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Watchdog Warns Banks on Small Business Lending

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The FCA issued a warning last week, cautioning banks to ensure that small businesses are treated fairly during the Coronavirus pandemic.

In a '*Dear CEO Letter*' to heads of banks, the FCA reminded financial institutions to learn from the issues that arose out of alleged mistreatment of small businesses by turnaround units after the Financial Crash and to avoid repeating the same mistakes in 2020.

By way of a reminder, the FCA uses "Dear CEO" letters as a tactical regulatory device to set out its expectations of firms' conduct in relation to specific areas or products. The "Dear CEO" letter to bank heads was of course sent by the FCA on the same day as its "Dear CEO" letter to insurers with regard to business interruption insurance.

Background

Under the Government approved, Coronavirus Business Interruption Loan Scheme ("**CBILS**"), loans of up to £5 million are available to companies with a turnover of up to £45 million. The Government guarantees 80% of the loan but banks will be liable for the remaining 20% if borrowers default. According to UK Finance, banks have leant over £1.1 billion to smaller companies since March and have so far provided 6,020 loans to small and mid-sized enterprises. However, UK banks are dealing with a backlog of more than 20,000 applications from small businesses, three weeks after the program was launched.

Christopher Woolard, FCA Interim Chairman said, "*the priority for all of us is ensuring the benefit of these measures announced by the Government are passed through to businesses and customers that really need it as soon as possible.*"

Dear CEO letter

While the activity of lending to an SME may be outside of the FCA's scope, the Senior Managers and Certification Regime defines the responsibilities and accountability of senior managers in banks in respect of all activities they conduct whether they are regulated activities or not. Accordingly, the

FCA has said it could fine and suspend a senior manager who was not treating customers fairly.

Mr Woolard wrote, "*We will also look for evidence that, in discharging its oversight role, the board is collecting information on the bank's treatment* [of small- and medium-sized businesses] *and, where appropriate, challenging the senior manager.*"

Along this vein, the FCA expects to see that each lender designates a senior manager that oversees small-business lending.

Comment

It is clear that the FCA wants to learn, and ensure the regulated community learns, from mistakes made during and after the 2008 crash.

The FCA has therefore taken a proactive approach, revealing that the regulator is to set up a new small-business unit, led by Andrew Wigston (who previously oversaw the FCA's ring-fencing project), to monitor bank lending to small businesses and to collect data on how they are being treated. This suggests financial institutions can expect robust enforcement from the FCA on these matters, if they fail to meet FCA expectations.

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