



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

19 January 2019

Stephen Jones
Chief Executive, UK Finance
5th Floor
1 Angel Court
London
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Dear Mr Jones

SME dispute resolution

I would like to begin by thanking you and your members for the work that has been carried out by the industry in response to Simon Walker's independent review of the complaints and alternative dispute resolution landscape for UK SMEs.

I am aware that a substantial amount of work has been carried out in this area over the past months by industry, regulators and Parliament, and I believe that excellent progress has been made towards establishing the right dispute resolution mechanisms for the future. The Financial Conduct Authority's (FCA) planned expansion of the remit of the Financial Ombudsman Service (FOS) to include SMEs with a turnover of up to £6.5m from 1 April this year, combined with the banking industry's commitment to implementing a voluntary ombudsman scheme for SMEs with a turnover of between £6.5m and £10m by this September, will provide SMEs with access to fast, fair and cheap dispute resolution mechanisms should they need them.

I welcome the news that UK Finance have, on the recommendation of an independent panel, appointed Lewis Shand Smith as the independent Chair of the Dispute Resolution Service Implementation Steering Group, and look forward to receiving an update on the implementation of the banking industry's voluntary ombudsman schemes soon. I would particularly welcome an update for myself and the Economic Secretary on the composition of the Implementation Steering Group, and would emphasise the need for that group to have balanced representation from banks, business representatives and other parties with a keen interest in SME dispute resolution. It is vital that different perspectives are heard during this implementation stage, to ensure that the schemes are regarded as truly robust and independent.

I would also like to take the opportunity to highlight three points regarding the voluntary ombudsman scheme's assessment of historic cases. As the Economic Secretary has publicly stated, the Government welcomes this scheme, and the banking industry's commitment to dealing with outstanding complaints. It is important that this scheme

draws a line under the events of the past, allowing both businesses and banks to move forward.

First, I note that the contractually-binding award limit for this backward-looking scheme is £350,000 – in line with the proposed increase to the FOS award limit currently being consulted on by the FCA – but that the scheme can recommend payment of a higher sum should it deem it appropriate. While a bank can of course choose not to pay more than £350,000, I would expect the banks' default position to be paying the amount recommended by the scheme. There should be no reason to doubt the outcome determined by the scheme, and it would be helpful not to prolong the process for businesses who have sought resolution for their complaint.

Second, for this scheme to bring closure it is vital that it considers as many complaints as possible. It is right that the scheme does not seek to re-open complaints that have already been settled under a previous independent redress scheme, but offers an opportunity for resolution to SMEs who have not had anywhere independent to take their complaint.

However, I do of course expect the backward-looking scheme to carefully consider the merits of taking forward work on each case presented to it by a business. I would therefore appreciate reassurance that you will work with the banks, and those running the scheme, to ensure that each case that a business seeks to bring to the scheme is considered properly and carefully.

If it transpires that the scheme is not bringing resolution to a meaningful number of complaints, and as such is not going to achieve its objective of bringing closure to past complaints, then I would expect there to be further discussions around the scope of and eligibility for the backward-looking scheme. I do not, however, wish to prejudge the outcome of the scheme, and therefore look forward to receiving further updates on this point once the scheme is operational.

Finally, it is important that the industry continues to demonstrate that it has learned from the events of the past, and can demonstrate how this has led to cultural change within the banks. As Simon Walker outlined in his review, one of the benefits of an ombudsman-style system is the aggregation of data from complaints to identify trends, which can lead to changes in culture or practice. I would therefore welcome a commitment from the banking industry to producing a 'lessons learned' document once the backward-looking scheme has concluded, setting out the changes that have been made since the time of these complaints, and how banking practices have changed to protect against similar circumstances arising in the future.



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Thank you again for your ongoing work on this matter. I am copying this letter to the Economic Secretary to the Treasury and the Member of Parliament for Thirsk and Malton.

A handwritten signature in blue ink, appearing to read 'Philip Hammond'.

PHILIP HAMMOND

