Northern Ireland
Assembly

CONCURRENT MEETING OF THE COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT AND THE COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

British Bankers' Association: Task Force Report

17 November 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Leslie Cree
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Alban Maginness
Mrs Claire McGill
Mr Mitchel McLaughlin
Mr David McNarry
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:
Mr Eric Leenders) British Bankers' Association

The Chairperson (Ms J McCann):

I welcome Mr Eric Leenders to the meeting. I invite him to make a few brief opening remarks, after which I will invite members' questions.

Mr Eric Leenders (British Bankers' Association):

I am the executive director responsible for retail banking at the British Bankers' Association

(BBA). I understand that I am with you this afternoon to talk in a little more detail around the work that the BBA has been doing regarding small and medium-sized enterprises (SMEs), including SME lending, and, perhaps, provide that as context and background to the evidence sessions that you have been holding with both the clergy locally and the Institute of Directors. However, I absolutely appreciate that some of the members' questions might be borne of constituency and wider experiences.

As a representative of the British Bankers' Association, I will start by saying that, clearly, we are not immune to the effects of recession on small business. In fact, we have quite a depth of understanding. I was a business manager around the time of the recovery period after the previous recession, having worked in business banking prior to that, so I have first-hand experience of recession, its effect on SMEs, recovery and helping to finance SMEs through a period of growth where different but equal challenges arise.

That was the provenance of our work as a task force, which involves the four major banking groups in the UK plus Santander and Standard Chartered, and it was why we embarked on a small business task force over the summer that resulted in 17 recommendations. You will find those highlighted towards the front of the report, but it might be useful to turn to page 54 of the report, where they are summarised with some next steps and timelines attached. That might be a useful aide-memoire.

Broadly speaking, there are three clusters of recommendations: better customer relationships; better access to the right finance; and better information and understanding. Taking the third of those first, what we are looking to achieve in concert with business advocates and government in Whitehall is a more definitive set of data on which we can base our understanding of the SME market. You will see that there are a number of recommendations off the back of that. As another part of that we would be looking to having a number of regional outreach events. Members might be interested in asking about how that will operate relative to Belfast and Northern Ireland.

I will move on to better access to the right finance, because I think that it would be helpful to spend some time debating the particular demographics of SMEs in Northern Ireland relative to the more diverse demographics of SMEs generally. That might have some bearing on the extent to which the task force's recommendations are pertinent to SMEs in the region.

Building better customer relationships is very much about confidence. A significant issue that we have identified is a lack of confidence in SMEs generally and in investing in businesses. The customer base also lacks the confidence to spend at this point in the economic cycle. Equally, there is a lack of confidence when approaching banks. That point will not be lost on the Committee, as I am sure that you have debated it previously. There is not necessarily a whole community of support for the manner in which banks have treated their customers, although we take a slightly different position on that. We are trying to achieve a higher level of confidence through the recommendations so that, when an SME approaches a bank, it has a better understanding of the process that might be applied to its application and more options than a straightforward declined decision, which arguably leaves a customer with no place left to go.

Is that sufficient for the opening comments, Chairperson?

The Chairperson:
Yes, that is fine. We had you in front of the Committee before.

Mr A Maginness:
Last week, the Minister of Enterprise, Trade and Investment expressed her frustration with the local banks. I will quote part of what she said in the Assembly:

"It frustrates me when I hear banks talking about the lack of confidence in small and medium-sized enterprises throughout Northern Ireland. Who is causing that lack of confidence? The banks are causing that lack of confidence throughout Northern Ireland. Every single Member in the Chamber has had people come to them to say that they have experienced severe difficulties with their banks because of fees, overdrafts or business loans." — *[Official Report, Vol 57, No 4, p205, col 2].*

You have talked about the need for confidence, particularly in the small and medium-sized enterprise sector. We have many small businesses here. Do you see where the Minister and colleagues around the table are coming from in their disappointment that the banks are not creating confidence in that sector? The banks are not giving that sector loans and facilities that it can afford and accommodate.

Mr Leenders:

Our task force report looks to address much of what you have put to me. You will see common themes as you work through the baseline statistical analysis. You will have had individual submissions from Northern Ireland's major banks. I do not necessarily recognise the rhetoric of a persistent decline in facilities for small businesses in Northern Ireland. The uphold rates are actually quite high. You would naturally expect a percentage of applications to be declined. However, the Business Secretary in Whitehall, Vince Cable, characterised a "dialogue of the deaf", which is why we want a greater understanding of the issues that small businesses face. The emerging surveys that we see do not necessarily highlight access to finance as a priority, per se.

I feel that I should pick up on pricing and scrutiny. Pricing margins have widened but, at the same time, the base rate and the cost of finance for banks have also moved. Although base rate movement has not been passed on 100%, more often than not, business customers will be paying less than they did when base rate was at 5%, for instance. Relative rates have moved down.

I move now to scrutiny. Businesses face greater risks during recession, and, in recession, it is appropriate that banks undertake greater diligence to make sure that their loans are made in the right way. There will be greater scrutiny, and there is greater cost involved in that. Although margins have widened, when one takes into account the reduction in base rate, overall, one will see that more businesses rather than fewer businesses have seen a reduction in their interest pricing.

Mr A Maginness:

I understand what you are saying, but I do not think that you are picking up the main point that is being made, which is that the experience of politicians is that the banks are not lending in sufficient quantities or, if they are lending, they are doing so on unfavourable and extremely difficult terms to their clients, who are small businesses. That is exemplified by what the Minister said. It was the Enterprise Minister who said that; it was not me or any of my colleagues around the table. It was a Government Minister who said that. However, you are saying that you are doing the job of lending to small businesses, although there are some difficulties here and there. There seems to be a complete difference between what the Minister is saying, what colleagues are saying and what you are saying as a representative of all the banks. I understand that you have drawn up 17 action points to try to address the situation. Nonetheless, the central point is that you are not lending.

Mr Leenders:

With respect, we have different perspectives on that. When I see the numbers, with which you have been provided, I think that they demonstrate that a very high proportion of the loans that have been applied for have, in fact, been provided. There is a flow of credit to small businesses. That will not be a universal flow of credit, because it is natural that in recession some businesses will become no longer viable in the context of bankable propositions. At the same time, I fall back on the statistics, which show that large numbers of applications are being agreed. That gets us to this impasse, this dialogue of the deaf. That is why we are doing further work around scale surveys, which we will be able to drill into, to look at particular perspectives. Pricing is a difficult area for us; I can only speak in generic terms. You will appreciate that an organisation that represents banks finds it awkward to talk about pricing without getting into difficult competition territory.

I am confident that the further work and research that we will do will demonstrate that a lot of the reduction in the provision of credit to small businesses is due to the demand side rather than the supply side. One needs only to go back to look at previous recessions to see that that is a characteristic — perhaps an idiosyncratic one — of recessions.

Mr A Maginness:

Are the 17 action points applicable to our local banks?

Mr Leenders:

We need to work through those, and, as you will see, there is a work plan for their implementation. I think that some will have greater relevance than others. For smaller businesses, which the Northern Ireland market is characterised by, some will be more important than others. For example, the clarity from the lending code of business practice will be universally helpful. However, commitments to initiate refinance negotiations 12 months in advance of a syndicated loan or club finance falling due for renewal will have a far lesser bearing on that market. Therefore, I cannot say that each and every one of those action points will be relevant. However, we will certainly be looking to work with the banks in Northern Ireland to ensure that the appropriate ones are picked up.

Mr Cree:

Following on from that point, we hear repeatedly that the banks are doing a good job in difficult circumstances and that everything is as pretty well as can be expected. If that is the case, as we have been told that it is, why do we need a business growth fund?

Mr Leenders:

The business growth fund is an initiative that addresses an equity gap, and such a gap has existed between a floor of equity finance and a ceiling of debt finance for many years. The fund is trying to identify particular small businesses with a propensity to grow and provide them with a form of equity-based finance that they might not otherwise get through a route of private equity or venture capital. Therefore, it is about trying to bring down the floor of equity finance availability for some businesses.

Mr Cree:

Even if the banks were doing the work that we have been reliably told that they are doing, surely that should take up most of the slack.

Mr Leenders:

In the context of the activities of retail banks, SMEs are typically funded and given debt finance by those banks. Such banks will, therefore, be looking for a profitable, cash-generative business that can at least meet the monthly commitment of the credit provided and has adequate security to sit around that above particular limits. That quite straightforward transaction in the provision of credit is what banks do, and it is borne of the deposits that those banks take from savers.

In the case of more speculative borrowing requirements, where businesses are looking to grow without necessarily having a significant proven track record or customer base, the risk profile starts to decouple from straightforward debt finance and starts to sit far more comfortably alongside venture capital or other equity finance. However, because of the risks, the returns need to be higher, which is why smaller ticket equity finance does not necessarily attract the market that it could. We are using the fund to try to bridge that gap in some way.

Ms Purvis:
The Bank of Ireland, Northern Bank and First Trust Bank were not involved in the task force. Do the 17 commitments extend to all BBA members?

Mr Leenders:
With respect, my response is the same as the one that I gave previously. There will be some recommendations that will not necessarily fit with the demographic of the Northern Ireland economy. However, others are a natural fit for an SME community, and those will, of course, come into play. We are working through those details.

Ms Purvis:
I am talking about the other banks in Northern Ireland. Does that include them?

Mr Leenders:
We are working with the four major banks to determine the priorities for implementation.

Ms Purvis:
I am interested in the process of monitoring and implementation. Will you expand on how you propose to select which action points should be monitored and implemented in Northern Ireland?

Mr Leenders:
I can do that, but I regret that it is rather high level. We concluded our preliminary thinking on that just this morning. We are looking to identify, through a steering group based locally, the priorities to be taken forward. Some of the priorities that potentially offer benefit do not necessarily require the involvement of the banks in Northern Ireland. An entrepreneur does not necessarily need to have a relationship with a particular bank to take advantage of the equity fund, for example.

Other recommendations will come into effect through the revision of the lending code, for example, which will be applied universally. We are slightly ahead of the curve in the context of some of the report's recommendations. We have been developing a definitive regional data set for some months now, and we aim to conclude that towards the end of this year or in the early part of next year.

It is slightly different for each recommendation. The view is that we should look at each very carefully in the Northern Ireland context to see which are most appropriate and should be taken forward as priorities.

Ms Purvis:
Take-up of the enterprise finance guarantee scheme has been low in Northern Ireland compared with other regions. I am aware that the government have extended it for four years and reduced the threshold to enable smaller banks to access the scheme. Do you think that that will improve take-up of the scheme in Northern Ireland? The banks have told us that commercial lending has more favourable rates than the enterprise finance guarantee scheme.

Mr Leenders:
I had a conversation earlier with Rory from Capital for Enterprise in an attempt to better understand the situation. Northern Ireland is in a slightly different place because Invest Northern Ireland and the Ulster Community Investment Trust are soft loan alternatives alongside an enterprise finance guarantee scheme. They provide finance at slightly cheaper rates because of the premium for the guarantee.

As you said, in a previous evidence session you heard from individual banks that feel that they can look to their own lending products and services as a first alternative. Some banks can look to their own products and services to satisfy demand, whereas others rely more heavily on the enterprise finance guarantee scheme. To an extent, that competition is not a bad thing. A broader availability or greater number of finance options has to be helpful for SMEs. There is not necessarily access to those alternative finance vehicles in mainland regions of GB. Therefore, you would expect to see a greater volume passing through the guarantee scheme.

You are quite right that one of the frustrations with the scheme, as it was set up originally, was the impairment ceiling, which meant that small volumes of loans passed through the scheme were more difficult. The Department for Business, Innovation and Skills has looked at that, and we will continue to work with that Department. Ultimately, the enterprise finance guarantee scheme is a government scheme that we administer, rather than a bank initiative. Therefore, it rests with the government and the Treasury to ensure that the economics work.

The Chairperson:
It was agreed that the British Bankers' Association would provide a specific SME lending agenda for businesses in the North. We do not have access to that yet. The Department of Finance and Personnel secured an agreement that your organisation would supply us with the lending data for the small and medium-sized business sector here in the North.

Mr Leenders:
That is right. We committed to do that by the year end or the early part of next year.

The Chairperson:
We do not have that yet.

Mr Leenders:
No, we are still working on it. The difficulties are the technicalities: as always, the devil is in the detail. Typically, banks collect data for management information. That does not necessarily align specifically with the policy objectives about which you require information. The manner in which they collect data is slightly different. We are working through that series of administrative points, but we are confident that we will have the data.

The Chairperson:
One of the main issues of concern is the fact that banks are not lending to SMEs. Therefore, it would be good to have that information as soon as possible.

Mr Leenders:

Absolutely, and that is why, as an interim step, the banks have provided in their individual submissions details of approval rates and information on when it was necessary to foreclose on businesses.

Mr McNarry:

Thank you for coming, Mr Leenders. It is not the best of days, but it can only get better. I am sure that you know that we in Northern Ireland are a tight community, in business and in everything that we do. When the leaders of the four main Churches strike out publicly about what they feel are the morally questionable actions of the banks in Northern Ireland, which contributed to customers taking their own lives — a claim that they did not recount lightly — everyone sat up and paid attention; most of all, this joint Committee. There has to be a reason for the evidence given to the Committee by the Church leaders and two businessmen, and we want to get to the bottom of it. Do you have any evidence of Church leaders in other regions taking a similar line to those in Northern Ireland?

Mr Leenders:

When customers get into financial difficulty and feel the pressure to the extent that they take their own lives, it is clearly a hugely tragic sequence of events, and whatever the banks can do individually or collectively will be done. The criticism from the Church leaders is not something that we have seen elsewhere. However, that does not necessarily mean that there are not similar pressures in other regions, and it would be dismissive of me to consider it in that way. If we can get a better understanding between businesses and banks and improve those relationships, hopefully we can help to mitigate those circumstances.

Mr McNarry:

From whom do the banks that operate in Northern Ireland and belong to your organisation receive their policy instructions and directives?

Mr Leenders:

The banks determine their own credit policies and marketing priorities, and those are borne of their own strategic thinking. They take those decisions themselves.

Mr McNarry:

Do you mean that those decisions are taken at board level in Northern Ireland?

Mr Leenders:

There will be a regional representation to a greater or a lesser extent.

Mr McNarry:

You need to be a bit more specific: is it to a greater or a lesser extent? The reason I ask that question and part of the reason why you are here — we are very pleased to see you — is that members were totally dissatisfied with the representatives from the local banks who appeared before us. Certainly, I was. They seemed to pass the buck and suggested that you were the man who would answer our questions. I am interested to know where the policy directives come from.

Mr Leenders:

As a result of competition considerations and the fact that the banks operate in the same sectors, it would be wholly and entirely inappropriate for a representative organisation to determine strategies in some cartel-like fashion. That is absolutely not what the BBA seeks to achieve in its work in Northern Ireland. If political, media or other attention makes it apparent that something needs to be done about some aspects of territory that is not necessarily competitive — in this instance, SME activity — we are more than happy to step in. However, the commercial and credit risk strategies of individual banks are absolutely for them to decide.

Mr McNarry:

I am grateful for that information; it is very interesting. I got the impression that there was no difference between the banks in their application of credit policy. In the complaints that each of us around this table received from our constituents, it was not one particular bank that was mentioned. I must add that none of those who complained to me was driven to suicide; nevertheless, they were all under great stress. What is interesting about your answer, and you can correct me if I am wrong, is that you are saying that each of the individual banks strike up their own credit policies, yet they somehow arrive at the same policy. Therefore, if we are to challenge their policies on credit, we really should be speaking to them.

Mr Leenders:

If you are to challenge individual policies on credit with individual banks, that would rest absolutely with them. Do all banks have the same risk appetite and approach? We discussed earlier the enterprise finance guarantee scheme and saw that different banks have taken different approaches to that particular product, which demonstrates that —

Mr McNarry:

I want to confine you to the problem of bank customers in our constituencies being unable to maintain or obtain credit on a level playing field.

Mr Leenders:

Let me take you back to the explanation that I gave on debt finance. The major banking groups are all involved in providing debt finance, so there will be some similarities in the approach that they take to identifying viable business propositions. In considering the definitions of viability that banks provide, one will recognise that there is a similarity in them. To some extent, as they are engaged in similar activity, there will be a similarity in their approach. The extent to which each wants to take on greater or lesser risk is clearly a matter that it will take into consideration individually.

Mr McNarry:

So, in effect, there is no cartel operating between the banks in Northern Ireland who are members of your association.

Mr Leenders:

I would not say that I would recognise one at all.

Mr McNarry:

Is that a no?

Mr Leenders:

No: I do not think that there is a cartel for one moment.

Mr McNarry:

The situation has reached the political power base here. As has been illustrated to you by the Chairperson of the Committee for Enterprise, Trade and Investment, a Minister — not the only Minister — has spoken out, quite vociferously, against the banking fraternity. If it were the case that the Northern Ireland Executive felt that the policies that we are trying to skirt around are unsuitable for Northern Ireland, to whom should we tell our Executive to go to have their views on these policies addressed?

It seems that we cannot make a connection to Her Majesty's Government and that that tie-up is in London. You have referred to the task force. It is noticeable that the Treasury is an observer. The Treasury is almighty as far as we are concerned in trying to get things organised here. Perhaps Northern Ireland could also send observers to those meetings when those discussions are ongoing. You might think about that.

However, my main point is that, if you do not think that the policies operated by banks belonging to your association are really suitable for Northern Ireland — I do not mean them all, just the ones that we want to challenge — to whom do we go to have them addressed?

Mr Leenders:

With respect, I have been here on a number of occasions and the people whom I have sat alongside in a number of sessions are the right people to talk to. They are the individuals responsible for —

Mr McNarry:

Do you mean the local banks?

Mr Leenders:

Yes.

Mr McNarry:

I do not share your confidence in that. I must tell you that there is an alarming and growing number of people in the business community who have lost confidence in the people whom you represent, but, unfortunately, they have nowhere else to go. There is still a fear factor, in that people believe that a wrong step could cost them not only their livelihood, but their home and the wreckage of their marriage and family. That is the extent of the problem, which is becoming increasingly common. In our business, we must make judgement calls, just as the Church leaders did. They made a judgement call that there is a big problem here, and we are reflecting that. It points to no one but the people whom you represent. I, specifically, and others asked that you be here because the other people who sat here before were, quite frankly, useless and unable to answer a question, as you seem to be now.

Mr Leenders:
With respect, those individuals are the ones who have the power and the profit-and-loss responsibility for the operations in Northern Ireland. One wonders whether, regrettably, their outlook does not necessarily align with yours and that your frustration is with that difference of opinion.

Mr McNarry:
I am not asking that their outlook aligns with mine. I am asking that their outlook aligns with some kind of moral duty, which they are not recognising. I, perhaps more than most, recognise that the banks are businesses. They are high-powered moneylenders who gambled with our money and lost it, and that is why we are now in this situation.

This is not Spain or Portugal; this is the United Kingdom, and we in Northern Ireland have a specific banking problem that must be addressed to enable us to grow our economy, produce more jobs and improve the standard of living for everybody. That really is, put simply, what we are asking for. I know that you are in the risk business and that you will make assessments on that. However, too many people from a cross-section of the community have been in touch with all the parties in Northern Ireland about the same problem, and that all comes back to the banks. They cannot all be big risks.

Mr Leenders:
I will take a different perspective and return to my opening remarks. We absolutely recognise

that SMEs face particular issues in a recession. I have personal experience of that. However, to in some way implicitly characterise individuals as having made callous or dismissive decisions around SME lending is not something that I recognise in the community of bankers in Northern Ireland or elsewhere in GB.

Difficult decisions have to be made. The business managers who have to convey the decision not to lend money to small businesses are aware that those businesses are inextricably linked to family and social life, and that makes the decision ever the more difficult. Nonetheless, the banks, on occasion, need to take those difficult decisions.

As regards your point about confidence in the executives in Northern Ireland, I have absolute unswerving confidence that those executives are directing their businesses in an appropriate way. My reasons for having such confidence in them are their approvals rates and the fact that the businesses that have got into financial difficulty do not universally subscribe to the view that they have somehow been treated amorally —

Mr McNarry:

It just does not work like that. Perhaps we should say congratulations and well done to the banks for their good performances and the good things that they have done. People do not do that. For example, I do not pat Mitchel McLaughlin on the back and say, “Well done”. I criticise him, because we are more prone to criticising.

Mr McLaughlin:

I feel as though I have done something wrong.

Mr McNarry:

The reason for this criticism is that we have a human problem here, and it keeps coming back to your establishment. I understand why you are defending those people. The executives whom you speak about have sat here twice, but their explanations did not meet our satisfaction. That is why we are having another go at seeing whether we, as elected representatives, and the banking fraternity can address the problem in our midst, on which the Church leaders focused. I do not care how good your balance sheets are; I am trying to address this problem to see how we can find a solution.

Mr Leenders:

If I might, with respect, conclude the comments that I sought to make, the extent of forbearance, interest forgiveness and restructuring of facilities have not been prevalent in our discussion. I absolutely accept that banking will never be the most popular sector. However, that does not necessarily mean that banks do not act with integrity. Exploring some of the measures that banks have undertaken on behalf of struggling small businesses will give a broader insight into the more positive dimension of the work that they do in these difficult circumstances and in difficult areas, rather than the experiences of those who have encountered more difficulty than they first expected.

Mr McNarry:

I am grateful to Mr Leenders for attending. I am sorry that we have brought you all this way for you to sit there and tell me that the people I really should be talking to are those who have sat in your position on two previous occasions and did absolutely nothing. If you ask or suggest to me that I must go back to those people, I am afraid it is not on. They are just not at the game. I am sorry.

Mr Leenders:

Well —

Mr McNarry:

A hard-nosed decision it is. You may shrug your shoulders. It is not getting through to you that there is a problem.

Mr Leenders:

I am not sure how to characterise this in yet another way. In my opening remarks, I said that we absolutely appreciate that there is a problem in SME lending. What we have looked to achieve through the task force report and its recommendations are ways in which we can help and support small businesses. By implementing those, we are looking to move the debate on. I encourage the Committee, if possible, to approach the task force, its report, the recommendations, the consideration that we give —

Mr McNarry:
We have no access to the task force. We cannot even go to it as observers. The Government of Northern Ireland cannot even be present as observers.

Mr Leenders:
This was an industry initiative. The Treasury and the Department for Business, Innovation and Skills sat on our working parties as observers, not in a decision-making capacity. I encourage the Committee to maintain an open mind and see how the recommendations that we feel are most appropriate and best-placed for the Northern Ireland economy are adopted and how that effects change.

I am very disappointed and sorry that you feel that those who sat before you have not given sufficient account of themselves to give you the confidence that they are trying very hard to look after their small business portfolios. I know that if they were sat here now, or sat behind me, they would expect me to say that. It very much occupies their minds.

Mr McNarry:
I appreciate what you say. I will maintain an open mind at your request and we will wait and see what happens. I will certainly give you that. I will retain an open-minded approach.

Mr McLaughlin:
In reply to Mr Leslie Cree's supplementary question, you used a very interesting phrase. It made my ears prick up: "a propensity to grow". Is that different to "potential to grow"? Does it indicate a lowering of the threshold for approval?

Mr Leenders:
It is just a difference in wording. We are looking for companies that are looking to expand quickly, perhaps into a market that is new to them, with the consequence that they have no track record or client base. Equally, they may not necessarily have a balance sheet strength that could be supported better by equity finance than by debt finance. That is the profile that we look at.

We have rather drawn back from defining specifically what those businesses might be, because that would be a role for the chairman, the chief executive and the board of the company that is created to define, so that it is independent of the bankers who will be shareholders, rather than necessarily being driven by the bankers as shareholders.

Mr McLaughlin:
Obviously, the banks have given us the detail of the products and the services that they continue to offer. Equally obviously, we have had conflicting and contradictory evidence from clients, including people who told us that they did not get support and, in some instances, had been driven out of business. I do not want to get into semantics or a word game, but propensity to grow implies the need to demonstrate and produce evidence of growth, even in these difficult circumstances, to achieve success in a grant application or a facilities negotiation. Banks used to be experts in assessing those areas of risk. There needs to be potential to grow or a convincing business case that a client will survive, prosper, grow and create employment and, of course, profitability for everybody. Has there simply been, as you suggest, a change of words or has there been a change in the power relationship?

Let me develop the point further, because that was mostly illustrative. Banks used to be a byword for integrity, and people felt that they could trust them. As well as providing the financial facility, people very often got the very best of well-meaning and objective advice about their business from them. Some of the evidence that was presented to us suggests that that relationship is now characterised by fear. That is what people experience when they get the call from their bank manager to call in to see him, whereas it was previously a different relationship. In the first instance, do you recognise the problem of there having been that change, or do you think that that has not happened?

Mr Leenders:
Comments along those lines are a great shame. We hear them, too, and that is why we have looked so closely at the SME lending aspect of banking activity. What can we do to improve customers' perception? There is a big issue around perception of whether or not facilities will be provided. As I suggested, there are six or seven different recommendations to build better

customer relationships. In isolation, I doubt that each individual recommendation will necessarily have a material impact. However, through implementation of the whole package, the total will be greater than the sum of the individual parts. It is important to bear that in mind. Equally, for some SMEs, some of the measures will not be relevant, per se. Therefore, we must make sure that we demonstrate that we are looking to implement change from a good, objective knowledge base of understanding. That is why we are undertaking the independent survey work, and so on. Through that, we can develop the way that industry works with its SME customers, in so far as we can and in as constructive a manner as possible.

Mr McLaughlin:
I will not rehearse the point about public perception of the role of the banks and of the crisis. However, it is a factor that you and your colleagues have to take into account. You acknowledged that there will be different perspectives on the role or response of the banks in these circumstances, and I have no doubt that the banks have given us genuine information about the range of services and products that are on offer. I accept that.

However, equally, I accept the evidence that has been presented to us by church leaders and others, including people who went across the threshold of the banks, sat down in front of their local bank manager and were, effectively, denied resource and support. You offered the explanation that that might have happened because certain business requirements were not satisfied. However, if we all accept that this is an issue of confidence as well as one of making hard-headed business decisions, the question arises: are the banks responding at all levels at which they could and should? It is not a matter of balancing ledgers. It is not even a matter of being more careful than they were in the past. It has to do with addressing the damage that has been done to the credibility of the entire working relationship. People on both sides of this equation are in business and are seeking to prosper.

It seems to me that, as David was suggesting, there is a need to fill the gap and make the connection between the regional Government and what the banks do. The four main banks have appeared before the Committee. I will not pass comment on their personalities, but they have told us that they do not talk to each other and that they are in intense competition with each other. We are looking at significant travails in the economy. We are looking at the fact that if they do arrive at their cost-profit equations separately, it is with hardly a cigarette paper between them. Yet they tell us that we have to talk to them individually because they do not talk to each other. It is just crazy.

There must be a shared objective and shared self-interest in growing the economy here and helping our SME sector in particular, because we are so dependent on it: 95% of our business here is made up of SMEs. We all have to work together. There is not that much advantage or profit in it for banks to come at the issue individually. The only thing that they seem to have in common is their membership of your association. We are looking for a point of contact, so that there is coherence and cohesion. We are not looking for people to talk to us out of the side of their mouths in case the person sitting at the table beside them hears what they are saying. There is not that much difference in it, except if you happen to be on the receiving end of a service and you are finding it difficult to stay in business. You need to recognise that problem.

We need tailored responses for a region such as this, which, relatively speaking, is small, in some people’s perspective. It is a tiny economic entity, but we have a lot of community, business and personal interest here that is not being addressed in the responses that are on offer at present.

Mr Leenders:

I will take that on board. In the work that we do in developing the implementation of the recommendations regionally, I will ensure that community requirement is at the forefront, as well as the competitive element that you mentioned.

Mr McLaughlin:

Confidence also needs to be rebuilt, and there is a role for the Assembly there. Work should be done through the relevant Ministers; I am not talking about a big interface. The banks could work with the political system here to provide assurance that the banks are doing what they said that they are prepared to do. It is too opaque. It is kept too close to the chest. Banks are saying that they are in the business of lending money, and people are telling us that they are not doing that. We should resolve that because it may be down to communication, or somebody might be telling lies. I am inclined to think that it is a communication issue.

Some people are being helped and some are not, but the reasons for that are not clear. It is not clear to the system here, and it is not clear to the Enterprise Minister. That was a direct quote that you heard. Our Enterprise Minister is pointing the finger at the banks in frustration. Surely that warrants a significant response.

Mr Leenders:

Actions speak louder than words, so, hopefully, that will play through. The appearances that we make in front of various committees at Stormont are part of the collective dialogue between bankers and politicians. If there were a better way to invigorate that, we would be happy to talk that through. A year or two ago, we suggested that there might be a banking cross-committee committee, for want of a better phrase, but that does not seem to have gained any momentum. We are happy to talk about alternative ways of getting that communication working better, if it is at all possible.

Mr McLaughlin:

My party has ideas about how we might create that type of forum. Banks could indicate the type of financial resources that they have available, resulting in a more transparent process, so that people could see that what has been promised or committed is actually being delivered. Perhaps we can follow up on that as well.

Mr O'Loan:

Thank you, Mr Leenders, for coming before the joint Committee.

The term "zombie banks" was applied recently to the Northern Ireland banking system by Professor John Fitz Gerald, who is the head of the Economic and Social Research Institute in Dublin. I am sure that you will know that John Fitz Gerald is a very informed and balanced commentator. Obviously, many banks are having difficulties and liquidity problems at the moment and there is a lack of credit, but he is arguing that there is a particular problem for our banks here. I think that that relates to their being, in general, subsidiaries of parent banks. Their headquarters are not here, so our local banks are at the end of the food chain. Is there not validity in what he is saying? Would it not be as well to spell it out that our local banks are under pressure in their ability to provide credit?

Mr Leenders:

I do not know that any bank would deny that there are a lot of pressures to do a number of things in a compressed time frame, such as rebuilding balance sheets and making sure that they serve their customers through a recession and a subsequent recovery. Nor would they deny that those priorities are difficult to align. To suggest that that has failed to the extent that the main incumbent banks here are characterised as zombie banks is somewhat unfair. Equally, I do not think that that necessarily recognises that there have been challengers in the market that have taken a higher profile and that, as a function of competition, will act as a catalyst for more intense banking activity. By that, I mean that, for example, we have seen the continued establishment of HSBC here and increased activity from Barclays. Traditionally, those two banks are not necessarily associated with the Northern Ireland clearing banks market, so that demonstrates that the market is dynamic, that there are broader competitive forces than the super competition between four incumbent banks and that, over time, that will play out to the benefit of consumers.

Mr O'Loan:

Could I ask you about the bonus situation? I understand that the BBA has denied a BBC report that the BBA was hosting talks to reduce the bonus culture and the bonus pot. There is pressure in that respect and I know that the Financial Services Authority (FSA) is working on it and creating a revised code. I think that I would have been more pleased to hear that you were hosting talks. Given the difficulties that many in the business environment are facing and the many people facing unemployment, there is a profound issue around having a bonus culture. Do you accept that there is a need to address that and, at a minimum, very substantially reduce the bonus pot and cap the individual levels of bonuses? What are you doing to exercise leadership in that area?

Mr Leenders:

I appreciate that this is a dismissive answer, but that is not an area with which I have a direct involvement at all. However, what I can say is that all the banks have subscribed to the FSA's guidance on bonuses that was published last year. I would be more than happy to write to you more extensively on the issue of bonuses if that would be helpful for the Committee.

Mr O'Loan:
I will be satisfied with that.

This is a bit similar to my first question but, finally, is the reality not that the banks have been operating in a very difficult business environment, particularly in the last year or two; that they have an emphasis on cutting costs and reducing risks; that they are acting aggressively to do those things; and that that is creating a pretty uncomfortable environment for customers? That is the reality and it would be helpful to acknowledge that. The conversational dynamic that exists currently between yourselves and businesses and between yourselves and political representatives, such as ourselves, is not healthy. It would be very constructive if we could move it on to a more honest and realistic framework and level. Is that not an accurate picture of where we are currently?

Mr Leenders:
In the context of getting to an honest and accurate framework, that is why there is a lot of analysis in the task force report. We want to continue that with ongoing research so that there is a broad consensus, if not wholesale agreement, about what the background picture looks like. The individual banks will have told you how they have managed the undeniable strategic challenges that their businesses face. Whether that is reflected in the banks' lending to SMEs in Northern Ireland being explicitly capital constrained, I do not see that as a particularly accurate representation. Equally, however, in other sectors in which small businesses may have accessed finance, there have been challenges around accessing wholesale finance. Asset financiers have found it more difficult, which means that the provision of credit to SMEs has focused pretty much solely on the banks, particularly in Northern Ireland.

I recognise part of what you say in some components of financing SMEs. It is not necessarily representative across the piece. As regards honesty and openness, let us hope that, by moving to an agenda in which we talk from a perspective of broad consensus and identifying outliers and issues from that standpoint, we move away from a conversation that, looking at it in a seasonal way, is a little bit more of a pantomime of, "Oh yes we are! Oh no you're not!" I absolutely accept that we have to get beyond that, which is why we are looking to consider how we can implement the task force report across Northern Ireland.

Mr Girvan:

Thank you for your presentation, Mr Leenders. However, it somewhat goes against the grain of some of the evidence that I receive from constituents and what we have heard in this Chamber from some businesses that have had the goalposts moved.

Banks are being made to make savings and have targets set, not necessarily at a local level. I reckon that those come from further up the tree, and the banks have to make those savings. Unfortunately, the people who suffer are those who probably can least afford to pull additional resources or money out of their existing business. A viable business is one that generates sufficient cash to service and repay existing and requested new debt. Requested new debt is whenever a bank expects the business to reduce its overdraft by, say, £30,000. The bank does not give the business a time frame; it just holds on to every penny that comes in until it reaches the target level. Unfortunately, those businesses then have no cash flow. They have budgeted on the basis of what they have and they do not get any help.

As far as the banks from Northern Ireland are concerned, the message that we heard was very much to speak to you. We thought that we would be getting some answers today, but, unfortunately, we are not. We are not engaged at a level at which we are able to achieve what we want to. We want extra help for those businesses, to bring them through what is a very difficult and trying time.

I am glad that Declan talked about bonuses. The bonus culture in the banking sector is an issue that has been demonstrated through the media. That did nothing but rub salt into the wounds of businesses that were already suffering. I, for one, am not happy with what I have heard today because it does not answer any of our questions.

Some of the banks have sent us correspondence but have said that, for commercial reasons, they do not want it to be leaked. I would question some of what they have put forward; I think that that is why they do not want it to be leaked. I am hearing figures, and I could probably put the names to some of the people they are talking about as having gone into administration. The numbers are small but I can guarantee you that there is a lot more. Not all of those businesses were moved on by their bank, but the bank contributed to it happening by freezing their assets, thus preventing them from moving forward and making payments to keep the business afloat. It may not have been the bank that moved on them initially; other people may have moved on them because they could not pay the money that was owed to them, and they could not do that because they were budgeting on the bank supporting them.

I am not happy. To go back on the point that David touched on, we need to be at the table and to be engaged with the task force at a strategic level to work out a way forward. We are out of the loop. We feel that we are not engaged in it.

I want to ask you one question: what influence do you have on the policies that are being delivered by the local banks?

Mr Leenders:
Do you mean in the context of competition?

Mr Girvan:
I am referring to their lending policy.

Mr Leenders:
Their lending policies and policies on competition are a matter for them. It would be in no one's interest to provide further finance to a business that could not demonstrate that it could be repaid. If that sort of proposition were put to a bank, they would scrutinise it very carefully.

Mr Girvan:
I am not saying that they cannot repay it. I am saying that they budget to repay what was agreed but, unfortunately, the goalposts are being moved halfway through the term and they are having to go back and renegotiate. In such cases, they have not taken such renegotiations into their calculation for the year's cash flow. The problem arises when the goalposts are moved and businesses are asked to pay additional money. That is the point. It is fine to have to pay according to the existing arrangement, but not a new, renegotiated term. However, that is what is

happening. Businesses have agreed their terms at, for example, 4% above base rate but how much will be paid above base rate is being recalculated for a number of businesses. That is having an impact.

Mr Leenders:

My understanding is that that happens more with businesses that have existing facilities and then ask for further facilities.

Mr Girvan:

Not according to what was presented here last month at an evidence session. We heard about a business that was not looking for additional money; it was back to renegotiate its existing facility.

Mr Leenders:

It is not for me to speak about individual circumstances. However, there will be circumstances when that is necessary. That is unfortunate. It is regrettable but, as markets move, business plans and business models have to adapt, and recessions tend to accelerate market movement. As a function of that, finance might need to be restructured, particularly if that business is not able to move its business model in line with the marketplace. Otherwise, the market will move on and leave the business behind. It is difficult for me to give you a more specific answer without understanding the proposition that sits behind it. I know that individual banks have given you undertakings to look at instances in which you feel that particular loans have been treated inappropriately. I can only repeat that offer on their behalf and, perhaps, offer a more general observation on the reasons why that, regrettably, has to happen sometimes.

The Chairperson:

Stephen, I remind you that we have to be out of here by 3.30 pm.

Dr Farry:

I will be brief. I am supposed to be at another Committee meeting. I want to pick up on Paul’s point about the bank calling in overdrafts or lowering overdrafts. In a sense, the bank is acting like a privileged creditor. It is saying that it has the ability to say that if money comes in from a company, it will take it for the debt that the company technically owes the bank. However, that company is then foreclosed, and that affects other creditors that they need to pay, such as suppliers. There is a supply chain that depends on money coming in. That is foregone because the bank has taken the view that if money comes in it will be used to pay off the company's overdraft. The bank will lower the overdraft limit and will take care of its balance sheet ahead of any other business.

Mr Leenders:

Would banks have to move on certain occasions to protect their position? Yes, they would. Will they do that unilaterally on all occasions? No, they will not. Your observation is not lost on the credit departments of various banks. It is a consideration that they need to take into account. Ultimately, though, they are protecting depositor's funds, and as such, they have an equal responsibility to depositors to protect those balances. If that option is the only one available to them, that is the option that they must pursue.

Dr Farry:

Yes, but why should a bank be able to protect its depositors' funds any more than a company that has acted as a supplier to another company should be able to take money to pay for the goods and services that it has provided and to pay its employees' wages?

Mr Leenders:

That is the basis of the provision of the credit. That is the deal; it is the understanding of how that credit is provided. As such, a bank that provides an overdraft will, of course, have the ability to reduce facilities when it sees that there is an unacceptable risk. I cannot tell you that that is a straightforward or easy decision, and I would hate it if the Committee were to walk away thinking that the people who take those decisions do not have an absolute understanding of the implications and ramifications of doing that. Sometimes, however, those very difficult decisions simply have to be made.

Dr Farry:

Yes, but do you recognise that the banks are in a more powerful position to address their balance sheets than any other company that may be owed money by the company in question?

Mr Leenders:

In that context, yes, but in other contexts, it would clearly be different.

Dr Farry:

There is a wider point to be made, which is that the banks are not operating on purely commercial principles. Some of them have been subject to financial support from the British taxpayer, and the principle has been very clearly established that if a bank in the United Kingdom is on the brink of failing, the government will intervene to prevent that from happening. In that sense, the banks do not run the same degree of risk that other companies in the market run. It is almost ironic to note that although you have a definition of what is understood to be a viable business, many of the financial institutions in this country over the past number of years have fallen well short of the banks' own definition of what is viable.

Mr Leenders:

As an industry, we recognise that we should not be reliant on some form of implicit guarantee.

Dr Farry:

Do you recognise that you are?

Mr Leenders:

That is why we are looking to move away from that. That is why there is so much intense activity around the recovery aspects.

Dr Farry:

With respect, the nature of the banking industry and the importance of the financial markets to the health of the whole economy mean that that guarantee will always be there. Whether the banks want that guarantee, it will always exist; it is implicit in what any responsible government will do to protect their economy in the wider interests of business.

Mr Leenders:

We have moved away from that somewhat. The resolution regime that was put in place in recent legislation and the enhanced capital and liquidity requirements are designed to move away from an implicit guarantee. In that context, the industry accepts that it should not be seen as being too big to fail; it should be seen as being able to stand on its own two feet. If that means that the business concerned must fail, the priority must be to protect depositors, and, in so doing, that is why further work is being done on the deposit guarantee and the European deposit guarantee scheme directive, which has introduced the increased limit of €100,000 equivalent.

The Chairperson:
Mr Leenders, we have no more questions for today. However, I would like to ask two things on behalf of the Committee. First, will you co-ordinate a response from the banks as to when they are going to implement the recommendations in the task force report? Will you do that and get that information to us?

Mr Leenders:
We would be happy to write back to the Committee. We need to do some work to understand where the priorities lie and which recommendations feel most appropriate and fit best with the market, but we will be happy to do that for you.

The Chairperson:
You have listened to members' concerns, and I am sure that you have heard them before, but I ask that you take those concerns back to the people who have responsibility for lending in the North. The banks have a responsibility to help us out of this recession and to help build the economy, and the only way that people with viable businesses can do that is if the banks start lending to them. I would like you to take that back to the four main banks, which you represent. Thank you for coming along. I ask that you take those two issues on board.

Mr Leenders:
I must not leave the meeting without saying that there is a difference in perspective on the extent to which bankers feel that they are providing support. However, we are more than happy to continue to work with you to demonstrate how we are looking at moving that agenda on. A component of that is the adoption of some of the recommendations in the task force report. Perhaps we do not wholly agree, but I hope that, from my speaking to the Committee this afternoon, you will appreciate that we absolutely see our responsibility and we are very keen to

engage in a more open dialogue.