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FCA scrutinising interest-rate swap sales to doctors

Caroline Binham in London YESTERDAY

UK financial watchdogs are examining allegations that banks systematically mis-sold doctors and practices interest-rate swaps.

Andrew Bailey, the chief executive of the Financial Conduct Authority, revealed the regulator's interest during its annual general meeting on Tuesday, raising the prospect that no line will be drawn under the scandal that has plagued banks for several years.

"I think it's important that the mis-selling of the past is dealt with. I should say that we have a number of cases that we are looking at the moment that involve GPs and doctors' surgeries. We are looking at this from the point of view of our responsibilities and how the rules work and whether we can see systematic practices in there," Mr Bailey told the AGM in London.

In response to an allegation from an audience member that Royal Bank of Scotland had "heavily targeted" GPs practices, and had potentially prevented "hundreds of millions of pounds" from going back to the healthcare system, Mr Bailey said the case was "very interesting" and urged more information on it.

Banks have already had to pay out around £3bn in compensation over interest-rate swaps in connection with allegations that they mis-sold the hedging products for more than a decade since 2001. The FCA found that the products were mis-sold in 90 per cent of cases.

The products can protect the customer against a rise in their borrowing costs, but more complex versions can stray into the realm of interest-rate speculation. When rates were slashed at the onset of the financial crisis, it left many small businesses out of pocket.

One London surgery sued Barclays last year for £4m, alleging that it had been mis-sold a hedging product with insufficient information about the risks, ultimately costing the practice millions of pounds. That case has now settled.

Abhishek Sachdev of Vedanta Hedging, a firm that advises corporate treasurers, said it has dealt with about 20 GP practices that have alleged mis-selling around interest-rate derivatives.

"GP surgeries weren't targeted any more than any other kind of business, but what we have noticed is that they were locked into very-long term products — 20 or 30 years — with no ability to amend them," he told the Financial Times.

The FCA forced nine of the biggest lenders to review their sales to small businesses and "unsophisticated" customers in 2013. Generally, RBS was the biggest provider of interest-rate hedging products to small businesses, making almost 10,000 sales.

Separately, Mr Bailey said that the FCA was weighing its next step after it has broadly completed its investigation into a fraud at the Reading branch of HBOS, the collapsed lender taken over by Lloyds Banking Group. The FCA had to put its probe on hold in 2013 following a criminal investigation that led to six people being sent to jail.

The FCA is investigating who knew about the fraud, and when, within the bank's top brass, and how it was communicated to the regulator.

The FCA has a parallel probe into the former senior managers of HBOS surrounding the bank's £25bn collapse a decade ago. They are also involved in the first investigation. The second probe is still ongoing — a decade after the bank's collapse — not least because a cache of potentially important evidence has been sat on and only recently turned over to the regulator, Mr Bailey told the Treasury select committee in June. On Tuesday, he said this turn of events was "frustrating".

The watchdog will also release its final report into another longstanding scandal — involving RBS's Global Restructuring Group— in the coming weeks. GRG was accused of profiting from thousands of small businesses it was meant to help during the financial crisis.

The FCA said earlier this year it could not take any action after five years of investigation because commercial lending remains largely unregulated.

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