

RBS customers rejecting incentive to switch banks

State-run lender missing targets set by Brussels

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Alison Rose, the chief executive, is under pressure to transfer more small business customers out of RBS

The new boss of Royal Bank of Scotland faces the prospect of government intervention over its failure to persuade small business customers to switch to rival lenders.

The official body responsible for overseeing the scheme may impose new conditions on the state-controlled bank to increase the number of switchers.

This would represent an embarrassing start for Alison Rose, 49, who took on the top job a week ago and is the first woman to run a big British bank.

RBS has been trying to transfer more than 100,000 small business customers over the past decade. It was ordered to make the move by the European Commission as part of state aid penalties after receiving a £46 billion taxpayer-funded bailout in 2008 and 2009. Under the latest version of the plan, launched in February, RBS was meant to switch 120,000 small and medium-sized customers via a specially created website to other banks by next August.

Confidential figures seen by *The Times* show that the number of small businesses moving to other banks or expressing interest in doing so has slumped. About 12,000 small businesses switched between late February and June, compared with 6,000 in July to September. Businesses registering interest fell by 80 per cent, from 35,000 to 5,000.

One banking industry source said: “The drop-off in interest so early in the scheme is pretty worrying. Without some dramatic change, it looks like they will get nowhere near transferring enough customers out of RBS and shift the dial on competition.”

RBS may have to operate the scheme for longer, widen the group of customers that it contacts or increase the £275 million pot that it has set aside to pay incentives for switching. The bank, which is 62 per cent-owned by the taxpayer, pays dowries to rivals to take on customers ranging from £750 for a business with turnover of under £15,000 to £50,000 for one with turnover of more than £7.5 million.

Eleven small banks including Metro, Starling, Santander, Co-operative and TSB, have signed up to the switching scheme. Typically, participating banks pass on the dowries to business customers with a small top-up to tempt them to move.

According to those involved, their efforts have been met with apathy, owing to the bureaucracy involved in changing bank and the incentives not being strong enough.

The scheme is being overseen by Banking Competition Remedies, run by Lord Cromwell, a former Barclays banker. He is under pressure from the banks involved to shake up the process. The Treasury is monitoring the situation closely and could intervene if switching continues to be at a low level, sources said.

RBS said: “We are committed to delivering the scheme successfully and continue to work with participating banks as part of our commitment to increasing competition in the UK business banking sector.”

Lord Cromwell said: “Initial take-up has been good and the number of switches represent a significant increase in historic switching rates for this sector. The pace of account transfers is being closely monitored throughout by BCR and we are working closely with participants to ensure optimum performance.”

His agency also oversees a £425 million fund paid for by RBS and given to other banks to develop improved services and technology.