

For contractors banking does not get easier

Banking will be both more expensive and no less difficult for contractors in the coming year,

According to the London-based [Federation for Small Business](#), contractors will face higher fees, but will not receive additional service. Nor will switching banks become any easier.

Price Controls Lifted

In a move that surprised many observers, the [Competition Commission](#), which is the government watchdog for fairness in the marketplace, lifted controls on fees for small business banking last week. These controls had been in place since 2002.

These controls were put in place originally because the market for small business banking was controlled almost entirely by the four biggest banks: Barclays, HSBC, Royal Bank of Scotland, and Lloyds TSB.

Interest Goes Down; Costs Go Up

Under a deal reached with the competition authorities, these main business banks agreed to offer small businesses two options: either they could have an account that pays interest on credit balances of at least 2.5 percentage points below the base rate or they had to provide free banking. Banks were also permitted to offer both options, but so far as we know none took up that possibility. In addition the banks agreed to advertise these benefits to their customers.

The Competition Commission has now permitted these banks to terminate this offer. Which means of course that small business banking accounts will cost more.

The Commission, for its part, justifies the move by pointing to changes in the small business banking market. Now the four main banks only have 70% of the total small business banking market, as Competition Commission deputy chairman Christopher Clark said in a statement last week.

FSB is "Bewildered"

"Having reviewed the evidence and advice from the OFT, we believe that these price controls are no longer appropriate. They were intended to be temporary and have now been in place for over four years. During this period, other significant banks, such as HBOS, Abbey, and Alliance & Leicester, have competed more strongly for SME customers and improved their market position. SMEs have raised their expectations of what banks should provide and are more likely to consider switching if they do not get what they want."

But the move raised hackles at the Federation for Small Business which has been monitoring small business banking closely.

Issues That Need Attention

The FSB did a survey of the market for our banking last year. While they did find that competition in the market had improved to the extent the Commission stated, they also found that there were lots of issues that needed attention.

"We are utterly bewildered by the Competition Commission's provisional decision in this case. It flies in the face of all the evidence we have given and completely contradicts the experience of thousands of our members," insists Mike Cherry, FSB Financial Affairs chairman,

The FSB found that switching banks was either terribly difficult or extremely daunting for small businesses. This means that they remain at the mercy of their bank with little to say about extra charges, or unsatisfactory service. Moreover, banks that were supposed to make charges easier to understand, and to advertise the terms of the accord with the Competition Commission had not done so. They are hardly likely to become more open now that controls have been lifted.

The Commission claims that it will continue to push banks in the right direction. But the FSB isn't having any.

Says Cherry: "Despite their promises to the contrary, there has been a worrying lack of transparency from the banks about the services they offer to small businesses."

For as long as switching banks remains a challenge, that is not likely to change.

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