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Financial
Ombudsman
Service



micro-enterprises and financial services

a review of complaints

Financial Ombudsman Service insight briefing

1. introduction

Most of the complaints we deal with at the ombudsman are brought by individual consumers. But we're also able to consider complaints from "micro-enterprises" – an EU term covering the smallest businesses with an annual turnover of up to two million euros and fewer than ten employees.¹

Each year we record around 4,500 complaints from micro-enterprises.² However, the true number of complaints is likely be higher³ – because many owners of micro-enterprises, particularly self-employed people, bring their complaints to us as individuals.

Micro-enterprises make up 95% of all businesses in the UK⁴, and make a major contribution to the economy. So it's vital that they're well-served by financial providers. But regulators have pointed to problems in services that financial providers offer to small businesses.⁵ Regulators have also pointed to low levels of trust, amongst small businesses, that banks will act in their best interests.⁶

To help us build a richer picture of the kinds of micro-enterprises that come to the ombudsman, and the problems they've encountered, we looked in detail at a representative sample of over 200 complaints that we resolved between July and October 2014.⁷ We hope that by sharing what we're seeing, we can help to support the relationships between micro-enterprises and financial providers, to highlight areas of good practice, and to promote change where it's needed.

This report sets out what we found from the complaints we reviewed. Although the complaints were about a range of financial products and services, we identified some broader themes:

- **vulnerability and support**

In only 8% of the complaints we reviewed did we see evidence that micro-enterprises had legal or accountancy support at the time of the events that led to their complaint, either from external professionals or their own staff. Levels of understanding about money matters vary between micro-enterprises, just as they do among private customers. No one should assume micro-enterprises understand financial products and services better than private customers.

- **terms and conditions**

Over half (56%) of the complaints we reviewed involved a problem with the terms and conditions of a financial product. This was generally because a micro-enterprise customer didn't know about one of the terms, conditions, exclusions or features of the product they'd bought – or disagreed with the financial provider over how it should be interpreted.

Problems with terms and conditions sometimes arose because of an oversight by a micro-enterprise and sometimes because of a failing by a financial provider, as the case studies we feature illustrate.

- **expectations and service**

In one in five (20%) cases, we had to explain things that financial providers hadn't explained properly before. Many micro-enterprises were unhappy with the level of support offered to them by financial providers. A quarter (24%) said that either the provider had failed to support them enough or hadn't fulfilled what the micro-enterprise regarded as a "duty of care".⁸

We explore our findings in more detail in the following sections:

- the micro-enterprises coming to the ombudsman
- the complaints micro-enterprises brought to the ombudsman
- a closer look: complaints about bank accounts
- a closer look: complaints about lending
- a closer look: complaints about insurance
- a closer look: complaints about card payment services
- conclusions and lessons to consider
- annex 1 – technical details of the sample of cases we reviewed
- annex 2 – the rules on micro-enterprise eligibility

2. the micro-enterprises coming to the ombudsman

sector, size and geographical location

The complaints we reviewed came from micro-enterprises undertaking a very wide range of activities. We'd been contacted by – among others – hotels, medical practices, farms, fast-food shops, commercial landlords, driving instructors, business consultants, garages, hairdressers, plumbers, estate agents and taxi drivers. Overall, a third (35%) of the micro-enterprises in our sample were in the retail or building sectors or provided hotel and catering services.⁹

sample of micro-enterprises by sector

business activity	percentage
building, decorating, maintenance	10%
property development	6%
hotel, B&B, restaurant, pub, catering	10%
motor sector	7%
residential rentals, buy to let	6%
financial, legal	3%
medical, dentistry, therapy	3%
other services and professions	22%
other retail (including high street and online)	16%
manufacturing, engineering	2%
agriculture	6%
other	8%

source: Financial Ombudsman Service. Base: 197 complaints, excluding 4 complaints where it was not possible to determine the activity of the micro-enterprise from the archived material analysed in our review. The percentages in this report are all rounded to the nearest whole number. The rounding means that in some tables the percentages don't add up to exactly 100. The category 'other services and professions' encompassed a very wide range of enterprises, from estate agents, driving instructors and marketing services, to business consultancies, dry cleaners and recruitment agencies.

The diversity of the businesses represented in the sample was also reflected in their maturity. We received complaints from businesses at both ends of the range – from people starting up on their own at home, to established companies with employees and their own premises. And the complaints were drawn from across the UK. 34% of the micro-enterprises that complained to us were based in London and the south east of England, in line with the national distribution of micro-enterprises.¹⁰

Nearly two-thirds (65%) of the micro-enterprises in our sample were made up of only one or two people.¹¹ A third of those bringing complaints to us were limited companies (35%), and nearly a fifth (17%) were partnerships. Unsurprisingly, limited companies and partnerships were more common among the larger micro-enterprises than the smaller ones.

sample of micro-enterprises by number of employees

size of micro-enterprise	percentage
sole trader	42%
two people	23%
3- 5 employees	21%
6-9 employees	14%

source: Financial Ombudsman Service. Base: 171 complaints, excluding 30 complaints where the researchers weren't able to determine the precise size of the micro-enterprise from the archived material they analysed.

Just over half (52%) of the micro-enterprises gave us a figure for their annual turnover on their complaint form. Their turnover ranged from under £10,000 a year to over £1.5m. A quarter (27%) had turnover of less than £40,000 and half (49%) had a turnover of less than £130,000.

In the complaints we reviewed, we didn't find that size made a significant difference to the nature of the problem or the outcome. Complaints from sole traders and from micro-enterprises with between five and nine employees were very similar in terms of the proportion we upheld; how many mentioned a lack of support or what they regarded as a "duty of care"; how often terms and conditions had caused a problem; or whether we had to explain things that the financial provider had failed to.

the support micro-enterprises had

We looked at whether the micro-enterprises coming to us had any type of support at the time the event that they were complaining about took place – and we also looked at whether they had support to bring their complaint to us.

We found that micro-enterprises aren't necessarily in a stronger position to deal with money matters than private individuals. During the original events that led to the complaint, we found evidence that the micro-enterprises had support from a lawyer or accountant in only 8% of cases – either from external professionals or from their own staff.¹²

Four in five micro-enterprises (82%) brought their complaint to the ombudsman themselves.¹³ The rest were represented by an external lawyer or accountant, or by a friend or family member. Only three in our sample were represented by a claims-management company. The smallest micro-enterprises were more likely to be represented by a friend or family member. Looking at non-PPI complaints where consumers are represented, private individuals are more likely than micro-enterprises to use a claims manager to complain to us.

3. the complaints micro-enterprises brought to the ombudsman

who the complaints were about

Over half the complaints we looked at were about banks and about a quarter were about insurers. The rest were about credit providers, intermediaries and card payment service providers.¹⁴

who the complaints were about

who was the complaint about?	percentage
bank, building society	54%
other credit provider	5%
insurer	27%
intermediary/broker	7%
card payment services provider	6%

source: Financial Ombudsman Service. Base: 201 complaints.

When looking at the financial product in question – rather than the provider – just over a third of complaints were about insurance (36%), about a quarter about lending (28%), and just under a quarter about bank accounts (24%). Smaller numbers were about card payment services, investments and pensions.

what the complaints were about

what was the complaint about?	percentage
bank accounts	24%
lending	28%
insurance	36%
card payment services	7%
investment, pensions	3%
other	1%

source: Financial Ombudsman Service. Base: 201 complaints.

the problems the complaints were about

The complaints were almost as diverse as the micro-enterprises themselves. Most complaints can be grouped into four broad categories – administration problems such as a delay or errors in paperwork and correspondence (the main feature of 22% of complaints), costs (13%), the nature of the product and how it was sold (17%), and something that happened once the product had been taken out (35%).

We often found there was more than one reason behind a complaint. For example, a micro-enterprise may have wanted a refund of charges and interest on a mis-sold loan – but was also unhappy with administration of the payments. The table below and on the following page shows the main reasons for the complaints we reviewed. We also looked at any additional reasons – to give an overview of all the problems the micro-enterprises brought to us.

Adding the main and additional reasons together, 35% of micro-enterprises complained about administration, 20% about costs, 28% about the product or its sale, and 49% about something that happened once the product had been taken out.

main and additional features of the complaints

main and additional reasons for complaint	main reason		all reasons	
	(cases)	(%)	(cases)	(%)
administration problems	45	22%	71	35%
bank accounts – administration, delay	28		32	
insurance – claim delay	4		6	
insurance – other administration, delay	6		18	
lending – administration, delay	5		12	
merchant acquiring – administration, delay	2		3	
costs	27	13%	40	20%
bank accounts – charges, fees	9		11	
insurance – level of premiums	3		5	
lending – level of interest and charges	12		21	
merchant acquiring – contract terms, charges, fees	3		3	

	main reason		all reasons	
	(cases)	(%)	(cases)	(%)
nature of the product and its sale	35	17%	56	28%
insurance – sale - suitability, mis-selling, misrepresentation, explanation	15		20	
lending – loan/overdraft application declined	3		3	
lending – sale - suitability, mis-selling, misrepresentation, explanation	12		18	
lending – structure of lending	3		13	
merchant acquiring – sale - suitability, mis-selling, misrepresentation, explanation	2		2	
events after the product was taken out	71	35%	99	49%
disputed transactions, cheques, credits	6		6	
insurance – cancellation by insurer	10		13	
insurance – claim declined or reduced	29		35	
insurance – other claim problem	3		5	
lending – early repayment	1		1	
lending – financial difficulties, repayment plan	3		7	
lending – liability disputed	2		6	
lending – loan/overdraft not renewed or withdrawn	5		12	
lending – security /possession/guarantee	6		8	
merchant acquiring – chargeback/disputed transactions	6		6	
other	23	11%	37	18%
other problem with bank accounts	5		10	
other problem with insurance	3		6	
other problem with lending	5		6	
other problem with merchant acquiring	1		1	
other problem with investment	4		6	
pensions	2		2	
other complaints	3		6	

source: Financial Ombudsman Service. Base: 201 complaints.

41% of complaints came about because the micro-enterprise didn't know about at least one of the terms, conditions, exclusions or features of the product they'd bought. In 44% of all complaints there was a disagreement over the interpretation of one of these.

And many complaints involved both of these things – in 56%, the micro-enterprise either didn't know about, or disagreed with the interpretation of, product terms, conditions, exclusions or features.

ombudsman case study:

terms and conditions – business unaware of foreign currency charges

Mr and Mrs A ran a business that made frequent payments in foreign currency to overseas advertisers. As their business grew, they found the payments they needed to make were higher than their credit card limit – so they switched to making payments on their debit card.

After several years Mr and Mrs A realised that the bank charged a foreign purchase fee for each payment. They calculated that they'd paid tens of thousands of pounds in these fees. They complained that the bank had made the fees hard to see and that there had been no fees for using their credit card. They wanted all the fees refunded.

We confirmed that the charges were in line with the account terms and conditions. Mr and Mrs A said the terms and conditions were very long and no one could be expected to read them all. But looking at the monthly account statements, we found the charges were shown separately alongside each payment. We didn't think that the bank had hidden the fees – so we didn't tell it to refund them.

A quarter of micro-enterprises (24%) complained that the financial provider didn't support them enough or failed in what the micro-enterprises regarded as the provider's "duty of care" to them.

*ombudsman case study:
catering company says bank gave no support when in trouble*

B was a young company which started to have difficulties with its cash flow. Its bank account became overdrawn but there was no agreed overdraft facility. The company tried to contact its account manager at the bank – and was repeatedly told he would reply, but nothing happened. In the meantime, charges continued to accrue on the overdrawn account.

Eventually the bank got in touch and offered the company a loan to cover the shortfall – although the account manager said the bank wouldn't refund the charges that had built up due to delays in making contact. The company then had difficulty getting in touch to follow up the loan offer – and was eventually told that the account manager had changed.

The company had provided the bank with a copy of its latest trading accounts, which it then couldn't get returned. The loan offer was then withdrawn and no alternative offered to clear the debt. The company complained, asking for its debt to be written off and its trading accounts to be returned. The bank acknowledged its delays and failures – including the mistaken loan offer – but said the company must take some responsibility for being overdrawn.

When the company contacted us, the owners told us they'd considered declaring bankruptcy as there seemed to be no other way to clear the debts that had accrued. After we'd got involved, the bank offered to refund over £500 of fees and charges and make a £200 payment for inconvenience – and to return the trading accounts. We thought the bank's offer was reasonable.

the outcome of the complaints we reviewed

Of the 201 complaints we reviewed, the ombudsman service found in favour of the micro-enterprise in 42% and in favour of the financial provider in 58%. The outcomes varied between financial providers. For example, we found in favour of the micro-enterprise in 52% of complaints against banks, compared with 26% of complaints against insurers.

outcome of complaints by financial provider

outcome of the complaint	all providers	banks	insurers	others
in favour of financial business	58%	48%	74%	63%
in favour of micro-enterprise	42%	52%	26%	37%

source: Financial Ombudsman Service. Base: 201 complaints.

During some of the complaints, the ombudsman service helped the micro-enterprises by explaining things that hadn't previously been made clear. These could be the terms and conditions, how the financial providers' processes worked, or what the law and regulations meant in practice. We needed to do this in one in five cases (20%) – whether or not we upheld the complaint. And it was more common among complaints about banks than other types of financial providers.

helping to explain

did the ombudsman service have to explain things that the financial firm failed to explain?	all providers	banks	insurers	others
yes	20%	25%	11%	18%
no	74%	68%	82%	82%
can't tell	6%	7%	7%	0%

source: Financial Ombudsman Service. Base: 201 complaints.

overview

In the cases we reviewed, we found it was the type of product or service involved that mainly influenced the issues involved in a complaint – rather than any particular characteristic of the micro-enterprise involved. The table below summarises the types of complaints we received across different product areas.

the main drivers of complaints by product area⁴⁵

	main issues	problems with product features, terms, conditions	support or duty of care is feature of complaint
bank accounts	<ul style="list-style-type: none"> administration charges, fees 	sometimes (27%)	sometimes (27%)
lending	<ul style="list-style-type: none"> interest and charges original sale 	frequently (60%)	sometimes (35%)
insurance	<ul style="list-style-type: none"> claims declined or reduced original sale 	frequently (70%)	rarely (10%)
merchant acquiring	<ul style="list-style-type: none"> chargebacks and disputed transactions 	frequently (71%)	sometimes (43%)

source: Financial Ombudsman Service. Base: 201 complaints.

Problems with terms and conditions were a theme across all types of products. In general, insurance complaints focused mainly on the contract itself, with some additional customer service issues being raised. Complaints about the service provided by the financial provider were more common among banking complaints. In some of these complaints, there was an indication that the micro-enterprise customer expected a commitment by the bank to an ongoing relationship beyond what was in the formal contract – particularly where it involved lending.

4. a closer look: complaints about bank accounts

main reasons for complaint – bank accounts

main reason for complaint	percentage
administration, delay	58%
fees, charges	19%
disputed transactions or credits	13%
other	10%

source: Financial Ombudsman Service. Base: 48 complaints.

Over half the complaints made by micro-enterprises about bank accounts involved administration problems and delays (58%). Another fifth (19%) were about charges and fees. Disputed payments and missing credits made up one in eight (13%).

ombudsman case study: bank error cuts off shopkeeper's supplies

Mr C complained that his bank made mistakes that interrupted his direct debit payments to a supplier – which suspended its dealings with him until the direct debit was reinstated. Mr C offered to pay cash but the supplier wouldn't accept it. The mix-up meant that Mr C lost three days' worth of takings.

The bank acknowledged that it had made errors. Mr C provided evidence of his steady daily takings before supplies were interrupted. We ordered the bank to refund late fees and compensate Mr C for the lost income.

We found in favour of the micro-enterprise in 58% of complaints about bank accounts¹⁶ – the highest proportion in the sample.

ombudsman case study:

bank takes months to set up a business current account

The bank told Mr D, director of a building company, that it would take no more than three weeks to open a business account. After two weeks he checked with the bank and they told him they needed more information, which he gave them on the same day. A month later the bank acknowledged the delay, offered compensation and said it would make the account a priority.

A month later the bank said it had lost all the papers, so Mr D provided new copies. Another month passed. Mr D contacted the bank and a cheque book arrived the next day. He was told the account was open, but when the company tried to use the account, it was blocked.

The delay meant Mr D's company wasn't able to pay key outgoings like rent and council tax, and that it needed to borrow money to cover these costs. The lack of access to money also meant that the company wasn't able to take on a lucrative contract.

The bank account was eventually set up – but there were still problems even as the complaint was referred to us, six months after the original application. We told the bank to increase the compensation and pay the company's accountancy fees resulting from this matter.

19% of complaints about bank accounts came about because the micro-enterprise didn't know about at least one of the terms, conditions, exclusions or features of the product they'd bought. In 21% of complaints there was a disagreement over how these had been interpreted. As with other products, there was an overlap between these problems – and together they made up 27% of the complaints we reviewed.

In 19% of complaints about bank accounts, the micro-enterprise said the bank didn't give them enough support. The same percentage told us they felt the bank owed them a "duty of care". Overall, the micro-enterprise brought up one or both of these issues in 27% of bank account complaints.

In 17% of complaints about bank accounts, the micro-enterprise said that the firm's business/relationship manager¹⁷ caused a problem.

5. a closer look: complaints about lending

main reasons for complaint – lending

main reason for lending complaint	percentage
level of interest or charges	21%
sale – suitability, mis-selling, misrepresentation, affordability, structure of lending	26%
disputed liability, security, guarantee	14%
lending declined, withdrawn, not renewed	14%
administration, delay	9%
other	16%

source: Financial Ombudsman Service. Base: 57 complaints.

A quarter (26%) of complaints involving lending were about how the lending was originally set up – suitability, affordability and the structure of the lending.

ombudsman case study:

“break cost” on newsagent’s secured loan

Mr and Mrs E took out a 20-year fixed rate commercial loan, with their shop as security. Three years later the bank was concerned about the shop’s trading position and eventually transferred the lending balance – plus substantial break costs – to its recoveries department.

Two years later, the bank had the property valued and started possession proceedings. Mr and Mrs E complained – saying in particular that when the loan was sold they hadn’t been told about the potential break costs.

We saw that Mr E had been in his mid-fifties when the loan was arranged and no one else in the family was likely to take over the business when he retired – so it was clear the couple needed the flexibility to repay the loan early.

The bank's internal notes showed that the relationship manager actively persuaded Mr and Mrs E to extend the fixed-rate period.

We decided that the bank hadn't given the couple enough information to understand how high the break costs might be. If they'd understood, we thought they would have taken a variable rate loan.

After we explained our view to the bank, it offered to reduce the debt by the amount of the break costs and to reconstruct the loan debt as if the loan had been on a variable rate. This reduced the debt by tens of thousands of pounds. Mr and Mrs E agreed to this settlement.

ombudsman case study:

residential landlord company disputes a charge on a one-year loan

Mr F's company took out a loan that included an exit fee which Mr F thought would be charged in four quarterly payments. When the loan came to an end, the bank charged a further fee. Mr F complained that the extra payment hadn't been agreed.

We looked at the loan agreement and saw that a fee was to be paid at the end of each quarter. The loan was actually held for five quarters, rather than four, so we said that the fifth fee was in line with the agreement.

Mr F said that the written agreement was incorrect and in all other discussions with the lender, only four payments were mentioned. But we couldn't see anything that suggested the bank had led him to believe that only four payments were due. So we didn't think it would be reasonable to order the bank to waive the fee.

A fifth of lending complaints (21%) were about the level of interest and charges.

ombudsman case study:

sole trader said business loan was too expensive and personal bank charges were unfair

Mr G was in the travel business and had a business loan. Looking back after three years, he felt it would have been cheaper to have increased the mortgage on his home instead. So he complained that the loan had been mis-sold. He also felt that the charges on his personal bank account were excessive.

Mr G told us about his financial difficulties – hardship he felt had been made worse by the charges attached to his bank products. He said the bank had no financial expertise and didn't understand the needs of his business and personal situation. There wasn't a record of what was discussed at the time of the loan application and the relationship manager didn't work at the bank any more.

We didn't think it was unreasonable for the bank to charge interest as set out in the loan agreement – which had been signed by Mr G – and the charges on the current account were in line with the account terms and conditions. Sometimes Mr G went over his agreed overdraft, but he'd always been able to bring it back within its limit. We didn't uphold his complaint.

The majority of lending complaints were about problems with existing or past lending, rather than problems being able to get a loan. We found in favour of the micro-enterprise in 46% of lending complaints.¹⁸

Eleven complaints (one in five of lending complaints) were about lending that also involved interest-rate hedging¹⁹ – and ten of these were upheld in favour of the micro-enterprise. In nearly all of these cases the micro-enterprise was unhappy about “break costs” – the charges for leaving the arrangement early.

40% of complaints about lending came about because the micro-enterprise didn't know about at least one of the terms, conditions, exclusions or features of the product they'd bought.

In more than half (54%) of all lending complaints there was a disagreement about the interpretation of terms, conditions, exclusions or features. As with other products, there was a substantial overlap between these problems – and together they accounted for 60% of the complaints.

In 19% of lending complaints, the micro-enterprise said that the financial provider involved hadn't given them enough support. 28% – though of course with some overlap – indicated that they felt that the lender owed them a “duty of care”. Overall, the micro-enterprise brought up one or both of these issues in 35% of lending complaints.

In nearly a third (30%) of the lending complaints, the micro-enterprise said that the lender's business/relationship manager had caused a problem.

6. a closer look: complaints about insurance

main reasons for complaint – insurance

main reason for complaint	percentage
claim declined or reduced	40%
claim – delay or other problem	10%
sale – suitability, mis-selling, misrepresentation	21%
cancellation by insurer	14%
administration, delay	8%
other	8%

source: Financial Ombudsman Service. Base: 73 complaints.

Although most of the 73 insurance complaints in our sample were against insurance companies, 7 were against banks, and 11 were against intermediaries such as insurance brokers.

Looking first at the main reasons for raising a complaint, half of the insurance complaints in our sample were about claims. Most involved claims being turned down or reduced, although a small number involved delays in paying out.

ombudsman case study: fast food outlet's insurance claim rejected

Mrs H came to the ombudsman after a fire at her fast food shop which led to a dispute with her insurer. The insurer's investigator found that the fire had started in a build-up of fat in the flue duct which hadn't been cleaned for at least 18 months. The insurer pointed out that their policy said flues, ducting and filters should be thoroughly cleaned at least once a year by a professional maintenance company and so didn't pay the claim.

Mrs H said she had her deep frying range serviced every year but when the insurer contacted the engineers they said they only serviced and repaired the range itself. They didn't clean the flue and said that it was never part of the service they provide. When we

looked into the case we felt the policy was clearly worded and the cleaning requirements had been highlighted. Mrs H hadn't met the requirements, in a way that was material to the loss. We didn't uphold the complaint.

A further fifth of insurance complaints (21%) were about how the policy had been sold – whether it was suitable, whether it was mis-sold or whether it had been misrepresented. 14% were about cancellation or non-renewal, and 8% were about general administration or delay. There were only three complaints about the level of premiums.

ombudsman case study:

financial planning partnership said it was overcharged for insurance

A partnership used a broker to find premises insurance. The cost of the policy rose annually for a number of successive years – although the broker told them that the policy remained competitive.

After five years of insuring with the broker's recommended provider, the partnership discovered that a much lower quotation was available elsewhere. When the partnership complained, their broker said that there was value in staying with the same insurer and that the partnership had never questioned the premiums.

We didn't find any evidence that the broker had sought quotations from any other insurers before the partnership complained. We said that the partnership was entitled to rely on the broker's expertise and advice – and we thought the broker's claims about competitive prices were misleading.

The quote from the new insurer was a third of what the broker had suggested paying. We ordered the broker to refund the estimated excess cost of the premium, when compared with others on the market, for each of the four years of the policy.

ombudsman case study:

cancelled taxi policy

Mr I ran a taxi business. When he came to renew his insurance, he knew that he wouldn't be using one of his vehicles as a taxi so asked his broker to insure it as a private vehicle. The broker said it had arranged the policy but told Mr I it couldn't activate the cover until he sent copies of the driver's badge and vehicle plates.

When Mr I didn't send these in, the insurer wrote to tell him that the policy was cancelled. While the vehicle was uninsured, a third party made an accident claim against Mr I.

When Mr I brought his complaint to us he said that he hadn't received the letters the broker sent and didn't know his policy had been cancelled. After looking at the broker's call notes, copies of letters and the sequence of events, we concluded that the broker had warned Mr I about the problem – and had told him by phone and by letter that the policy was cancelled. No premiums had been taken. We didn't uphold Mr I's complaint.

If we look at all the features of the insurance complaints we reviewed – rather than just the main reason – the pattern is the same, although there are more administration issues. Overall 36% of all insurance complaints featured unhappiness about administration or delay in some way, including delayed claims.

complaints about different types of insurance

type of insurance complaint	percentage
Vehicle	49%
Property	22%
business protection and legal expenses	12%
term assurance	11%
Other	5%

source: Financial Ombudsman Service. Base: 73 complaints.

Nearly half the complaints were about vehicle insurance policies (49%). Just over a fifth were about commercial property insurance (22%). About one in ten (12%) were about business protection or legal expenses policies, and a similar proportion were about term assurance (11%). We found in favour of the micro-enterprise in 31% of insurance complaints²⁰ – lower than for other categories of complaint.

Research on insurance claims made by small and medium-sized enterprises has found that it can be difficult for these businesses to understand what they're entitled to under the terms and conditions of their policy.²¹ The micro-enterprise cases we reviewed echoed these findings. Over half (52%) of insurance complaints in our sample came about because the micro-enterprise didn't know about at least one of the terms, conditions, exclusions or features of the product they'd bought. In 53% of complaints there was a disagreement over the interpretation of terms, conditions, exclusions or features. There was a substantial overlap between these problems – and together they made up 70% of the complaints we reviewed.

Only two micro-enterprises said that the financial provider didn't give them enough support with their insurance. Similarly, only six (8%) told us they felt that the provider owed them a general "duty of care". Overall, only seven micro-enterprises – 10% of the sample – brought up either of these points in complaints about insurance.

7. a closer look: complaints about card payment services (“merchant acquiring”)

There were 14 complaints about card payment services – or “merchant acquiring” – in our sample. Most were about specialised providers of these services, although one was about a bank.

merchant acquirers

“merchant acquirers” or “acquiring” banks process credit and debit card payments on behalf of retailers. When the retailer enters the details of the payment in their card terminal, these are sent to the acquirer – which then processes the information and sends it on to the debit or credit card provider for settlement.

The acquirer generally credits the retailer’s account with the funds within four working days. They will also deal with any issues that arise with transactions, including if funds are requested fraudulently.

Six of the merchant acquiring disputes were about chargebacks or disputed transactions. Typically, the micro-enterprise had taken a payment by card – but the money had then been taken back from their account. This was either because of problems with the goods or services the micro-enterprise had provided, or because of card fraud by its customer.

ombudsman case study:

fraudulent payments made by phone

Over several weeks, a customer used a card to pay for eight orders from a takeaway restaurant. Two months later the merchant acquirer told the restaurant that the transactions would be reversed because the customer had fraudulently used someone else’s card.

The restaurant owner complained that he'd followed all the right instructions and the merchant acquirer had given a valid authorisation code for every payment. He told us this was a significant amount of money for his business to lose – and asked how he would ever be able to trust that any future card payments made by his customers would materialise.

The payments had been taken over the phone – so the card hadn't been present in the restaurant. Under the terms and conditions of the merchant agreement, these types of payment are taken at the trader's own risk and may be charged back later if there's a fraud. The authorisation codes are based on checks at the time of the transaction and they're not guarantees of payment.

Our adjudicator sympathised with the restaurant owner, who was ultimately the victim of the fraud. But we couldn't uphold the complaint against the merchant acquirer.

The rest of the card payment services complaints we looked at were divided evenly between mis-selling, administration, and problems with contract terms or fees. Ten of the 14 complaints came about because the micro-enterprise didn't know about a feature of the product – or the two sides differed in their interpretation of what it meant. The ombudsman service found in favour of the micro-enterprise in four of the complaints.

8. conclusions and lessons to consider

Our results show some important patterns. In particular, our analysis of the differences among the complaints and the micro-enterprises involved suggest three possible lessons to consider further.

micro-enterprises aren't necessarily different to private individuals when dealing with money matters

We looked at complaints from businesses in different sectors, of different sizes, and which were having difficulties with a range of financial products. From what we've seen, micro-enterprises have varying levels of understanding about how financial products work – just like private individuals.

And when micro-enterprises have problems with money matters, they're not necessarily better-equipped to deal with them than private individuals. For example, few of the micro-enterprises that contacted us were supported by lawyers or accountants, either in their original problem with the provider or in their complaint to us. No one should routinely assume that micro-enterprise customers will understand financial products and services better than private customers.

problems caused by terms and conditions are common

Our review showed that many micro-enterprises – just like private individuals – don't know about important terms, conditions or features of the financial products they've bought, or necessarily understand their implications. This can often lead to problems after the product has been taken out.

Financial providers might be able to reduce the likelihood of something going wrong for micro-enterprises by improving their understanding of what's being sold. If things are clear at the outset, there are likely to be fewer problems later.

there's a mismatch of expectations about "relationships"

We found high expectations among some micro-enterprises about the support and care they should receive from financial providers – especially in complaints about bank lending. These impressions could be created and increased by financial providers' focus on a distinct offer for business customers.

In our review, we found a number of micro-enterprises had been disappointed with the service they'd received from their business or relationship manager. Coupled with the lack of other sources of support, micro-enterprises could be expecting financial providers to keep a closer watch on their financial affairs than they're able or obliged to do.

Clarity from providers about exactly what they're offering micro-enterprises – and about the need for micro-enterprises to pay close attention to all their risks themselves – may prevent disappointment and difficulties later on.

annex 1 – technical details of the sample of cases we reviewed

The sample of micro-enterprises was made up of three parts. Together they were designed to be a representative sample of approximately 10% of micro-enterprise complaints (excluding PPI complaints) closed by the Financial Ombudsman Service in the four months July-October 2014.

1. known business complaints

10% random sample of all non-PPI cases registered as business complaints in our case file system.

2. business-related products

10% random sample of individual complaints that involved non-PPI products likely to be used by businesses – such as commercial vehicle insurance.

3. “undeclared” business complaints

These were other non-PPI business complaints that owners of micro-enterprises brought to us as individual consumers. To find them, we searched our case system for people who used key words or phrases in describing their occupation – terms that indicated that they ran a micro-enterprise. For example, we looked for status and roles such as *self-employed*, *director* and *partner*, and for activities such as *architect*, *taxi driver*, *farmer* and *developer*.

When one of these terms was found, we looked in more detail to see whether it was a business complaint. The definition we used was *a complaint about a product or service that was used for the consumer’s business or self-employed work*.

Previous analysis of complaints brought to us indicated that starting with the key words and phrases enabled us to find about half of “undeclared” business complaints. So we used 20% of the cases we found this way – randomly selected – to bring it back to a 10% sample.

A small number of cases we found couldn't go on to be used in the study – either for technical or legal reasons or because they were in fact from charities or trusts, rather than businesses.

37 of the complaints in the final sample were referred to the ombudsman service but weren't actually considered on their merits – either because they weren't in our jurisdiction or were dismissed for another reason. Most of the results in this report are based on the 201 remaining cases that were considered on their merits.

The final sample numbers were as follows:

	final sample	final sample excluding cases out of jurisdiction or dismissed
known business complaints	138	114
business-related products	22	21
'undeclared' business complaints	78	66
total	238	201

complaints that weren't considered on their merits

We looked into why the 37 business complaints had been dismissed or ruled out of our jurisdiction.

In 12 complaints, we'd found the business wasn't small enough to count as a micro-enterprise – six on both turnover and employee numbers (including three where there were linked enterprises), two solely on turnover and four solely on employee numbers.

The other 25 complaints weren't considered for a variety of other reasons. Some were out of jurisdiction because they'd been brought outside of time limits for complaining to us. In others, the financial product involved wasn't covered by our rules, the micro-enterprise wasn't a customer of the financial business, or the micro-enterprise was a limited company that had ceased to exist. Others had been dismissed because we'd concluded that the complaint would be better suited to court or for other reasons.

annex 2 – the rules on micro-enterprise eligibility

The financial ombudsman scheme operates under rules established by the Financial Conduct Authority (FCA). Micro-enterprises are eligible to bring complaints to the service under the following rules:

DISP 2.7.3

An *eligible complainant* must be a *person* that is:

(1) a *consumer*;

(2) a *micro-enterprise*;

(a) in relation to a *complaint* relating wholly or partly to *payment services*, either at the time of the conclusion of the *payment service* contract or at the time the complainant refers the *complaint* to the *respondent*; or

(b) otherwise, at the time the complainant refers the *complaint* to the *respondent*;

(3) a charity which has an annual income of less than £1 million at the time the complainant refers the *complaint* to the *respondent*; or

(4) a trustee of a trust which has a net asset value of less than £1 million at the time the complainant refers the *complaint* to the *respondent*.

DISP 2.7.4

In determining whether an enterprise meets the tests for being a *micro-enterprise*, account should be taken of the enterprise's 'partner enterprises' or 'linked enterprises' (as those terms are defined in the *Micro-enterprise Recommendation*). For example, where a parent company holds a majority shareholding in a *complainant*, if the parent company does not meet the tests for being a *micro-enterprise* then neither will the *complainant*. [Note: Articles 1 and 3 to 7 of the Annex to the *Micro-enterprise Recommendation*].

DISP 2.7.5

If a *respondent* is in doubt about the eligibility of a business, charity or trust, it should treat the complainant as if it were eligible. If the *complaint* is referred to the *Financial Ombudsman Service*, the *Ombudsman* will determine eligibility by reference to appropriate evidence, such as audited accounts or VAT returns.

In its Glossary Definition, the FCA defines a micro-enterprise as

an enterprise which:

- (a) employs fewer than 10 *persons*; and
- (b) has a turnover or annual balance sheet that does not exceed €2 million.

In this definition, “enterprise” means any *person* engaged in an economic activity, irrespective of legal form and includes, in particular, self-employed *persons* and family businesses engaged in craft or other activities, and *partnerships* or associations regularly engaged in an economic activity.

[Note: article 4(26) of the *Payment Services Directive* and the Annex to the *Micro-enterprise Recommendation*]

references and notes

¹ This definition is set down in European legislation and the rules of the Financial Conduct Authority. See **annex 2** for further information on micro-enterprises eligible to bring complaints to the ombudsman service.

² We received 4,547 recorded complaints from micro-enterprises in 2014/2015, Financial Ombudsman Service, *annual review 2014/15*.

³ Indicative analysis of our customer surveys and inspection of samples of cases suggest that there could be a further 2,000 complaints each year from micro-enterprises about problems with banking, payments, lending, general insurance, investments and pensions.

⁴ Lord Young, *Growing your business: a report on growing micro businesses*, May 2013, p. 7.

⁵ See, for example: Competition and Markets Authority and Financial Conduct Authority, *Banking services to small and medium-sized enterprises market study*, 18 July 2014, p. 5.

⁶ Competition and Markets Authority and Financial Conduct Authority, *Banking services to small and medium-sized enterprises market study*, 18 July 2014, p. 153.

⁷ We didn't look at Payment Protection Insurance cases for this review. Further information about the sample we drew is contained in **annex 1**.

⁸ The obligations that financial providers have to their micro-enterprise customers could come from several sources including the terms of the contract, the duties associated with delivering the contract, the law, regulatory requirements and industry codes of good practice. The exact obligations will vary from case to case and this is why we haven't attempted to detail them in this report. Across a variety of the cases we looked at, there was a mismatch between the two sides' expectations about care and support.

⁹ There are some differences between the micro-enterprises in our sample and the make-up of the broader small and medium-sized enterprise sector, where there are proportionately more businesses in the construction sector. See: Department for Business, Innovation and Skills, *Business population estimates for the UK and regions 2014*, statistical release, 26 November 2014.

¹⁰ Department for Business, Innovation and Skills, *Business population estimates for the UK and regions 2014*, statistical release, 26 November 2014.

¹¹ The sample contained a significantly lower proportion of sole traders (42%) than the national population of micro-enterprises (79%). See: Department for Business, Innovation and Skills,

Business population estimates for the UK and regions 2014, statistical release, 26 November 2014. Cases were included in our sample if they featured “*a complaint about a product or service that was used for the complainant’s business or self-employed work*”. Compared with larger micro-enterprises, it’s likely that sole traders (especially self-employed people who actually work for other businesses) have fewer business-related financial products – resulting in proportionally fewer business-related complaints. It may also be the case that self-employed people might use the same financial product, for example a current account or overdraft, for both business and personal use. Self-employed people are more likely to bring individual complaints than business complaints to the ombudsman.

¹² In a similar proportion of cases we were unable to tell whether or not they had such support.

¹³ To put this figure into context, 72% of all consumers brought complaints (other than PPI) to the ombudsman themselves in 2014/2015. See: Financial Ombudsman Service, *annual review 2014/2015*.

¹⁴ More widely, in 2014/15 70% of the ombudsman’s recorded complaints from micro-enterprises were about banking, 17% were about insurance, 7% were about investment and 6% were about PPI. See: Financial Ombudsman Service, *annual review 2014/2015*.

¹⁵ For the purposes of this table we have defined “rarely” as in 0-20% of cases, “sometimes” as 21-50% of cases and “frequently” as more than 50% of cases.

¹⁶ This is higher than the uphold rate for individual consumer complaints (36%) about current accounts in 2014-15. See: Financial Ombudsman Service, *annual review 2014/2015*.

¹⁷ A number of banks employ “business relationship managers”. While this role will vary between banks, these managers act as a link between the business customer and the bank, including giving tailored advice and dedicated support. Some banks say that their relationship managers will help businesses to foresee the issues they may face in the future.

¹⁸ This is a little higher than the uphold rates for the nearest equivalent products for individual consumer complaints in 2014/2015. These are mortgages and unsecured loans (33% and 38% respectively). See: Financial Ombudsman Service, *annual review 2014/2015*.

¹⁹ Taking out this type of lending product allows for management of fluctuations in interest rates. The Financial Conduct Authority has identified four broad categories of interest rate hedging products: 1) swaps – which enable customers to fix their interest rate; 2) caps – which place a limit on any interest rate rises; 3) collars – which enable customers to limit interest rate fluctuations to within a simple range; and 4) structured collars – which enable customers to limit interest rate fluctuations within a specified range but which include provision for the customer

to pay more if the interest rate falls below the bottom of the specified range. The ombudsman service also deals with complaints about fixed rate business loans that have features and risks in common with these products.

²⁰ This is close to the uphold rate for individual consumer complaints for motor and buildings insurance (35% and 37% respectively) in 2014/2015. See: Financial Ombudsman Service, *annual review 2014/2015*.

²¹ Source: Financial Conduct Authority, *Handling of insurance claims for small and medium-sized enterprises: thematic review*, May 2015.