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Banks could pay billions of pounds to SMEs after scandal "as big as" PPI is exposed

A London finance expert has urged entrepreneurs to check the finer details of banking agreements after a number of businesses claimed they were pushed into taking out highly complex interest derivatives

Britain's major banks, including HSBC and Barclays, could be forced to pay out billions of pounds in damages to small and medium-sized businesses as they claim the banks looked to profit at their expense through the deals.

The miss-selling scandal, which was highlighted in an investigation by *The Sunday Telegraph*, follows the recent payment protection insurance (PPI) row between banks and retail customers.

The newspaper reported that many of the claimants said they had no idea about the significant costs linked to the products as they tried to mitigate the risk of higher interest rates before the 2008 financial crisis

Jonathan Davis, managing director and founder of Jonathan Davis WM, urged business owners to make sure they know exactly what they are agreeing to before signing up.

He said: "If it sounds too good to be true it usually is. Remember banks are not there to 'help'.

"They are there to make a profit from dealing with you. Be very sceptical of salespeople (whatever their titles), who earn by selling something to you. If you don't understand it don't do it: Warren Buffet doesn't invest in something he doesn't understand."

Professor Michael Dempster, Professor Emeritus at the University of Cambridge's Centre for Financial Research and an expert on derivatives, who actually designed many of the computer systems used by banks to price derivatives, explained how shocked he was about the products banks had sold on to SMEs.

"I liken it to going to bet on a horse race having fixed the result," he said. "You're not guaranteed to win, but you have a heck of an edge on the punters," he told *The Sunday Telegraph*.

The newspaper also reported that RBS launched its own internal audit into the sales of interest-rate derivatives to SME customers in January, before saying it was "satisfied" that the sales had been conducted in accordance with its rules.

Dempster said he expects the size of claims faced by some banks to end up in the billions of pounds.

“I think this could be at least the same size as PPI,” he said.

Davis has outlined a number of things business owners should do if they believe they have been mis-sold the products, saying: “If they believe they have they should write to their bank asking for redress. If not given with a reasonable time say a month, make a formal complaint. Banks have to go through a set procedure and timetable to resolve or not complaints.

“If still not resolved write to Financial Services Authority and Banking Ombudsman.”