newmark:** It sounds to me like you are not that worried about what I call inconsistency between branches—sorry, that question was meant to be directed to you, not to you, Richard—because of the personalised nature of credit decisions. You say you personalise and it is not centralised, but is there any form of automatic credit scoring that does come down from the top within your organisation? My other question is: how do localised credit decisions allow you to lend to businesses that larger banks might otherwise reject?

Anders Bouvin: First of all, one thing that is not decentralised in Handelsbanken is the credit policy. That is the same all over the bank.

Q**301** **Mr Newmark:** But do you use a point-scoring system or not?

Anders Bouvin: No, we do not use credit scoring whatsoever. As I explained, it is all about getting a full understanding of a customer's business. Every single SME customer, basically every customer we welcome to the bank, we have physical meetings with where we sit down and get to know each other. From that point of view, we have a very good understanding of the customer and what the customer needs and wants through that process.

Q**302** **Mr Newmark:** So if I was doing a case study of the way you approach business versus the way the big banks do business, it may be too early to tell but do you reckon that with respect to actual losses that happen as opposed to estimated losses, you guys would be doing better than the big banks because it is more personalised?

Anders Bouvin: I think that is definitely the case and we have the track record that could indicate that. If we look back in time—and I think we can go quite far back—we have consistently had lower loan losses than our competitors.

Q**303** **Mr Newmark:** Richard, Shawbrook has previously said that customers are coming to Shawbrook for genuine human interaction in the process of applying for a loan, which I think you talked about earlier.

Given your emphasis on selling business products through brokers, does this also apply to your SME loans?

Richard Pyman: It does. As I explained, with the commercial mortgage business we operate that through brokers but we also treat all the customers as though they were our own customers as well. We meet them and we have the same interaction that Anders described with his business. We get close to the underlying asset. We get close to the underlying business. With regard to the asset finance side and the invoice discounting side, the relationship is absolutely key. Many of the customers that we have had within those businesses have been with us for more than 10 years. A lot of the business that we write every month is repeat business from the same customers who keep coming back to us. The evidence would suggest that the personal interface goes down well. I would also endorse what Anders said earlier about asset quality as well. The people you know best, who have not let you down in the past, tend to be the best credit risks in our experience. The time invested in getting to know them and transacting with them over a period is very well, spent because when they want to do something quickly to increase your exposure with them you are in a good position to back them for it.

Q**304** **Mr Newmark:** Your previous CEO criticised automatic bank credit system scoring, likening them to a sausage mill that will either say "yes" or "no". Do you share this view and, if so, why?

Richard Pyman: I certainly share the implication of what he is saying, which is that a personal interface is very important. There is a base level at which certain credit scoring information can be helpful in suggesting what is an appropriate target market, which can then be addressed in a human way.

Q**305** **Mr Newmark:** Is this a big gap in the market that you are filling in now, this whole personalised approach?

Richard Pyman: I think it is.

Q**306** **Mr Newmark:** All the banks I seem to be speaking to nowadays keep telling me they all have a personalised approach now to whatever they are doing.

Richard Pyman: Yes. I think it is a good-sized opportunity. A number of our peers—and we are a much smaller institution clearly than Anders' institution—are expanding at a steady speed and progressing satisfactorily. That would suggest that there is a gap in the market and that we are filling it. As I said earlier, we would not make exaggerated claims about our impact; £2.5 billion by the end of this year is a nice contribution but it is not gold.

Q**307** **Mr Newmark:** I can see the Chairman is getting agitated on my left, so my final question: when you do something personalised, by definition—as a person who was in business for 20 years—is that more expensive?

Richard Pyman: Yes.

Mr Newmark: As opposed to the generic credit scoring system, do you find personalised customer service is more expensive for you and is this ultimately reflected in the cost of capital to your customers?

Richard Pyman: To a very small extent, yes. But I would argue that the speed and certainty of decision-making for a business are very important. I would argue that they are more important than the very modest differential it makes.

Anders Bouvin: I think it is a bit of a myth that in order to be cost efficient you have to centralise. When I described the sequence of a customer becoming a customer of Handelsbanken you notice that everything goes on in the branch. There is no transfer of information and there is nothing lost in the mail. The high level of empowerment means we can keep head offices to a minimum. Our cost/income ratio, which is a ratio often used in the industry, is just over 45%. That means for every pound we earn we spend 45 pence. We would struggle to find any bank with such a high degree of efficiency.

Q**308** **Mr Newmark:** Just quickly going back to Richard's point, as long as the customer gets a speedy answer and you are transparent about the extra costs they incur, do you find that in order to deliver a more personalised form of financing there is an extra cost attributed to that? Again, is that passed on to the customer and does the customer not mind?

Anders Bouvin: You can answer that fairly easily. In order for us to grow and do more business and win more customers, we have to be competitive. Then it is all about being efficient so you have low costs, which means that gives you better opportunities to compete.

Q**309** **Chair:** Is the so-called crisis in SME lending over?

Anders Bouvin: I can only again speak for Handelsbanken and we see lots of opportunities.

Chair: So it is not over?

Anders Bouvin: I would not be able to pass a judgment on the other banks and what is going on there.

Q**310** **Chair:** Why is it that the big banks got this so wrong where, when you asked them this question, "Why did you get rid of Captain Mainwaring?" they concluded, "It is because, whether we liked it or not, credit scoring based on algorithms gave us a higher return than the very labour-intensive alternative".

Anders Bouvin: All I can say is that we have our way of running our bank, Handelsbanken. We have consistently had the highest levels of customer satisfaction since independent surveys of the kind have been made. We have one financial target and that is having a higher return on equity than the average of our peers. We have had that for 42 consecutive years and, as I mentioned before, we had lower costs compared to our income than most banks and a history of very low credit losses.

Chair: It is not the question I asked, but anyway it is all very interesting.

Anders Bouvin: No, so we have our model and then I am not the one to pass judgment on the other models.

Chair: Do you want to add anything, Mr Pyman, and then it will be Pat McFadden? Pat McFadden.

Q**311** **Mr McFadden:** I would just like to ask you a couple of questions about the business model of challenger banks, beginning with you, Mr Bouvin. There is an awful lot of controversy about bonuses in the banking system and you operate a very different model of a very, very long-term pooled scheme. We have European legislation on this now trying to limit bonuses. We have a stream of witnesses from the banking world, and indeed the regulatory world, who come in here and tell us that trying to limit bonuses in the way the European Union wants to is a bad idea because it will put up fixed pay. You have adopted a very different model. What is your view of this argument?

Anders Bouvin: We decided to do away with bonuses in Handelsbanken about 40 years ago because our view is we do not believe that bonuses suit a model like ours. We do not want to have any kind of steering mechanisms in the bank that could encourage an employee of the bank to put their own pocket interest before what is best for the customers. This is the same reason why we do not have product targets. We do not want to put ourselves into a position where we would sell a product that a customer does not need. Bonuses simply do not suit us.

Then, of course, we have the added reason that basically what banks deal with is risk and the business we do is taking on risk. We believe the combination of having short-term targets and taking on long-term risk is not suitable. That is the reason why we do not have bonuses or product targets in Handelsbanken.

What we do have—as you alluded to—is a profit-sharing scheme for our staff. Simply expressed, that is, if we reach our only financial target of having a return on equity that is higher than our peers, a part of that surplus profit is allocated to the staff. That allocation is the same for everyone in absolute terms. Everyone gets the same amount. It is the pot of money divided by the number of staff; it is that simple. Those funds go to a foundation held by the staff and is over 90% invested in Handelsbanken shares. You cannot access the funds until you turn 60. This scheme works very much in sync with the values of the bank because it encourages long-termism, it encourages taking good care of your customer, and it encourages managing the bank prudently and in a cost-efficient way.

Q**312** **Mr McFadden:** Why are you right and the rest are all wrong? Why are they so addicted to a model that has a substantial degree of remuneration in the form of a contingent basis, or a deferred basis or some kind of basis that is not fixed pay? You have adopted a very, very different approach, yet the bigger banks are completely addicted to this and lobbying Governments furiously about it. Why are they wrong if what you are saying is right?

Richard Pyman: From our perspective, we operate a traditional sort of savings and loan model; so variable pay. While we have a different model from Anders, it is a small percentage of our total remuneration package. We obviously have to pay the market rate across the board to get good people into the bank.

Q**313** **Mr McFadden:** Does that mean you have higher fixed pay then?

Richard Pyman: No, I think our fixed pay would be broadly in line with our competitors. We do not try to be an outlier at either end, but we do not participate in any of the more esoteric or exotic areas that a lot of these debates have centred around. We are just a straightforward—

Q**314** **Mr McFadden:** To take an example of a big, well-known bank, RBS recently asked the Chancellor if they could pay bonuses of more than the equivalent of 100% of salary. The Chancellor said no—not surprisingly—given what the public reaction to that would have been. You said you keep aside a small percentage. That would be a lot less than 100% of salary?

Richard Pyman: Oh, very much so, yes.

Anders Bouvin: If I may add on the bonus issue. We have recruited a lot of people since the beginning of the financial crisis. We recruited 1,200 and I would say the vast majority—not everyone—come from a bonus environment. Our experience is that when we arrive at the stage where a decision has to be taken about this individual joining the bank, I must say the bonus issue is not on the agenda. I think a lot of people feel that the target set for achieving a bonus is something that most people would rather not have because there are obligations linked with the bonus. Many people want to get away from that environment altogether and instead be empowered to do the right thing in the long run for the customers that they know best locally. The bonus thing really does not come into play very much at all when we finally sit down and recruit people.

Q**315** **Mr McFadden:** It is very interesting for us to hear that because we are constantly told that, in the global war for talent, unless the UK has a regulatory regime that allows the payment of these bonuses everybody is going to leave and go to Singapore or New York or somewhere else. You appear to be saying the opposite. If I can ask you one other thing about your business model, which is the question of branches. I will start with you again, Mr Bouvin. You are opening branches at quite a quick rate, every fortnight or so.

Anders Bouvin: Yes, last year we opened 28 branches, which equates to roughly every 10th banking day.

Q**316** **Mr McFadden:** A lot of big banks are closing branches. In fact, this Committee is starting to receive petitions from members of the public objecting to the closure of this branch or that branch. I suspect this is going to accelerate in the next few years as the major banks reduce the size of their branch network. What is it that has attracted Handelsbanken to expansion through branches rather than through the mechanisms that some other new entrants or challenger banks have adopted such as technology-driven expansion?

Anders Bouvin: In Handelsbanken we fundamentally believe that it is good business to build a bank around what customers want you to do. If we ask customers, they appreciate our branches and especially they appreciate a local branch that is empowered to take decisions regarding themselves and where the service is done. That is why in Handelsbanken the branch is the bank, when I think perhaps in other banks or organisations the branches are more distribution centres. It is completely different again.

Q**317** **Mr McFadden:** Does what you are saying apply to personal savers as much as SME customers?

Anders Bouvin: Yes. All customers, within a defined geographic patch where the branch is, bank with their local bank. We call that the church spire principle in Handelsbanken. You should not do business over a larger geographical area than you can view from the top of your local church spire. It is truly community-based banking. The models are completely different and, therefore, the view on branches is completely different. In order to compete and to be able to service your customers in a proper way, you have to have the same technology as everyone else, but it is very hard to differentiate yourself on technology, because if anyone comes up with anything new in technology it will be copied within six months. You have to have it. It is a must. It is a supplement to branches. We fundamentally believe that you cannot replace branches by technology. Customers must have a choice. If they want to do something on the app, that is fine, it is their choice. If they want to meet the local branch, because they want to open a savings account for their granddaughter or something or they need a mortgage, then it should be their choice, too. They should be able to get a proper service locally.

Q**318** **Mr McFadden:** Mr Pyman, I will let you close with this. Is the future the branch or the app or both?

Richard Pyman: From our perspective we have gone down the technology-driven road—to use your language—but our distribution model is largely through intermediaries and through direct distribution channels, our direct sales force around the country. To be perfectly candid, we are not really big enough to start opening branches all over the place. We have a lot of confidence in our existing model and it works very effectively for us. We are a bank with just under £200 million of capital. We have to deploy that capital carefully. The opening of branches for an institution of Anders' size is something that is more feasible than it is for us, but we are enthusiastic about the model and the distribution model that we have chosen.

Chair: Jesse Norman has a rejoinder.

Q**319** **Jesse Norman:** A quick observation and a question. The observation is that the irony is that many of these banks that attempt to centralise in order to cut costs have some of the higher cost models in the industry. I just leave that for you. Also, the further thought—actually, it is a question—to what extent do these other banks run in the interests of their shareholders or the interests of their employees? Perhaps that accounts for why their costs are so high in part.

Richard Pyman: I cannot speak for the other banks; I can only speak for ourselves. The perimeter within our bank and for our board is obviously the customers, the regulator, the shareholders and the staff, and you have to try to keep a balance.

Q**320** **Jesse Norman:** How about you, Anders? How about a bit of plain Swedish speaking?

Anders Bouvin: I think that customers' and shareholders' interests should be aligned. If we look at the shareholders of Handelsbanken, they have all bought into this very long-term model based on customer satisfaction as a good way to run the business. I think they go together.

Q**321** **Jesse Norman:** That raises the question as to how you can make money, given that you do not sweat your balance sheet as much as your competitors.

Anders Bouvin: I think it is quite simple. The reason why Handelsbanken so far has been financially successful is we have a model that customers appreciate. That allows us to work the way I have been describing, so I think it all boils down to the model.

Q**322** **Jesse Norman:** Customer satisfaction essentially subsidises a higher cost of capital or a model that does not chase yield, put it that way?

Anders Bouvin: There is nothing that can substitute for customer satisfaction when it comes to running a profitable bank long term.

Chair: Very interesting evidence. Anything else you want to add, Mr Pyman? Thank you very much indeed. We will move straight on to the next session.

Examination of Witnesses

Witnesses: **Professor Mark Watson-Gandy**, Thirteen Old Square Chambers, **Frances Coulson**, Managing & Client Services Partner, Moon Beever Solicitors, and **Martin Morrin**, Chair, Asset-Based Finance Association and Managing Director at RBS Invoice Finance, gave evidence.

Q**323** **Chair:** Thank you very much for coming in. Perhaps I will begin with a nice, straightforward question and just go through the three of you. Why do we need an asset-based finance market, Mr Morrin?

Martin Morrin: I think we need an asset-based finance market because of its specialist skills. If you look specifically at the nature of invoice finance, be that factoring or invoice discounting, I guess our specialist skills are borne out of working really closely with businesses, understanding those businesses, understanding the fundamentals of the nature of the business that they are in, the contracts that underpin their invoices and their sales and our ability to then fund those invoices, which can be up to as much as 90% to 95% of an invoice. Generally, if you look at other forms of lending where it is typically secured lending, they will look at the assets on the balance sheet. If you take sales or invoices as an example, that would probably be closer to 50%, 60% or perhaps in some situations a 70% advance. The additional funding that we generate is often really important to businesses.

Professor Watson-Gandy: I think the answer is this. It is always healthy to build alternatives into a market, especially one involving a particular niche. It is also important to look after asset-based lending because it addresses the particular needs of business in terms of cash flow. One of the problems that companies have is trying to address the issue of cash flow when you are trying—

Q**324** **Chair:** If they try to use short-term overdraft facilities, they are often taken to the cleaners by the major banks, aren't they?

Professor Watson-Gandy: Indeed.

Q**325** **Chair:** You are offering an alternative. Is that the reason that asset-based finance is—

Professor Watson-Gandy: I am not in asset-based finance.

Chair: You are not in the market, but is this the reason that the market has some vibrancy or some scope?

Professor Watson-Gandy: Well, the reason the market has particular vibrancy at the moment is because it has come in as an alternative to secured finance based on fixed charges.

Q**326** **Chair:** In a market that has been dysfunctional?

Professor Watson-Gandy: Yes.

Q**327** **Chair:** Okay. Frances Coulson?

Frances Coulson: Yes, I agree that asset-based lending is very important, particularly for the SME sector. Small businesses quite often will not have a large fixed asset base and they live on cash flow. They are also quite often the subject of slower payment, perhaps, by customers, so I think it is an important area. My concern would be that people understand what the options are, that things are explained to them in plain English, and that they understand what the downsides might be if anything goes wrong.

Chair: We might go into those in a moment.

Q**328** **Steve Baker:** Is a willingness to pay the fees associated with invoice financing a sign that a company is getting itself into trouble?

Frances Coulson: No. I don't think necessarily that it is a sign that it is getting into trouble. As I say, if you do not have a large fixed asset base, then your options are a little bit low. Also, the problem that you see for SMEs—as was said by the previous witnesses—is the speed of decision-making. A small overdraft, which they may need for a short period of time to ease cash flow, can take a very long time for the larger banks to get it approved and to get in place and they do not have time.

Q**329** **Steve Baker:** You do not think there is a connection between being willing to use invoice financing and a firm getting to the point where it is going to go insolvent?

Frances Coulson: I do not think it is a corollary. It can happen but I do not think it is a natural corollary.

Q**330** **Steve Baker:** Could I ask the other panellists, what would you say accounts for businesses' wariness when they find a supplier is using invoice finance?

Martin Morrin: I think there are two aspects to that. If you look at factoring, which is a product that is provided, which is a credit management service as well as a funding service, then the buyers of that client, that supplier, their attitude can vary. It depends in part how effective the credit control function may have been in that SME business. If it was not something that was structured and effective, then the professional approach of a factoring company to bring more rigour around asking for payment on time does not always receive a warm welcome. Therefore, I guess you can have a negative comment associated with that service as opposed to something that is positive. At the end of the day, nobody is asking those buyers to pay any sooner or any more than what is due and on time.

In my experience in looking across the members of the Asset-Based Finance Association, there are far more businesses who come to invoice finance to grow their business, not to save their business, if I can put it like that. I think it is also important that we look at situations where a business for whatever reason has got into difficulty—it may be struggling to achieve a form of finance, perhaps even its preferred form of finance—and invoice finance, the factoring of invoice discounting, may be the best solution for them. Quite often what you find is that those businesses who use invoice finance, their experience and their outlook afterwards is much more positive and they become advocates of the product as opposed to detractors.

Q**331** **Steve Baker:** I understand the *Financial Times* has said that some SMEs are penalised as potential bad risks. Is that accurate?

Martin Morrin: I do not know precisely what is meant by “penalised”. If you go back to the principles of what we do, the fundamental starting point is that, before any member of the ABFA provides a facility to a client, they start by visiting that business. Generally they will conduct what we call a survey. That will be independent of the person who conducted the first visit. That will go through an assessment of: what are the needs, can the actual supplier meet those needs and, therefore, how we take that forward? They will have an offer letter that will set out the terms and conditions. They will generally stay in place. In the experience of the ABFA, if there are any penalties it generally comes into where there are breaches of the contract as opposed to normal functionality of the contract.

Professor Watson-Gandy: There is also the factor that you have changed the lending package, that you have ring-fenced part of the security that was available.

Q**332** **Steve Baker:** Okay, thank you. Is there something that needs to be done to change perceptions of factoring specifically?

Martin Morrin: There are things that need to be done to change the perceptions of factoring because I think factoring has a less than good reputation—if I can put it like that—and in many situations undeservedly so. As an industry, it is up to the ABFA to work with its members to promote the product. In that promotion, we need to use a simplified language. We also need to distinguish between what is factoring, what is invoice discounting and what is asset-based lending. We also need to work with a wider stakeholder group, particularly when I look at the professional community, when I look at accountants and I look at the teachings that are rooted in some of those areas. They are probably more relevant to what was happening 20 to 25 years ago than they are today.

Q**333** **Steve Baker:** Is technology a factor in how things have changed?

Martin Morrin: I think technology is aiding the provision of service. Most of the ABFA members—if not all of them—will have an online capability, but I would say the most recent developments come in the translation of invoices and the transmission of data between the factor and its client. More recently, we have seen the development of the online platforms, which I think is a good step forward. That will create choice and it will also create competition.

Q**334** **Steve Baker:** Mr Morrin, can I ask you specifically about allegations of poor practice? In the past, asset-based lending brokers have been accused of poor practice; for example, targeting struggling firms—which is what I was indicating earlier—with the intention of profiting from their collapse. What proportion of asset-based lending is done through a broker and what responsibility do asset-based lenders have when they are choosing a broker?

Martin Morrin: I do not have the precise details of what proportion of business is done through brokers, because that is not data that the ABFA yet gather but it may be data that we will gather in the future. When you look at brokers, they also provide a service in bringing more parties to the table in terms of creating competition. If there are specific cases where brokers target businesses that are not going to be in a position to trade out of their particular predicament and if that is very obvious, then no member of the ABFA or, indeed, anybody should be targeting those businesses or benefiting from their misfortune. That is why the ABFA has set out very clear guidance in its code in relation to this.

We do have a challenge that the ABFA has to deal with. As a trade association, we are bound by the Competition Act and, therefore, how prescriptive we can be. The structure for guiding members, in terms of what specific business they can do, is not an area that we can at this point in time deal with, but it is something that is on the agenda of the Professional Standards Council for the second half of this year to look at that specific area. We have taken some advice on what the ABFA can do in terms of providing guidance and setting some rules.

Q**335** **Steve Baker:** Could I ask you, do you think brokers ought to be among your members?

Martin Morrin: We don't have brokers as members but we do—

Professor Watson-Gandy: There is an association that deals with finance brokers.

Q**336** **Steve Baker:** If a business is out there and it is having difficulty with brokers—and therefore I should think lenders have a problem in there as well—where should they be going for help? If a business in my constituency has a problem with its invoice financing and a broker is involved, where would you suggest they go?

Martin Morrin: It depends. Perhaps two places. I think that can be brought to the attention of the ABFA, depending on whether that broker is part of an association. If it is part of the National Association of Commercial Finance Brokers, it should bring it to that body as well. The ABFA is working closely with the National Association of Commercial Finance Brokers, because it is in both of our interests to make sure that we get the standards right.

Q**337** **Steve Baker:** What more specifically do you expect to do in order to deal with these problems with brokers?

Martin Morrin: If the problem rests with the member of the ABFA then, as I said, we have set up a new code. There is a complaints system and an independent ombudsman that will deal with those complaints. The Professional Standards Council will look at all of the evidence that is available in relation to members, when they look at the annual review of that membership. If there is evidence to suggest that a member is not meeting the standards that have been set out in the code by the ABFA, then the Professional Standards Council can fine or expel that member of the ABFA.

Steve Baker: Thank you very much.

Chair: Do you want to say something?

Professor Watson-Gandy: No, that is fine.

Chair: Go ahead. If you want to say something, say it, if you do not—

Professor Watson-Gandy: Well, the problem is pitched very much in terms of it being a problem in respect of the brokers involved. When a business is failing it is going to be fairly desperate to try to raise finance from any source it can. As regards asset-based lending, there is a perception issue because what will happen is a business will try to raise finance; it can get perhaps 80% of the value of the asset that is being financed. But that begs in itself a question. The question it begs is: what is that being secured on? As you know, when you buy a car and it rolls off the forecourt, by the time it has rolled off the forecourt you have lost 20% of the value, and by the time my children have had their grubby fingers over it the percentage of the value has diminished accordingly. It is even more so with businesses because you are looking at an asset that perhaps is going to have environmental issues when it is sold, there is going to be a cost to have it removed. You are looking at pennies in the pound in terms of when the asset is eventually sold.

Now, the businessman perceives that his lending is secured on the value of that asset. If the value of that asset only ends up being worth pennies in the pound what is the real security being given? My friend on my right's members don't do it from the goodness of their heart. The answer is that they will seek alternative security in terms of personal guarantees.

Q**338** **Steve Baker:** The answer you have just given, I can see how that would apply to a fixed asset but surely when we are talking about invoices in particular, the pennies in the pound argument is probably less appropriate?

Professor Watson-Gandy: No, that area has—

Chair: Briefly, if you can. Sorry, do go ahead but if you can be brief we would be very grateful because other colleagues want to come in.

Professor Watson-Gandy: The reality is this, if you are looking in terms of the real security, the underlying security being the personal guarantee, how is it going to be enforced? It is going to be enforced either by bankruptcy, which these days has more of a policy taint towards it or what you do is you enforce it by seeking a charge. Ultimately, if all the security you are getting is something equivalent to a mortgage over somebody's house, first, it is not what they thought they were signing up to and, second, there are cheaper ways of raising money by getting a mortgage over your home than going down this route.

Q**339** **Chair:** Did you want to add something, Frances Coulson?

Frances Coulson: Yes. Just to say that I agree with Professor Watson-Gandy that, when businesses are in distress they are seeking funds from anywhere, they can be quite desperate but that is probably when they need protection. While the new ABFA code and so forth is welcome, of course, people can be asset base lenders without being members of ABFA and without being subject to any penalties for not following the code. I think there needs to be included a delineation for borrowers as to what is a safe place to go, a safe haven where they will get plain English and so forth. You do see some very poor behaviour in some companies at that distressed end of the market, where SMEs are pushed out of banking into invoice discounting and then into—

Chair: As the case is before this Committee.

Frances Coulson: Yes, and then into perhaps the smaller end of the market and then very rapidly into insolvency. I think that is where they need some protection. A SME at the smaller end of the SME market is slightly akin to a consumer in terms of sometimes sophisticated borrowing.

Q**340** **Chair:** Is there a specific proposal that can address this for asset-based finance? You do not need to have one but if you have one—

Frances Coulson: The proposals have brought about a regulation, so whether that is self-regulation so that you have to be licensed and self-regulated or whether it is actual governmental regulation are the two options. Self-regulation works perfectly well as long as you have to be part of the club. If you don't have to be part of the club then it isn't effective.

Q**341** **Chair:** Although a customer will know that if you are not part of the self-regulation that they are more at risk.

Frances Coulson: As I say, at the distressed end of the market, if somebody is coming to them and positively selling them a product—a bit like payday lending and that sort of thing—you get pressure selling and they are desperate. It is time critical and they cannot get quick decisions out of banks, or they are being pushed into invoice discounting and so they need protection.

Q**342** **Chair:** On a related point, Mr Morrin, I think I understood you to say—tell me if I have summarised it incorrectly—that competition legislation is getting in the way of intelligent self-regulation? So what are we going to do about that?

Martin Morrin: The ABFA, because it is bound by the Competition Act, cannot be prescriptive in terms of telling its members what it can do in terms of things like pricing, termination, in terms of, "You shouldn't take on this business because it is in this particular state". That is what I meant by—

Q**343** **Chair:** Is this established case law or just concern by lawyers expressed on the basis of what is current statute?

Martin Morrin: It is current statute and there is no case law that governs all that.

Chair: What we could do with here is some guidance perhaps from the competition authorities?

Martin Morrin: Yes.

Chair: Perhaps you would like to set down what you think that guidance might consist of and get it to the Committee?

Martin Morrin: I will do.

Q**344** **Mr Love:** Can I turn to one of the issues that you just touched upon, termination, and ask you: what does your organisation do to ensure that your clients understand the termination fees that they will be subject to when they sign an agreement?

Martin Morrin: The code of conduct and guidance sets out requirements on the members to have plain and simple contracts, and that all of the terms are clear to them in terms of not just the day-to-day terms but also in terms of conditions in relation to default and termination.

Q**345** **Mr Love:** Many in the insolvency industry are suggesting that there is a strong market for asset-based lenders to come along and pay off bank debts shortly before the company becomes formally insolvent. This allows the high street bank to evade responsibility for the insolvency but allows the asset-based lender to charge a termination fee. Do you recognise that particular marketplace and what are you doing to deal with this type of abuse?

Martin Morrin: I don’t recognise that marketplace but that is not the first time that those concerns have been raised. Each time they are raised the ABFA have asked the people raising them to please provide them with examples and specifics of the cases and we will look at them, because it not something that should be happening.

Q**346** **Mr Love:** Again, the insolvency industry have suggested that in 2012 one in five administrations, where an asset-based lender was a creditor, occurred less than six months after the company used this form of lending. Does that not suggest there is a very active market in this area?

Martin Morrin: It comes back to the point I made earlier around if you look at the different options that a business has when it gets into difficulty, and in some situations those businesses may not have any choice and will choose a factoring product or an invoice finance product. In those situations, the factoring invoice discounter still has obligations in relation to the code of conduct and the standards that they set and deliver, and also the transparency of all of that. But it is unfortunate in some of those situations that, with the best will in the world, those businesses may have done the best to survive but it may not have been possible. In some situations that may have been obvious at the outset or it may not have been.

Q**347** **Mr Love:** There is some suggestion that for some asset-based lenders their business model is dependent on this type of activity. Among your membership do you sense that that is the case, that some of them are actively seeking insolvency situations because there will be fees that they can charge that will allow them to continue to make profits?

Martin Morrin: I don't sense that and I don't see that, but again I come back to the point I made earlier in terms of: if it is happening it is not something that happens with the blessing of the ABFA or that the ABFA would ever condone that type of behaviour. Where there are examples of that, we do want to see those examples so that we can take that into account when we sit down and do an annual review of the membership, and fit and proper persons will be part and parcel of what we feature in that annual review as we do for each member towards the end of this year.

Q**348** **Mr Love:** Professor Watson-Gandy, do you have a view about this? Is this an abuse, if not a scandal, that we should be worried about?

Professor Watson-Gandy: I am not sure whether the conclusion is a correct one, however I think there is a problem. Where I see one of the problems arising relates to termination payments. If you breach the terms of your invoice factoring you trigger a termination payment. That can have a massive impact in terms of the liability of a customer. In terms of an insolvency, I have seen it swallowing up perhaps 50% of the available—

Q**349** **Mr Love:** Should we allow termination fees in insolvency? They were originally brought in for other changes that terminated the agreement and have been extended to insolvency. That seems to be where the problem is and where the abuse is occurring. Would it be easy simply to say, "You cannot have termination fees in an insolvency"?

Professor Watson-Gandy: In terms of an insolvency, the termination fee causes an imbalance and an injustice towards the other unsecured creditors, because it effectively deprives an asset class over and above the actual liability to the invoice discounter. Mr Morrin has stressed that he has a code for members, I am not sure if you have seen it. It is two and a half pages long and one and a half pages are interpretation.

Martin Morrin: I think you need to look at the guidance.

Professor Watson-Gandy: Yes, in the guidance it deals with termination fees. One thing that is quite interesting about it is some rules are mandatory and some rules are not. The one area of rules that are not mandatory relate to telling clients about the termination fees, which are under commitment 3.1.

Martin Morrin: If I can just respond to that, on the basis that this comes back to my earlier point around what the ABFA was allowed to do under the Competition Act in relation to being prescriptive. Subsequent to the guidance being produced, the ABFA has taken independent legal advice and—back to the Chairman's point earlier—we should engage and will engage with the OFT, in terms of getting to that point about how prescriptive we can be.

I do want to assure the Committee that this was an area that received a lot of debate. It is of concern, and we want to make sure that the standards that are set are fair and that they are transparent. Some of the cases that have been described are not something that we want to see and not something that we want our members to be able to do. It is not going to enhance the reputation of the ABFA, or indeed it is not going to further the cause of alternative finance.

Q**350** **Mr Love:** You seem to be almost recommending statutory regulation here to replace self-regulation, since you seem to suggest that you are limited in what you can do because of the Competition Act. Ms Coulson, you were critical of self-regulation before, what do you think we need to do in terms of termination charges?

Frances Coulson: I am not critical of self-regulation, per se, as long as everybody comes under the umbrella and that there are some teeth to the enforcement. An industry can understand itself and its terms of reference very well, and for example insolvency has an oversight in terms of the insolvency service. In terms of termination fees when it comes to insolvency there has been this abuse, the termination fees are large. On the one hand, you obviously have to balance high-risk lending and a normal contractual loss that a lender is going to suffer if there is a default. That is perfectly reasonable, and sometimes that is misunderstood by directors. As long as that is a reasonable compensation and it is triggered by a material default. At the worst end of this sort of abuse in an insolvency situation—and bear in mind that I am generally seeing cases post administration into liquidation so it is a CSI type situation, it is forensic—where there has been lending of the type you describe, so it has been a substitution, the directors thought it was a white knight, but it was just asset stripping in that case. That was not an ABFA member and it was a large termination fee. The default was something that was in the discretion of the lender, and in fact when the default was triggered the lender was not owed any money at all but it took a £300,000 termination fee. That is at the extreme end of an abuse, and I think insolvency legislation—

Q**351** **Mr Love:** How widespread is this abuse? You are giving us an example of something that is very extreme certainly—

Frances Coulson: Very extreme, yes.

Mr Love: But the information we are getting from the insolvency industry is this practice—abuse, whatever you want to call it—is much more widespread than has been admitted.

Frances Coulson: I think it is fair to say that there has been some improvement over the last few years. I think the code helps. It is difficult because we were dealing with a deep recession and an unusual situation, and I think that has made what is the norm very difficult in all sorts of areas of insolvency. But there is abuse. There isn't a report somewhere that will give me the numbers as to how many cases this happens in. I will obviously see the abuse cases and that is the sort of work that I do. It has been prevalent enough for it to be a topic of discussion, and for me and my competitors and my clients to see a number of cases. Obviously lots of constituents complain to MPs about this sort of thing, but I think it has to be balanced by the fact that it is distressed lending.

Insolvency has a good look back generally. The insolvency legislation, once there is an insolvency, can look back at things that have happened before insolvency. So if you had an administration, for example, where it is very useful—

Q**352** **Mr Love:** Let me ask you about a situation where distressed lending is applicable and the company is under some pressure. Would it not be sensible to provide statutory backing to the advice that is given to those people at the time? Surely the shortcoming here is that there is no statutory protection for the advice given by an asset-based company, people can be misled—that is probably too strong a word—and they can agree to something that is not in their interest because that has been suggested to them, and there is no recourse for them subsequently to challenge the advice that they were given.

Frances Coulson: I am in favour of all advice, investment or borrowing, being regulated, whether that is self-regulation or not. So long as everybody, as I say, is under the umbrella. But when you are in a distressed situation it is a commercial decision. The courts recognise, for instance, insolvency practitioners have to take quite urgent commercial decisions and directors are desperate for finance. You want to rescue your business, you want to rescue jobs. I think you have had a submission from Stephen Hunt from Griffins about this subject, but if there is a look back and you could, with the benefit of some hindsight, say that was not fair to the creditors—the problem with termination charges often happens with that last minute lending, within the last six months. There is then a termination and the creditors bear that termination fee. If the business is sold in administration, or whatever, it does not bear the termination fee. Those jobs are saved but the creditors in the old company do bear that termination fee and of course creditors quite often involve—

Chair: Andy has one last question.

Q**353** **Mr Love:** Just to ask Mr Morrin, obviously this has been a subject of discussion. R3 suggested to us in some of the submissions a number of ways that they could deal with termination fees, capping them, excluding them. Is there any change that your association is supportive of in terms of the way that termination fees are charged?

Martin Morrin: Yes. In terms of the ABFA, we are very happy to engage with all the key stakeholders to work out where the right balance should be found in this. I would come back to my earlier point—and I do not want to give the wrong impression in terms of the UK Competition Act, and we will take advice on that—that whatever the ABFA does it will have to stay upright within the existing law and the framework that is there.

But to find the right balance—and the code in relation to this is prescriptive—I haven't seen any evidence through the complaints process or the ombudsman service that points to this specific area in the last 12 months, but we will see how that goes over the next. We are very happy to sit down, to engage with stakeholders to look at this area and say, "What is the right outcome for all parties concerned, not least the businesses who are receiving finance?"

Q**354** **Chair:** Frances Coulson, was the 300K abuse case something that—

Frances Coulson: It is a current case so I cannot really say. It is just an example of a set of facts.

Chair: Is the firm involved subject to the code?

Frances Coulson: No.

Chair: So they are outside the umbrella as you described it?

Frances Coulson: Yes, that is partially my point.

Chair: Okay, we have taken that point on board.

Q**355** **Mr Newmark:** We have heard a lot of conversation about the sense that desperate people come and do this and everything else. This is the sort of finance that has been going on for years and years and years. This whole problem came to my attention about a year ago. I have to say I have seen a catalogue of abuse within the system, with abuse of termination fees, with an unhealthy symbiotic relationship with insolvency practitioners and those doing the lending. You are saying it is as though desperate businesses somehow come in, find the termination clause is triggered and it is the end of the world. But many of the businesses I have spoken to are perfectly healthy businesses but somehow, the way the wording is, they are deliberately triggered. Something in the termination clause triggers this so that the fees, instead of being £40,000, end up being £400,000. A business that is supposed to be a good, healthy robust business has become rife with abuse. That is going to be the direction of travel of my questioning now, just so you know where I am coming from.

The former ABFA CEO, Kate Sharp, characterised complaint handling within the industry as "a David and Goliath situation". Martin, would you agree with that or not?

Martin Morrin: No, I wouldn't agree with it now, on the basis that we have a code that is set up, there is a complaints system and process and there is an independent ombudsman at the end of it. I suspect that what Kate may have been talking about at the time referred to pre that complaint system being in place and an independent ombudsman plus a Professional Standards Council.

Q**356** **Mr Newmark:** Last year ABFA put in place the Professional Standards Council and independent ombudsman service, which you have just talked about. Why did ABFA decide that more self-regulation was necessary?

Martin Morrin: The decision that was taken was deliberate and open-minded. We looked at the wider financial services sector in terms of what best practice looked like. One of the things that was of concern all along was that if somebody had a complaint about an ABFA member—and particularly if you look at the smaller size of the SME market—in the event that that could not be resolved satisfactorily between the member and the client, they had nowhere to go. We did not feel that was fair and just, and we felt it was—

Q**357** **Mr Newmark:** What triggered this? Did the industry wake up one morning and say, "Gee, we need to have a little bit more self-regulation" or was there an increased pattern of abuse that said, "Hey, we need to do a little more about this, otherwise we are going to be regulated if we don't self-regulate"?

Martin Morrin: No, it wasn't that. What triggered it was just part of an overall strategy of the ABFA in terms of: how do we get our message out to a wider audience? How do we give people confidence that, if you are dealing with ABFA members, you can be assured of transparency, you can be assured of a clear standard of service that are articulated and that there is a framework in the event that is not provided?

Professor Watson-Gandy: I may not seem to be the most likely ally for Mr Morrin but in the 20 or so years I have been at the bar—and I have spent a lot of my time either fighting for or more often against invoice discounters—one of the things that I have seen is a gradual and quite positive step being taken in the industry. It used to be perceived very much as the wild west of finance, and you have seen an increasing professionalisation of the industry over the last 20 years.

Q**358** **Mr Newmark:** But is that because there has been increasing abuse, because it was the wild west, or increasing evidence of that or not?

Professor Watson-Gandy: I think it is more because traditional forms of finance for various reasons became less attractive, you have seen bigger players enter into the market and in those circumstances the industry itself is trying to provide parity.

Q**359** **Mr Newmark:** We are going to get to some of those bigger players in a minute. The *Financial Times* reported that ABFA's membership covers 65% to 70% of all asset-based lenders. How effective can a self-regulatory regime be with 35% of players still in the wild west?

Martin Morrin: ABFA's assessment of the market is that its members cover about 95% of it.

Q**360** **Mr Newmark:** So the *Financial Times* is wrong?

Martin Morrin: I am not sure on what basis they calculated that, but based on the volume of throughput that ABFA has, in terms of what it knows it members does versus those who are not members, that was its latest estimate.

Q**361** **Mr Newmark:** Mark, do you think the code and independent ombudsman provides sufficient protection and recourse for small businesses?

Professor Watson-Gandy: No.

Q**362** **Mr Newmark:** Why do you say that?

Professor Watson-Gandy: Number one it is a light touch regime but, bearing in mind that it is in essence club rules, you are not going to have a situation where—

Q**363** **Mr Newmark:** Do you think members should be expelled? Do you think, for example, if there are insufficient sanctions, if there is not enough protection, how robust should the protection be?

Professor Watson-Gandy: There are two problems. First, if you impose your sanction and expel your member what is going to happen? It does not stop you doing business, you are just not a member of the club anymore.

Q**364** **Mr Newmark:** You said it is a light touch regime. I was listening to what you were saying, if you are saying it is a light touch regime perhaps it needs a little bit more teeth so that if you behave badly the ultimate sanction is expulsion.

Professor Watson-Gandy: The other problem is this: if it is a harder regime you are going to have people saying, "I'm not going to join the club because I am going to have to comply with rules that my competitors don't".

Q**365** **Mr Newmark:** We bring regulation in from the outside then?

Professor Watson-Gandy: Yes. Why I don't think it provides adequate protection is because so far there are still areas that the rules do not cover but, more importantly, it is in terms of remedy. What is the maximum award that can be obtained for a small medium-sized enterprise? At the worst case scenario, if you go all the way to the ombudsman you can get a maximum return of £10,000.

Q**366** **Mr Newmark:** Given the amount of rack renting that you are getting from these players, because some of them are making up to £300,000, if I am willing to risk £300,000 for some paltry fine of, say, £25,000 you would figure why not go for it? Yes, okay, so it is a problem.

Now, Frances, do you think the system has insufficient sanctions?

Frances Coulson: I do. As I said before, if you do not have to be licensed then you can just choose not to be a member. If you are a member and you are sanctioned then if you are expelled you can carry on business. The difficulty is that it is self-funding as well. That is the problem. Does it have enough weight? If one of its larger members did breach the code, would it be willing to expel it because it has to pay a fee to join? So I think a licensing system, a regulatory system, even if the industry itself was the regulator, at least being compulsory would help.

Q**367** **Mr Newmark:** In its written evidence to this Committee, the Professional Standards Council said that 44 complaints had been logged since establishing the industry complaints process in July last year. The industry serves 43,000 clients; 44 complaints. Why are so few clients using the complaints process, Martin?

Martin Morrin: We have to put the 44 complaints into context and those are the numbers that have been reported to ABFA. They will not cover those complaints that have been dealt with by the member themselves but each member is obliged to have their own internal complaints process. They are obliged also to maintain a log of all complaints and the ABFA, through the Professional Standards Council, can and probably will ask for a copy of that log when they come to look at the annual review so that they can get an overall picture of what is happening with complaints for that member and for the industry as a whole.

Q**368** **Mr Newmark:** As Chair of ABFA have you personally reviewed any complaints from clients of asset-based financiers?

Martin Morrin: I haven't because that is the responsibility of the Professional Standards Council, and one of the things that we have been at pains to point out is the independence of the Professional Standards Council. There are staff at the ABFA that deal with clients who have complaints in the first place, who guide and advise them. If they can be resolved through dealing with the member they will but in the event that—

Q**369** **Mr Newmark:** But don't you think that, as Chairman, you should be at least reviewing, at least seeing, what is going on with some of these complaints or not or are you removed from it?

Martin Morrin: In my day job I am also the MD for RBS Invoice Finance and I am a competitor of these people and, therefore, I think it would be inappropriate for me to be the person reviewing my competitors' complaints when there is a Professional Standards Council that are equally as capable of doing that.

Q**370** **Mr Newmark:** Do you think then you should be Chair of this organisation if that is the case, that you do not have access to what your business is supposed to be about as a self-regulator?

Martin Morrin: In terms of the complaints process, the standards piece of it has been passed primarily to the Professional Standards Council. That is not to say that either I as the Chair or any of the executive of the ABFA do not take this area seriously. We do and we do want to see the standards improve but we also want to see recognition of the really good work that many, many people do.

Back to your point about the 40-odd complaints—and there will be more within the members—if you look at the levels of satisfaction of the clients that have been surveyed by the ABFA it is quite high and it is very encouraging.

Q**371** **Mr Newmark:** I am just curious, do you think there should be some sense of backdating to allow customers who have been abused two or three years to say, "Hey, this happened to me two or three years ago, can you please look into this"? Does that happen? Is that allowed to happen under your current rules or not?

Martin Morrin: In terms of the current compliance process that deals with the new code, which took effect in July 2013, any complaints prior to that would be dealt with in relation to the old code. As you would probably appreciate, it is quite difficult to bring in new rules and make them retrospective. I am not aware that that happens in a statutory environment, let alone a self-regulatory one.

Q**372** **Mr Newmark:** Frances, I have a quick question for you. What I am looking for is a better understanding perhaps of the nature of complaints that you come across, and I want to look the case of Bibby. In 2012 Bibby was found to have incentivised some brokers to identify struggling firms in order to profit from their subsequent collapse. Bibby said these were rare exceptions. I am just curious, how widespread do you think that sort of behaviour is in the industry? I appreciate you do the backend of what goes on there. By the way, I have seen other cases—and I don't want to just focus on Bibby so they don't feel like I'm picking on them—Ashley, Pulse, Close Brothers, Lloyds. I have seen examples of poor behaviour from all of those organisations and I am curious what your assessment is of what has been going on.

Frances Coulson: As I say, I think at the distressed end of the market. I don't have direct overview of any of those individuals because I will see cases coming in at the end and then we have to get documentation and look back at what has gone on, if we can get documentation. But certainly if there is a referral, I think the difficulty is a company in distress takes advice, the directors personally don't take advice. When a company is insolvent the directors owe a duty to creditors not to themselves or anyone else, but often the company and the directors do not take independent advice. There may not be complaints because if there is a problem the directors themselves may be liable. So if they have signed themselves up for a large termination fee and it is their fault, the creditors may look to them for that. So it just makes their position worse. You certainly do see those sorts of referrals and I do not know what the commission end is because we don't necessarily get the paperwork for the brokers. I think it is very important that that is transparent and borrowers understand who is getting fees when. Before it had to be paid for, you were obliged to be told about commission if you were getting financial investment advice.

Q**373** **Mr Newmark:** Martin, why was the independent ombudsman compensation award limited to £25,000?

Martin Morrin: That is a good question and it is an area we spend a lot of time debating in terms of what was the right level. Rather than hold up the launch of the code, we agreed to set it at a level where smaller members, in effect, could afford to sign up to the new code with the complaints system and have that compensation award at the end of it. The ABFA are well aware that for the bigger members it is not currently set at an appropriate level and that is a task for the Professional Standards Council in year two, which starts in July of this year, to sit down and look at where that is set and what is appropriate.

Q**374** **Mr Newmark:** Frances, do you think it is too late?

Frances Coulson: I would have to say the cases I have seen are at the tail end so I think they will not be helped by that. Two things that could help significantly, for example, might be to make the termination fee not a part of the security, so that the primary lending was secured but not the termination fee. Also in an insolvency situation—which is obviously my field—if there had to be a liquidation following an administration, so whether that was the official receiver looking at a case or another insolvency practitioner looking at a case, there would be a look back. You would have an administrator rescuing a business, which is in the moment, they are trying to do the best to recover a business, help a business, perhaps get refinancing before an insolvency process. Let them do that in the moment but look back at it later. So a liquidation exit out of an administration would also help the perception of administration.

Mr Newmark: Basically we are all in agreement. There is an asymmetry or risk award at the moment that needs to be adjusted, right? Okay. Just a parting shot, Chairman, because I appreciate that time is ticking on. I have to say if ABFA and its members do not clean up their act—and I appreciate 99% of what is going on is good stuff but 1% is poisoning the well at the moment—certainly I, through the Chairman, am going to be calling for much tougher regulation from the outside, from the Bank of England or somebody, because you guys have to deal with the incredible bad practices that are hurting very small businesses that are not desperate for finance but are being triggered into some form of insolvency with huge termination fees, which I think are destroying some perfectly healthy businesses. They are not all healthy, but certainly in a number of examples I have seen that has been the case.

Q**375** **Chair:** I am going to bring Steve Baker in again for a rejoinder in a moment, but I just want to follow up on the points made by Brooks Newmark. Mr Morrin, do you not think there is merit in trying to think of ways of reorganising your corporate governance so that the chairman, the lead figure in the organisation, can take up individual cases?

Martin Morrin: Yes. That is a good suggestion.

Chair: I do not want you to answer it in full now, it is unreasonable, but basically you are not saying it is bad idea?

Martin Morrin: No.

Q**376** **Chair:** Does anybody else disagree?

Frances Coulson: No, subject to everybody having to be regulated by the Chair.

Q**377** **Chair:** Mr Morrin, do you think that it might be a good idea if you find ways of taking every conceivable step to ensure that SMEs know, through the Federation of Small Businesses, through other organisations, that they should only go with people who are in the code?

Martin Morrin: Yes, I do.

Q**378** **Chair:** What have you done so far in that area?

Martin Morrin: We have engaged with the Federation of Small Businesses and also the Chambers of Commerce in relation to the code. One of the pieces of work that we have to do is to make sure that people are much more aware of the code, of the standards, and indeed what they ABFA expects of its members. Mr Newmark's point about 99% are probably good and doing a really good job, in my experience that is the case.

Q**379** **Chair:** I think you made that point earlier. Am I right in thinking the discrepancy between the *FT* figure and your figures is that the *FT* figure is on the number of lenders, whereas the figures you were giving were on the volumes?

Martin Morrin: Yes, that may be so.

Q**380** **Chair:** In which case, that suggests that there are a very large number of small lenders out there where the abuse might lie. Is that an assumption that is worth following up?

Martin Morrin: I am not aware that there is a very large number, but I will take a note of the names that have been mentioned earlier. I think the point that was made earlier by Frances, in terms of how do you get everybody into the same church—if I can use that expression—if self-regulation is going to work, and that is, in effect, the piece of work that has to be done next in terms of: how do we achieve that? Because we are conscious of the fact that not everybody is a member of the ABFA.

Q**381** **Chair:** One way of getting people into the umbrella might be to do some publicity about the abuses that have taken place that have been brought to your attention, where the abuse has been from outside the umbrella.

Frances Coulson: Some of the smaller members, as I understand it, say they can't afford to join ABFA because they are very small. I do not know what the joining fee is.

Q**382** **Chair:** Crikey, that had not crossed my mind. What is your joining fee, Mr Morrin?

Martin Morrin: The joining fee starts at a few thousand pounds. I don't think it will be the fee, per se, it is probably the criteria that is set in terms of balance sheet strength and so on.

Chair: Still that sounds like a hurdle.

Martin Morrin: It is a hurdle and that is why there is work underway as we speak to review the position.

Q**383** **Chair:** The industry has a common interest here, so there may be some merit in larger players offering some initial cross-subsidy.

Martin Morrin: We are looking at the membership right now in terms of how—

Q**384** **Chair:** Can you think of a good reason why you shouldn't be expelling people who behave badly?

Martin Morrin: I can't think of a good reason why we shouldn't expel people who behave badly, provided there is evidence—

Q**385** **Chair:** When was the last one you expelled?

Martin Morrin: We haven't.

Q**386** **Chair:** So I think there is quite a lot of movement needed here, isn't there? Otherwise it is going to be another one of these cases where self-regulation hasn't worked, and our experience with regulation is highly mixed. We do not want to reach for the heavy weaponry unless we have a lot of evidence that self-regulation won't work. But a lot more has to be done, do you agree with that, Mr Morrin?

Martin Morrin: I agree that more needs to be done just based on what we hear. But what I would ask, and particularly from members of the Committee, where you have individual experience and where you have individual evidence of cases then the ABFA, along with either myself or the Chair of the Professional Standards Council, will be very happy to sit down and go through the specific cases.

Q**387** **Chair:** All right. It sounds as if you can't as things stand, but we have already looked at that issue because you say that there may be a competitor involved.

Martin Morrin: Yes, but assuming we can overcome that specific issue.

Chair: It sounds as if there needs to be some corporate governance reform. Some quite fundamental further reform seems to be needed.

Q**388** **Steve Baker:** Ms Coulson, earlier on you painted quite a vivid picture of a journey of decay and you compared the situation to payday lenders. I am looking forward to the transcript so I can read it again. Also, Professor Watson-Gandy, I was thinking about your written evidence where you said the regulation was Leviathan in its volume and strikingly patchy in the protection it affords. Between the two of you I get this picture of a situation where at the bottom end, at the distressed end, the moral operators come in and end up ruining the market that might otherwise function. Just to cut all this down to the quick, do you think that there should be a legal duty of care on the lenders?

Frances Coulson: It is a commercial enterprise, isn't it? I think it would be helpful if, at the very least, there had to be some form of legal advice for the directors. They do not have a bargaining position, they can't amend the terms of the contract and so forth so they have nowhere to go as far as that is concerned. They at least need some form of independent advice so that they understand what they are in for if it goes wrong.

Q**389** **Steve Baker:** I heard you make a point I have heard elsewhere, which is at the lower end of the smaller businesses they are akin to consumers. Do you think there is a case to be made that at the smaller end of the scale of SMEs they should be compared to consumers and perhaps have additional rights, like a lender's duty of care?

Frances Coulson: Yes, there is something to be said for that. We are a nation of shopkeepers, it is said, so there is a lot of small business, and they do not necessarily have the access to professional services or whatever, or the time perhaps to take the advice, but they perhaps need to be forced to do it.

Professor Watson-Gandy: I am an emphatic yes for that suggestion.

Q**390** **Steve Baker:** At the small end?

Frances Coulson: Yes.

Professor Watson-Gandy: Certainly at the small end. The practical example is this: I may be running a fairly successful business, in terms of whether I am growing beets or selling sofas or whatever and I know my area of the market very well. I understand the issues but when I come to raising funding and somebody tries to sell me a—

Steve Baker: Interest rate swap.

Professor Watson-Gandy: Precisely. I am in no better position than Joe Public.

Q**391** **Chair:** We are opening up much wider questions here. Thank you. Is there anything that any of you came particularly wanting to say and you do not feel you have had an opportunity to unburden yourself about?

Frances Coulson: No, insolvency practitioners are in a very good place to give proper advice and, from my point of view—from the insolvency end—it is the look back and the liquidation exit, so that there is some check to what is going on in the live part of the rescue process.

Chair: You have heard the concerns of the Committee and one or two of you are going to come back with more material. We are very grateful indeed to all three of you for coming to give evidence this morning—now this afternoon by three minutes. Thank you very much indeed.