Banking Taskforce

Appeals Process

Independent External Reviewer

Annual Report

2015/2016

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1. Executive Summary

I had written the majority of this report before the referendum outcome on the 24th June. While it will not affect what is in this report in terms of the Appeals Process, how it works, where it is going etc., it will effect both the Small and Medium Enterprises (SMEs) customer and the lender in terms of their view on the economic world in general and particularly what risks each are now prepared to take given the uncertainty around a lot of what each do now. Uncertainty is what businesses dislike most and, in terms of the lender, can affect which sectors they may or may not wish to lend to so, until that uncertainty is managed in a way that brings clarity to what each can and should do, then I would expect that an extra dimension will be added to both lending decisions and the propensity of SMEs wishing to invest or build for the future. I make this comment at the start of my report to highlight that none of us should underestimate the impact this will have no matter on which side of the fence you sit but will focus in the rest of my report on the progress and continuing positive changes the Appeals Process has brought to both lenders and SMEs and its continuing positive impact on the economy in general.

At the end of last year's report I said that the year gone by would be time to take stock, see what we had learned and what still needed to be done to get us all (me, the banks and SMEs) to where we wanted to be.

When the Appeals Process began in 2011 no one had ever done this before so there was both excitement and a bit of trepidation of what would happen but to me the greatest outcome has been the realisation early on in the process that for everyone this was a way of making things better for us all rather than just a process of auditing to see if the banks involved in the process had done the job I had given them correctly. Of course I do that as well, but learning is more important as we all have learned and the process and conversations between customers and lenders have improved greatly which is clear from all I see. That was always critical if this process was to become a part of the lenders' 'Business as Usual' processes where it added value to what they did and it has.

Therefore, this year's focus has been to begin the process of integrating the Appeals Process fully into each bank's standard systems so it becomes Business as Usual. This will take time and my target is by the end of this project year to have in place with each bank an Integration Plan that sets out how they will reach the point in each of the four areas that I think are critical; where I believe they have reached the point where all key issues have been addressed and they are as good as they need to be currently in how they work with, and lend to, their customers. The four areas that I am focussing on are Policies and Exclusions, People, Processes, and IT Systems and what comes under each of those and how I will judge them is explained later in this report. Once I am satisfied that they have reached that 'good' point I then will need to be satisfied that they can do what I do currently, that is, have in place

themselves a process that continuously challenges what they do and finds and corrects new issues as they arise.

In terms of those banks that have only joined the Appeals Process in the last year or so there will be the inevitable ‘bedding in’ process but I will also aim to put in place with each of them an Integration Plan so that I also have a time plan with them.

That is why my point of judgement on when I think individual banks have reached the point when they have satisfied the four areas I identify above varies. Only once that level has been achieved, can the bank then go on to show me how they intend to put in place processes to make sure that they continue to incorporate improvements as they find ways to make the process even better as they learn further. Judging where and when that point will be, will be different for each lender so I do not see all lenders going their own way at the same time and my current estimation that the best may do so in 2018 and others, with more issues still to address, some years thereafter. Therefore, as I have said before, I will continue to oversee and review the Appeals Process until I am satisfied that I no longer need to do that and that is still some time away.

I think though the time has come to give each bank the opportunity to prove they can do this themselves, and so have begun that process. I have reached that conclusion as the new issues I am seeing are reducing and where there are issues still to resolve, each lender is aware of them and is working with me to address them. As a result of this as well I am going to reduce the number of reports I write from Quarterly to half yearly again mainly because there are becoming fewer issues that I need to report on a quarterly basis and there is more stability across much of what lenders do.

That can also be seen from the overall number of appeals and overturns that the Appeals Process has seen over that last year. The number of appeals at 3229 for the last year was slightly down on the previous year but that is what I would have expected as one focus of mine has been to get lenders to refer more cases internally first where there is some doubt or concern before declining with the customer. This has led to a real drop in appeals in some lenders as those ‘internal refers’ now form a significant amount of what they do and would have been previously declined. Those cases tend to be approved or if they are declined the SME tends to get a better reason to help them think about what they might do next. There have though been increases in appeals through from other lenders some of whom are new to the Appeals Process and some where we continue to find some appeals that have been missed but the latter is becoming less.

Therefore, over the last 5 years just short of 16,000 appeals have been made of which 32% over the same period have been overturned. The overturn rate has continued to fall which again shows the positive impact the Appeals Process is having and this year the overturn rate was 26.1% for all appeals compared to 39.5%

at the end of year 1 and 19.1% (down from 32.6% in year 1) for all appeals excluding credit cards, which will always have a higher overturn rate because of the way they are processed. Of those that are declined that do not appeal, the tests I do still lead me to believe that there are not a lot who could who are not appealing, so the banks are promoting the process well. In terms of extra lending put back into the economy all I can state exactly is that the ones I have looked at where we have all the data for equate to £60 million over the 5 years but I think now I can safely estimate that the total of lending put back into the economy over the last 5 years as a result of the Appeals Process is in excess of £100 million as it will include all that I do not have all the information for and have not reviewed plus those SMEs who I know came back later for lending having had the better conversation with the bank at the point of decline and came back with a new or modified application outside the timescale of the Appeals Process.

The reasons for decline have not changed since year 1 in real terms although I can now be much more exact on a number of them given the greater quantity and quality of data I have on cases now. The distinct dividing line on reasons for decline still sits at about the £25000-£30000 lending amount where below that the main reasons for decline are due to credit scoring data and above that due to affordability. What has also not changed significantly over the past 5 years is the products that SMEs use to borrow still focussing on overdrafts where I still believe that in a lot of cases that the SMEs may be better served by a commercial credit card for micro businesses and invoice discounting for non-micro SMEs. The reasons for this are mainly driven by the SMEs who believe that an overdraft is the best product and more education needs to be done by both the lender and Trade Associations of the SMEs on both these topics. In terms of the commercial credit card a lot of this is driven by the way business generally has changed over the past decades and especially the move away from cheques being the prime form of payment for supplies to credit card and online purchases being the main way we all pay for things. Managed properly, a commercial credit card can give micro businesses the benefit of not actually paying for goods purchased for up to 6 weeks and, if they manage their debtors well, payment by them before they have to pay their credit card all at no cost providing that all of the credit card balance is paid off monthly. Costs of commercial credit cards, and what you have to do to get one compared to an overdraft, can also be less than an overdraft. That does not mean that I think overdrafts are not useful but rather that SMEs should look at more products that provide them with credit before deciding on what is best for them.

The report also highlights good progress in many other areas and also that compliance remains an issue but one now that all parties, including the Regulator, seem to be sensibly focussed on so I am not as concerned. I do highlight though one

aspect of the new Competition and Market Authority's (CMA's) recent report[1] regarding a new online lending tool which they want lenders to provide which concerns me as I am not sure it understands the level of knowledge that SMEs have and may well therefore create a problem rather than a solution.

Therefore, in summary I am content that after 5 years that we have all come a long way both in terms of all (my own, SMEs, lenders, Government, Regulators) our understanding of how SME lending works and importantly in terms of how that could be done better and much positive progress has been made which can be seen from many angles. That is not to say that there are still not things to do but they are becoming less and there are in place plans to rectify those that have already been highlighted with good solutions for each. The 'better conversations' not just between the lender and SMEs are now taking place between all parties involved in lending which I will continue to drive forward positively.

Professor Russel Griggs OBE
Independent External Reviewer

July 2016

[1] https://assets.publishing.service.gov.uk/media/573a377240f0b6155900000c/retail_banking_market_pdr.pdf

2. Introduction

Year 5 of the Appeals Process has been a year of much activity across all the existing banks as well as bringing two new banks wholly into the Appeals Process.

As I say every year in the Annual Report,[2] and see no reason not to continue to do so, it is my role as the Independent External Reviewer of the Appeals Process to ensure that the banks both promote and examine appeals in a way that is transparent and fair. In doing that I sit on neither side of the lending fence and try, from the evidence I and my team gather, to create solutions to issues in the lending process which benefit all parties. This can be from any direction and can fall on the lenders but also on customers, those who advise them, and on Government itself.

My focus for myself and my team continues to be:

1. To ensure that we ourselves see as many cases as we need to satisfy ourselves that the process each bank has put in place is working and that we have a sufficient evidence base to highlight any issues we need to investigate and like past years there have been some this year.
2. For me personally to focus more of my time meeting with and understanding how Relationship Managers operate in different parts and sectors of the bank. This is not just in terms of what they say and what information they have but also to see how each of the now many varied communication channels and methods banks have of interacting with their customer are working.
3. For me personally to look in detail at each of the IT systems the bank and especially the Relationship Manager use to see if they are fit for purpose in terms of giving them the information they require to have the 'better conversation' with the SME and/or allow them to manage the account for both the bank and the SME's benefit.
4. Both I and my team continue to work with each bank to see that all applications are included in the Appeals Process including what banks classify as 'declined at source'. I am pleased to report that our propensity to find these is reducing, although not to zero yet, which means that I can be more certain that all SME applications for lending are included in the Appeals Process.
5. I continue to meet at least twice a year with Accountable Executives within each bank who are senior personnel with overall responsibility for the Appeals Process at Board level which also allows me to be assured that the issues that I find are being dealt with properly within the bank.

The structure of this year's Annual Report follows the format of previous reports and focusses first on what economic context this fits into and then looks at what I said we

[2] http://www.betterbusinessfinance.co.uk/independent-reports

would do in the last Report and what progress has been made. It then looks at the numbers and changes we have made in our own processes before focussing on what we will do in the year to come and where appropriate beyond that.

As a reminder to all, Annexe A sets out the original aims and objectives of the Appeals Process and the minimum standards that a bank must comply with to be part of it.

This year I have also added an Annexe B which sets out the ‘On Boarding’ presentation we now use with new participants which I think as a package sets out well what I am trying to achieve and how.

I would also once again like to thank all of those who work with me and my team wherever they fit into the process for all the positive engagement they have with us, sometimes in situations that cannot be comfortable at that time. All of us are focussed on making that relationship between the lender and the SME better which is exactly where we should all be.

3. Current Economic and Financial Context

In the last year we have had elections in the UK as a whole plus in the devolved parts of the UK as well. In the wider world there have been slow downs in some of the major economies in Asia and the Far East plus continued volatility in commodity markets including oil. Acts of terrorism have also sadly once again made us all focus on more basic issues.

All the above had already made it difficult for anyone to have any certainty around the future and the SME community who do not like uncertainty at the best of times have reacted similarly so it has been difficult to ascertain any real consistent view of how the economy is performing over the last 12 months. I have found it difficult to find any certainty either in terms of economic forecast other than times ahead will be challenging. This uncertainty and economic forecasting now has been further exacerbated by the result of the UK EU referendum and whatever your views it will cause challenges to both SMEs and lenders until clarity as to what the exact outcome will be for business, in all it does, as the EU affects much of what business is about so uncertainty is spread across a wider range of issues.

Prior to the EU referendum outcome it has been surprising that SME lending has not been more challenging but from what I have seen there is still a good pipeline of requests for new or increased credit coming from SMEs in the UK and being responded to positively by those who provide that. That is not to say there have not been ups and downs across the year but I do not see any real great decline or indeed increase just good positive business as usual. It will be interesting to see now if that continues over the coming months.

More of the applications I have seen also have been for new opportunities, business expansion rather than propping up old, which again is a good sign.

I am though not going to be as positive as I was last year as I think all the turmoil both worldwide and locally has made SMEs more cautious and that can only increase as a result of recent events so the real test will be how all that plays out over the coming year both in the UK and internationally.

4. Priorities for Year Five Past

Last year, as I do every year, I set out what my own priorities were for the coming year to ensure that there is a coherent flow to what the Appeals Process does. All centred on making sure that the conversation between lenders and SME customers continues to improve so both parties benefit.

Each year I return to these priorities to ensure that I have accomplished the goals I set myself.

a) *Improvements in the decline letter to ensure that better and more precise reasons for decline are given to the SME customer, which is still not as consistent as it could be across all banks and product types.*

Good progress has been made across all of the banks and there is more evidence of banks using more specific reasons for declines and not just 'adverse data' or 'failed credit score' but more specifically what were the individual items that caused that. I still believe that telling the SME to go and get their own credit report to see what is causing them problems is not acceptable and lenders should do more to make sure they have access to good credit data that allows them to pass the specific reason to their customer. All lenders use credit scoring data but the contract they have with the Credit Reference Agency will depend on whether they can forward what they know onto their customer.

Two terms that I think can still be better explained by some banks are 'track record' and 'appetite'. The former usually is when a bank does not believe that the customer has the experience to do what they say they want to do and the latter is usually where the lender has concerns over the sector that customer is in. Both though are open to interpretation by the customer who could think for example that 'track record' means how they have performed in recent times which may not be the case. Therefore, for those banks that still use those terms I think a better explanation could be found that makes it clear to the customer why they are being declined and more importantly what the SME can do to make the lender look at their proposition more positively and how long, in certain circumstances, that might take.

What I am sure about is that where banks have been able to provide specific information to their customer on why they have been turned down, that has helped the 'better conversation' I always talk about to take place. This in turn can, in many cases, allow the SME to obtain the funding they want perhaps not right then but not long into the future once they have rectified what was causing the decline or demonstrated improved performance over a period of time which the lender may want to see.

Decline letters have also interestingly become a pan European issue. For some time now the European Commission has been looking at this issue through the same lens as myself namely: being clearer and more exact with SMEs on why they are turned down for lending can help them to address issues which will make them more ready and able to gain funding in the future. The UK is seen now, because of the drive for better decline letters through the Appeals Process, as 'best practice' in this area and the Commission has been trying to persuade other countries in the European Union to follow our lead. This has and is still proving a challenge and will only be resolved when all lenders understand that telling customers clearly why they have been declined actually helps the lender to lend more as customers become more aware of what they have to do to put forward a good and sustainable case for credit.

Finally, I return to a point I have made before, that I think it would be useful if there was a standard 'vocabulary' which all banks used which meant the same thing across all the banks which is not always the case currently. I do not think it is a big challenge to do, it just needs determination and perhaps the new financial trade association once it comes into being this summer could take that challenge on as I do think it would help them and customers to understand each other better.

b) *Making sure that TSB and Clydesdale/Yorkshire banks are now embedded into the Appeals Process and that I and my team make sure they are fulfilling all the things that we need to do with each bank.*

Both banks are now well into the Appeals Process and in their different ways have demonstrated to me that they are both fulfilling their obligations under the Appeals Process but are learning from it as well. Indeed, the latter of the two banks above used the introduction of the Appeals Process as part of a wider change process within the bank which they were implementing which has given added benefit as well.

Both conduct their relationship with their SME customers in different ways in terms of how they interrelate with them but from what I have seen and listened to give good service to their customers and the Appeals Process has helped in that.

All the learning we had from working with the other banks over the initial years of the Appeals Process has helped me and my team create an 'on boarding' pack that is much more precise and extensive than we begun the process in 2011 so we can use the best practice and experience from the other banks to help those joining the process now. This also means that even though these two are only new into the Appeals Process I can start working with them now

to help them move to a 'Business as Usual' model sooner than I could have done at the outset of the process.

c) *Bring in at least one more bank to the Appeals Process.*

While not yet fully part of the Appeals Process, I have been working with Williams and Glyn as they continue the process towards separation from RBS. Again the 'on boarding' package that new members of the process can use has helped them a lot and they are now on track for running their own Appeals Process within Williams and Glyn later this summer to prepare for the full separation from RBS sometime in the future, subject to the necessary regulatory approvals being given.

d) *Look for and highlight any further compliance issues that are or could have a negative impact on lending.*

During the past year a number of things has happened which has addressed this issue.

I met with the European Commission official in charge of financial regulation across Europe and they feel that regulation has gone as far as it needs in giving the SMEs the protection they need and like me have concerns that going any further would actually inhibit good and sensible business lending.

What will help though is that the industry, as part of the review of the Lending Code which the Lending Standards Board asked me to conduct, has relooked at what it inspected and how as part of the review of the Lending Code which covers micro businesses as well as personal customers. With the increase in regulation from the Financial Conduct Authority (FCA), the Prudential Regulatory Authority (PRA) and others, there was duplication across some of what the banks were being inspected on so all of these have been reviewed which has led the industry to now put in place new Lending Standards which are based on:

a) A set of Principles that say simply what a lender will do at a particular point in the lending journey.
b) A set of outcomes that say what it is the lender will achieve by doing those which they will be tested against to see they do that but will look at the outcome rather than how they did that to allow for the innovation and competition that must be part of the industry, which sometimes 'tick box' or too specific legislation can prevent.

The new standard for SMEs will also reach further than it did previously and cover all business up to £6.5 million turnover and all lending products, with the

exception of commercial mortgages that they offer to SME customers. The new standards will be launched in early 2017 and should help both parties to focus on the key things they need to do to ensure that 'better conversations' are within a framework that both parties understand clearly.

The Appeals Process and the other voluntary schemes that the banks already have in place will be blended into these new Standards in terms of being part of what it is the lender has to do to fulfil them.

e) *Ensure that the new legislative referrals process does not impact adversely on the Appeals Process and indeed SMEs in general.*

I have continued to have dialogue with Her Majesty's Treasury about the introduction of the new referrals process for SMEs. I am more content than I was as a lot of my concerns have been accounted for in what has been done.

The referral process which is covered by statutory legislation[3] states that an SME customer who is declined lending by a bank must be offered the option to have their application referred to another lender through a web portal.

SMEs will be offered this option at the same time as they are offered an appeal and can do both should they wish to. Should they choose a referral and wait to see what transpires as a result of that they could preclude themselves from an appeal if the referral takes longer to conclude than the Appeals Process allows in terms of time to appeal.

The concerns that remain for me still are:

i) Will many SMEs actually take up the opportunity to have their application referred as the bank that has declined them will not be able to offer a view (correctly) on whether it is worthwhile or not.
ii) It is unlikely that there will be lenders offering SME base products of overdrafts or commercial credit cards.
iii) Those lenders within the portals will not be quality assured or necessarily regulated as strongly as those who declined the lending in the first place so the SME cannot be guaranteed the types of service they will receive.
iv) In some cases, the SME may be made an offer that makes their prospects of future lending more challenging not less e.g. if an SME is

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389210/The_Small_and_Medium_Sized_Business__Finance_Platforms__Regulations_2015_Regulations_draft_statutory_instrument.pdf

declined lending initially on the grounds of affordability and on referral they are offered a loan at a higher interest rate than their initial lender would have offered had they been able to do so then the affordability to borrow in the future for that SME could be made worse not better.

Having said all the above, I am pleased that Her Majesty's Treasury have listened to a lot of the concerns that myself and others have had and made significant changes to what was originally proposed and we must all now wait and see what happens when it goes live and I will report on that as an interested party in future Annual Reports.

f) *Change each bank's Actions Plans to a form which fits with the opening paragraph of this section.*

I am well advanced now with all the banks that are part of the Appeals Process to turn their Action Plans into Integration Plans.

I said last year that year 5 would be a time for reflection and it is clear now that I should be turning what was a process that the banks voluntary chose to participate in 5 years ago into a 'Business as Usual' part of what they do as a standard service they offer to their customers.

That does not mean that I will be stopping what I do anytime soon but will be working with each bank to put in place a process that over time will allow them to take on the task themselves.

To do that I have set each bank the challenge of proving to me that under four headings they are in a position to take this forward themselves and once having reached that point show me how they would maintain that standard and indeed continue to improve it.

The four headings I have set for them are

i) Policies and Exclusions
That they are clear to their customers about to whom and what they will not lend and why. I had initially thought that policies themselves would be sufficient for the section but added exclusions due to the growing number of online applications being made and especially the desire from SME customers for an instant decision process. Each bank will have a view on who they will lend to at any time and will always exclude some customers due to the fact that they are just new to them or for other reasons and that should be made clear on online sites

which it has not always been as banks try to respond quickly to desires from customers for new services.

ii) People

That those staff dealing with customers have the skills and desires to enhance the overall relationship between the bank and their customers, understanding that sometimes this might mean delivering challenging messages but which over time will help the relationship. This does not just apply to staff dealing with appeals or those dealing directly with the customer through whatever challenge that might be but also those involved in the decision making process and understanding that the credit team working in partnership with the customer facing staff helps. It is clear, from the information that I have gathered over the last five years, that in the banks where those speaking directly to the customer feel that their own internal credit team are approachable and will listen to good and sensible argument can result in more appeals that are overturned.

iii) Processes

That each bank has in place process that allow the Appeal Process to work well and effectively but also more generally allow their customers and themselves to interrelate well and in a way that encourages the better relationship that we all want to see. This is not always easy given the increase in specific transactions in the amount of information the Regulator feels needs to be collected and the way that is done but even then the bank should make this as painless a process as they can.

iv) IT Systems

That the bank has in place IT Systems that allow all the above to take place effectively.

All the banks that are part of the Appeals Process are at different points on each of the stages above but are all moving in a positive direction so that each will reach a point where I can discuss the final point of them taking this to a Business as Usual process which is how are they going to internally do the work that myself and my team do which is to ensure that they are meeting the objectives not only of the Appeals Process in terms of how it should be conducted, but also having that play a positive role in changing the way they do things to enhance their relationship and interaction with their customer. Once I think they have the process, I plan that we will parallel run both processes for a few months before passing the process fully to them and I can withdraw.

From where each bank is today they will reach that point at different times and I think the earliest that will happen for the first is the end of 2017 and for

others it could be some years later so I will be happily writing my Annual reports for some years to come.

g) *See how we can further enhance the data sheets we receive and target to try and receive 100% of all overturn cases.*

The database that the Appeals Process has collected is one of the largest and most robust data sets in terms of looking at what SMEs are looking for in terms of lending but also why they get turned down and what can be done about that. As I explain elsewhere in this report we only receive data sheets at the moment for a percentage of all the Appeals the banks receive.

It is my objective to try and get each bank to complete a data sheet for each appeal that they do and I and my team are working with each bank to try and do that. Some we are already there in getting 100% of all appeals and some we have a way to go with yet which usually relates to how their IT systems operates or the way they collect the data.

I and my team have simplified the form this year – see Annexe C – and have also made it available electronically with drop down menus where appropriate to make it easier to complete. My target is that by the end of this year I will have in place with each bank a plan that will give us 100% of all appeals on a data sheet within a sensible timescale.

h) *Ensure that each bank achieves the awareness targets in terms of internal and external reach that we have set for them.*

All the banks have continued to keep their customers aware of the Appeals Process and I am content that they are doing so. Annexe G has a specific example from some banks of how they have done that and I have chosen just one from each rather than put all of them in as I have done before.

i) *Ensure that each bank has in place awareness research that outputs meaningful numbers of those made aware of the Appeals Process.*

All the banks have continued to carry out research which shows that customers are aware of the Appeals Process and from the declines sampling I and my team do each year, there continues to be no evidence that people who could appeal successfully are not doing so.

The declines sampling process that I do asks the banks to pick a significant sample of those lending applications that they have declined and ask ‘Is there anything in the file that would say that I could have looked at this in a different way before making the decision’. It does not say that they would have done it differently or that the outcome would have been different but there was something there that may have made them look again.

I and my team then pick a significant sample of those and look at all where the banks think they could have done it differently.

From all those I have not seen any evidence that they are missing many and the percentage of all declines where they might have looked again is between 3% and 5% which I believe is in the realms of normal human error so have no concerns that they are missing any which makes me comfortable also that customers are aware of the fact that they can appeal. Also I and my team see many cases where the Relationship Manager themselves encourages the appeal again showing that customers are being made aware.

j) *Keep meeting as many Relationship Managers and customers as I can to make sure that what is happening in terms of process and system change is having a real positive impact with customers.*

I have continued to visit a variety of bank's customer facing and contact teams and also customers where I can. I have also this year seen and visited examples of where individual banks are putting in place new processes and initiatives aimed at helping their customer get a better service and outcome from them.

In terms of customer contacting staff I have visited a variety and have listened to a lot of calls this year as well as more banks move more of their SME customers to a telephony relationship managed model. That for many SMEs appears to have been successful since, as I have highlighted before, many SMEs find telephony more appropriate to their needs as they can schedule their time better and can do it from where they want rather than necessarily have to come to a branch to do it. From what I have heard I can say that there are as many good lending discussion being done by telephony now as there are being done face to face with little impact on the customer experience. In fact the one bank that does all its connectivity with SME customer by phone has seen little if any drop off in customer not wanting to use this media. What is interesting though is that as more SME customers move to telephony the need for sector specialists remains the same and I have seen agricultural, health care etc. specialists as much is telephony centres as I do in the world of face to face Relationship Managers.

In terms of new initiatives I am really delighted that more and more banks are now looking at ways of making the lending application process better and more consistent across all the channels through which they now deal with SMEs and also to add value to what they can offer to their customers. Both at the small end where sensible speed and consistency is important and in the medium and growing part of the SME market with tools to aid customers in looking at how they manage their working capital better and also how their competitors do it in comparison. The latter I was particularly impressed with

as it really draws the bank into being part of the company team and adding real value to what they do helping therefore the company and the bank to work together better and help each other to grow well together. Finally, where I and my team have discovered issues which require an IT fix that usually will take some time to put in place then banks have been putting in place good short term fixes to ensure that these issues are addressed quickly.

From when I started on this journey with the Appeals Process 5 years ago I have seen real positive change across all the banks who participate in it both in the way they deal with customers directly themselves but also importantly how the different parts of the bank internally operate better together and support each other to try and do the best for the customer all be it that that sometimes may be a decline. I believe that the Appeals Process has stimulated and helped a lot of that to happen and the banks have responded well to that. I now believe that they are better placed to have a good and better positive relationship with their customer across all the increasing number of channels through which they now deal with them.

5. Auditing Practices in Year 5 and Beyond

The process that I have in place has continued to be as robust as it has always been and I and my team continue to visit and meet with the banks to reflect that.

However, like any auditing process as time goes on so good auditing becomes what is necessary to provide you with what you require and also to ensure that you are getting learning from it.

As I explain elsewhere in this report, a key part of our auditing is in having the individual banks complete data sheets for each appeal and also that we are not there yet with all banks for a variety of reasons. Therefore, at present sometimes our audit visit is to ensure we get those data sheets as we complete them on site.

We are now working with each bank to ensure that all our visits are in line with where that individual bank is and I and my team's view of having the process well imbedded in their systems and culture and how much we need to look at to ensure that. That still has data sheet completion currently as part of that discussion which ideally it should not have so we are trying to split the two.

Therefore, over the coming year we will spilt those two processes and

1. Work with each bank to ensure we get a data sheet for all appeals made.
2. Look at what a sensible and best practice audit visits schedule is in line with where they are, across all they do, of integrating the Appeals Process fully.

This is not to say that we will be reducing the intensity or robustness of what we do just align that with best auditing practice in terms of proportionality.

Also I have decided to reduce my issuing of reports from quarterly to half yearly. The reason for this is that I am finding it increasingly difficult to meaningfully find different things to write about or report on a three monthly basis. Our data set has stabilised so there are only minor changes in the analysis of the data quarter by quarter, and increasingly so on an annual basis. I am seeing fewer issues that I have to deal with as the lenders deal with those issues that have already been identified and I and my team are finding fewer new ones to report.

That does not mean to say that I will not have data to publish each quarter if required but my plan in line with the other plans and objectives as I set out throughout this report is to move to my usual substantial Annual Report plus one in September.

This does not mean that I am withdrawing from or placing a lighter touch on what I do but reflecting the progress we have all made and the need therefore to look at what I do differently as we move towards Business as Usual.

6. Key Numbers for Year 5

After 5 years the Appeals Process, as can be seen in table 1a below, has generated a total almost 16,000 appeals of which 32% have been overturned and has put at least £60 million back into the economy in extra lending. I say at least since as I have explained before this figure only applies to:

a) Appeals on which I have all the data which applies to 64% of all overturns.
b) Does not and could not quantify what lending takes place with SMEs who because of a better decline conversation come back later with a revised proposal that is approved.

My educated guess is still that if you added a) and b) above in, then the number would be nearer or indeed above £100 million in extra lending but as I state, that is just my estimate.

From the table below it can be seen that the number of appeals for year 5 is slightly down than it was last year. That does not concern me and in fact is pleasing as through issues identified from the Appeals Process, a number of banks now have what I call internal refers before they now finally decline. This means that while in the past those applications where there was some doubt may well have been declined and then appealed, now they are looked at further and by others in the bank who make a final decision which means that more applications are being agreed before the need to appeal. This has taken a good number of cases that would have come for appeal out of the process which is good as they are being dealt with better and also those that now are appealed from those banks should be those where an overturn is less likely. To balance those reductions we have two new banks in the process and also we still find other applications that have been missed which I bring into the Appeals Process.

The overturn rate continues to decline as well which is excellent and has reduced from 39.5% in year 1 of the Appeals Process to 26.1% in year 5 and if you take out credit card appeals which will always have a higher overturn rate due to the nature of how they are assessed then the overturn rate on SME lending excluding credit cards has reduced from 32.6% to 19.1% which is as a result of the processes being generally better than they were 5 years ago which has come in significant part from issues and changes identified and recommended by myself and my team.

We have also still managed to receive the data on the majority of overturns, Table 1b, and as I state elsewhere in this report plan to see that number grow in the year ahead.

Table 2 breaks the data further down by quarter and while there are differences there are no real major peaks and troughs across them.

Table 3 and 4 set out the same data in graphical form to show better the trend downwards.

Chart 1a: Appeals Table Years 1-5 (April 2011 – March 2016)

Appeals - April 2011 to March 2016	Year One Apr 2011 - Mar 2012	Year Two Apr 2012 - Mar 2013	Year Three Apr 2013 - Mar 2014	Year Four Apr 2014 - Mar 2015	Year Five Apr 2015 - Mar 2016	Apr 2011 - Mar 2016 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	3752	3229	15987
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	991	844	5109
Overturn rate *(based on Appeals Received - ALL BANKS)*	39.5%	39.2%	31.7%	26.4%	26.1%	32.0%
Total Value of Appeals Overturned = £ *millions*	£10.0	£18.5	£13.1	£10.1	£8.3	£60.0
Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	2147	1758	10219
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	421	336	2639
Overturn rate *(based on Appeals Received - Excluding Credit Cards)*	32.6%	29.5%	28.3%	19.6%	19.1%	25.8%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ *millions*	£9.7	£17.7	£12.7	£9.3	£7.4	£56.8
Total No. of Cases Reviewed	946	1777	1759	1772	1671	7925
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	47.2%	51.7%	49.6%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	67.0%	76.2%	64.2%

NB: Cases Reviewed and Overturn values based on data captured to date

Chart 1b: Appeals & Overturns Table Years 1-5 (April 2011 – March 2016)

Appeals - April 2011 to March 2016	Year One Apr 2011 - Mar 2012	Year Two Apr 2012 - Mar 2013	Year Three Apr 2013 - Mar 2014	Year Four Apr 2014 - Mar 2015	Year Five Apr 2015 - Mar 2016	Apr 2011 - Mar 2016 Total
No. of Appeals Reported by Banks	2177	3311	3518	3752	3229	15987
No. of Appeals for which Review Sheets Received (Data Captured)	946	1777	1759	1772	1671	7925
Appeals Reported by Banks/Review Sheets Received (Data Captured)	43.5%	53.7%	50.0%	47.2%	51.7%	49.6%
No. of Appeal Case Files Reviewed (Audited) by Promontory	946	1028	972	1103	1142	5191
Review Sheets Received (Data Captured)/(Audited) by Promontory	100.0%	57.9%	55.3%	62.2%	68.3%	65.5%
No. of Appeal Overturns Reported by Banks	860	1298	1116	991	844	5109
No. of Appeal Overturns for which Review Sheets Received (Data Captured)	426	816	733	664	643	3282
No of Appeal Overturns Reported/Review Sheets Received (Data Captured)	49.5%	62.9%	65.7%	67.0%	76.2%	64.2%
No. of Appeal Overturn Case Files Reviewed (Audited) by Promontory	426	646	611	602	561	2846
No of Appeal Overturns Review Sheets Received (Data Captured)/(Audited) by Promontory	100.0%	79.2%	83.4%	90.7%	87.2%	86.7%

Chart 2: Appeals Table Years 4 + 5 only, by Quarter (April 2014 – March 2016)

Comparison By Quarter	Q1		Q2		Q3		Q4	
	Apr 2014 - Jun 2014	Apr 2015 - Jun 2015	Jul 2014- Sep 2014	Jul 2015- Sep 2015	Oct 2014- Dec 2014	Oct 2015- Dec 2015	Jan 2015- Mar 2015	Jan 2016- Mar 2016
Total No. of Appeals Received (ALL BANKS)	967	858	983	866	861	701	941	804
Total No. of Appeals Overturned (ALL BANKS)	254	196	284	225	231	209	222	214
Overturn rate *(based on Appeals Received - ALL BANKS)*	26.3%	22.8%	28.9%	26.0%	26.8%	29.8%	23.6%	26.6%
Total Value of Appeals Overturned = £ *millions*	£4.7	£1.5	£1.8	£2.1	£2.2	£2.9	£1.4	£1.8
Total No. of Appeals Received (Excluding Credit Cards)	540	430	507	488	535	367	565	473
Total No. of Appeals Overturned (Excluding Credit Cards)	127	71	86	90	109	85	99	90
Overturn rate *(based on Appeals Received - Excluding Credit Cards)*	23.5%	16.5%	17.0%	18.4%	20.4%	23.2%	17.5%	19.0%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ *millions*	£4.4	£1.3	£1.6	£1.8	£2.1	£2.7	£1.2	£1.6
Total No. of Cases Reviewed	422	439	425	421	465	401	460	410
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.6%	51.2%	43.2%	48.6%	54.0%	57.2%	48.9%	51.0%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	70.1%	78.6%	53.5%	74.7%	74.5%	74.6%	73.0%	77.1%

NB: Cases Reviewed and Overturn values based on data captured to date

Chart 3: Total Appeals – 3 Months Rolling Average

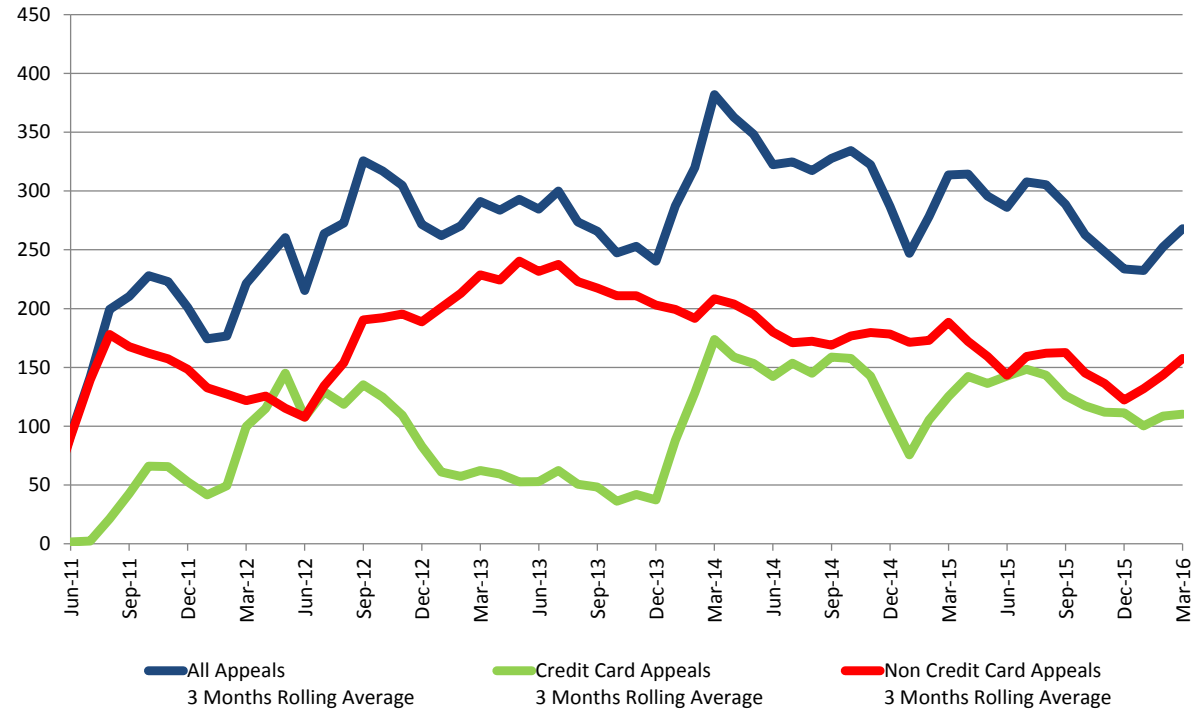
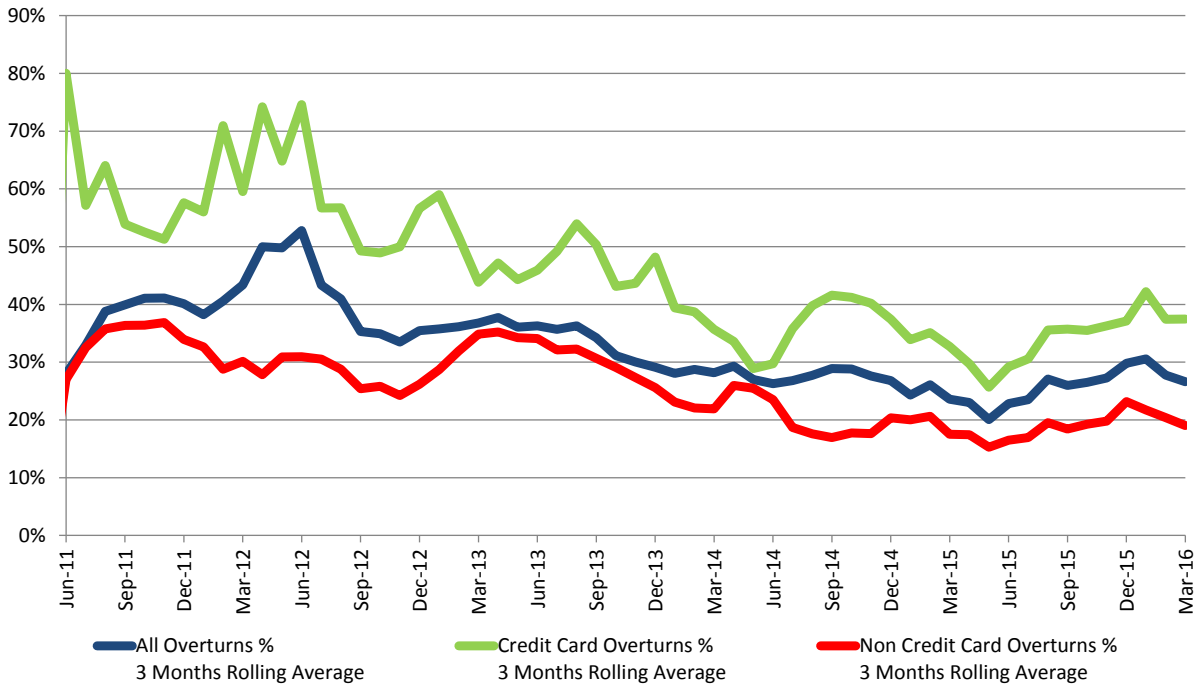


Chart 4: Overturned % - 3 Months Rolling Average



Tables 5-7 below set out the reasons for lenders declining SME applications for credit. Table 5 shows it for all lending, Table 6 for lending under £25k and table 7 for lending over £25k. There are two versions of all three tables with the first being all the data for the 5 years being added together an the second being just the combination of the data from years 4 and 5 where we have been able to collect more precise data than we did previously.

In summary the main reasons for decline were:

All Lending

	All Five Years	**Year 4 and 5 only**
Failed Credit Score	38%	31%
Affordability	26%	26%
Appetite	11%	13%
Adverse Data	10%	16%

Under £25k Lending

	All Five Years	**Year 4 and 5 only**
Failed Credit Score	45%	36%
Affordability	21%	22%
Adverse Data	12%	18%
Appetite	9%	12%
Account Conduct	9%	8%

This category also contains the vast majority of Sole Trader applications where the only data that can be tracked – outside of the banks own internal account data – is on the owner, so their personal history is important as well. It is also the area where most ‘automation’ is applied although that does not mean to infer that these applications are not judged by bank personnel which in the majority of instances they are, just that automation plays a bigger part in the process. The differences between the categories are I think self-explanatory but we can now differentiate between adverse data which are things like County Court Judgments, Loan defaults etc., whereas Failed Credit Scoring tends to take in more things to do with your life in general including whether you are on the voters’ roll, missed payments on other credit etc. Account Conduct is in general how you have operated your account within

the limits that have been applied to it and to which you as the SME customer have agreed. There is some perverseness in this though as I have seen more than a few cases where a customer has frequently breached their overdraft limit and then applied to their lender for an increase in their limit and then been turned down because of their account conduct. I am seeing less of these now but it is still an issue and would again highlight the need for the SME to discuss an increase with their lender as soon as they see challenges whether positive or negative coming upon then rather than letting breaches build up.

Over £25k Lending

	All Five Years	**Year 4 and 5 only**
Affordability	47%	47%
Appetite	19%	15%
Business Experience	11%	14%
Customer Contribution	9%	12%

The stark change as in previous years' highlight that once over £25,000 borrowing the customer tends to be into the realms of secured lending plus is larger and usually Relationship Managed. Appetite usually means that the bank has challenges with lending into a specific sector which can vary regularly. Business experience is usually the lenders' assessment of the capability of the management team in delivering what they say they will do. Customer contribution is how much the customer is willing to put towards the investment of which it is asking the bank to be part. I know there are those who get concerned about banks changes in appetite but I would reiterate as I have done before that banks are businesses like any other who can choose to whom they wish to sell their products. SMEs will do exactly the same when choosing to whom to sell their products and while some would say there is a difference there is in reality none.

Chart 5a: Decline Reasons for all Lending: Years 1 - 5 (April 2011 – March 2016)

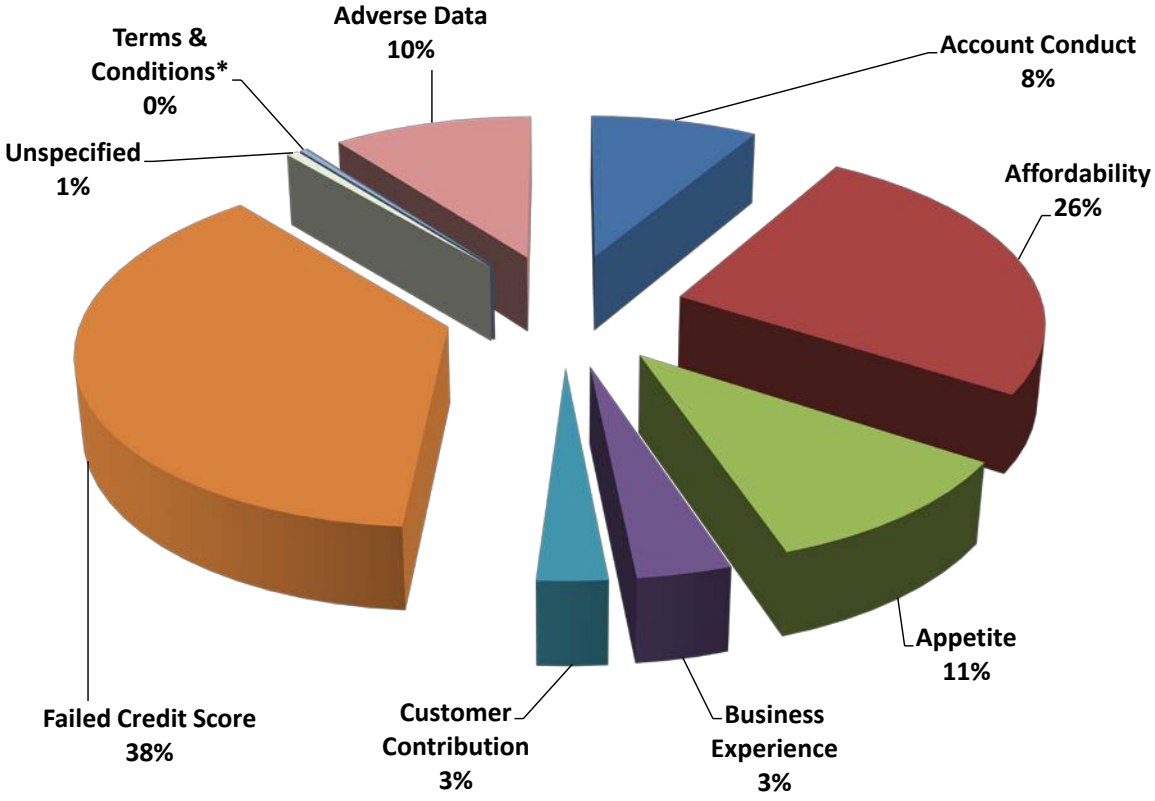


Chart 5b: Decline Reasons for all Lending: Years 4 & 5 only (April 2014 – March 2016)

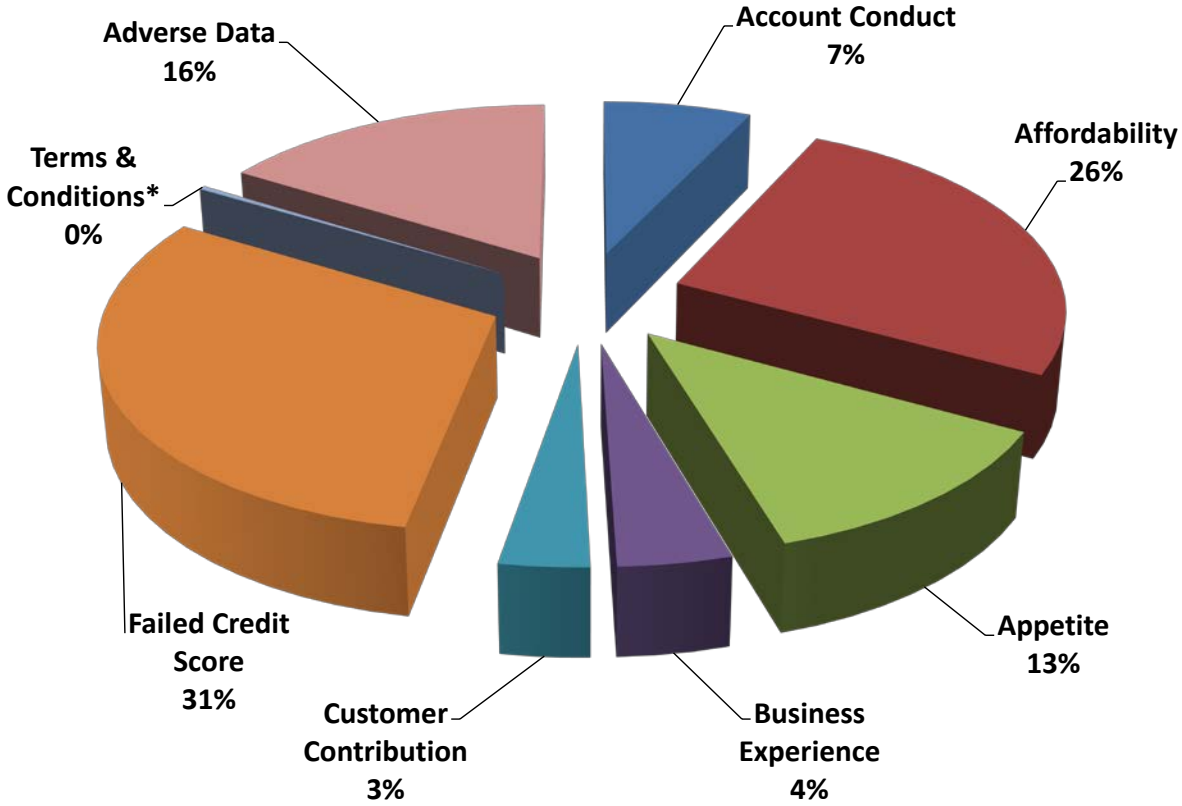


Chart 6a: Decline Reasons for Lending up to £25K: Years 1 - 5 (April 2011 – March 2016)

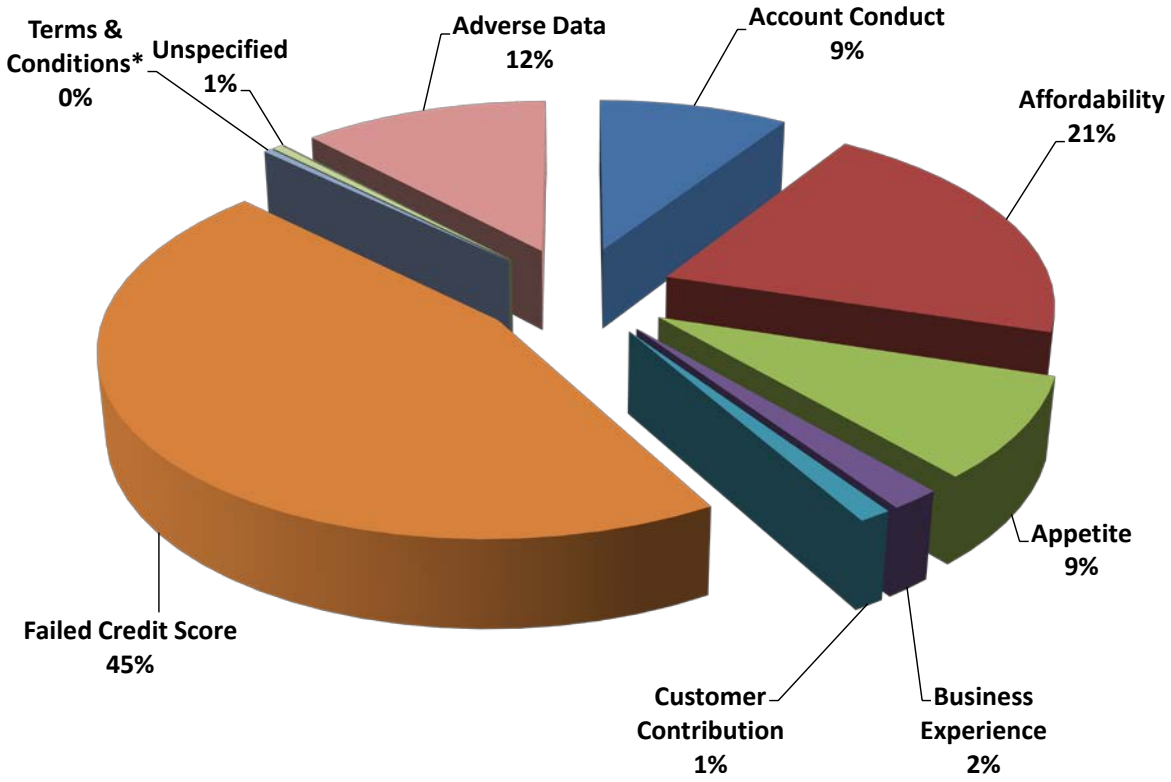


Chart 6b: Decline Reasons all Banks for Lending up to £25K: Years 4 & 5 only (April 2014 – March 2016)

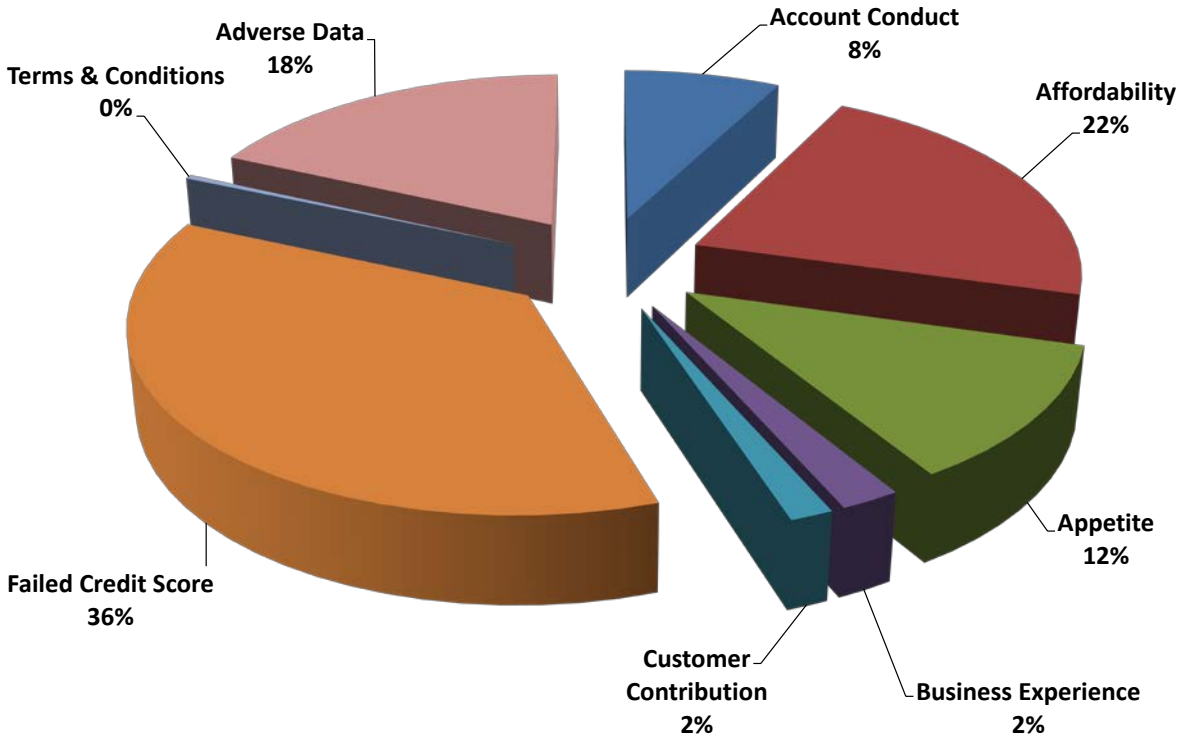


Chart 7a: Decline Reasons for Lending above £25K: Years 1 - 5 (April 2011 – March 2016)

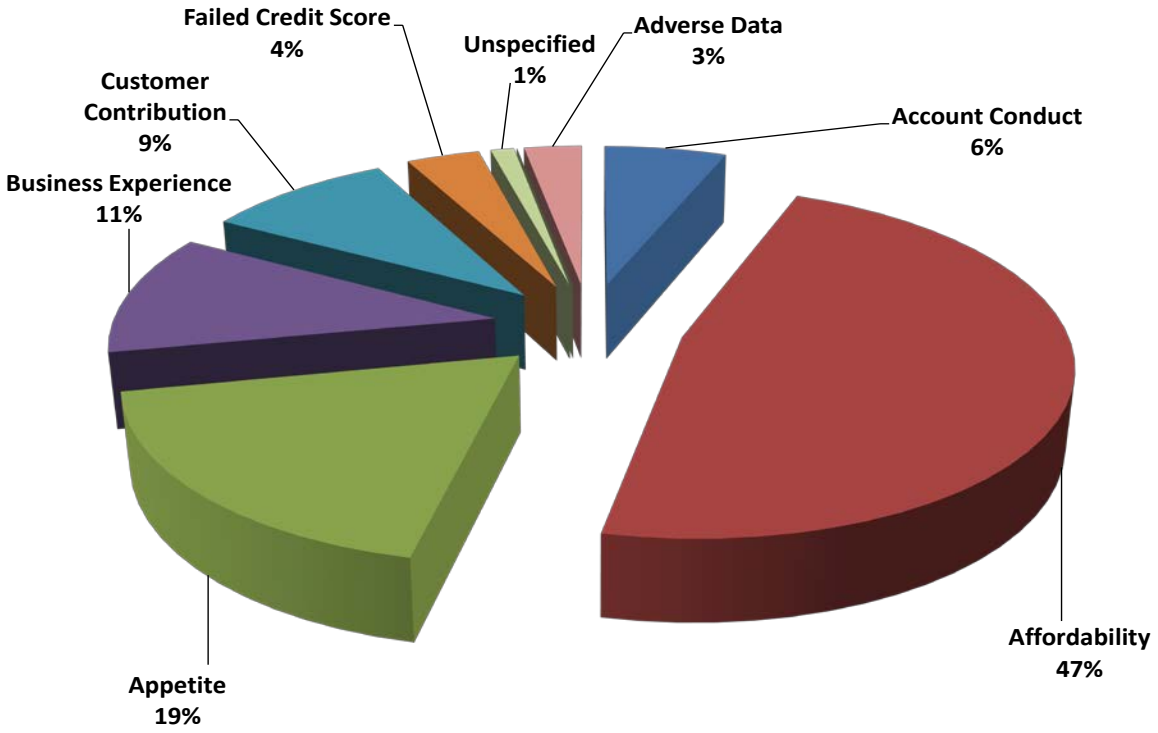


Chart 7b: Decline Reasons all Banks for Lending above £25K: Years 4 & 5 only (April 2014 – March 2016)

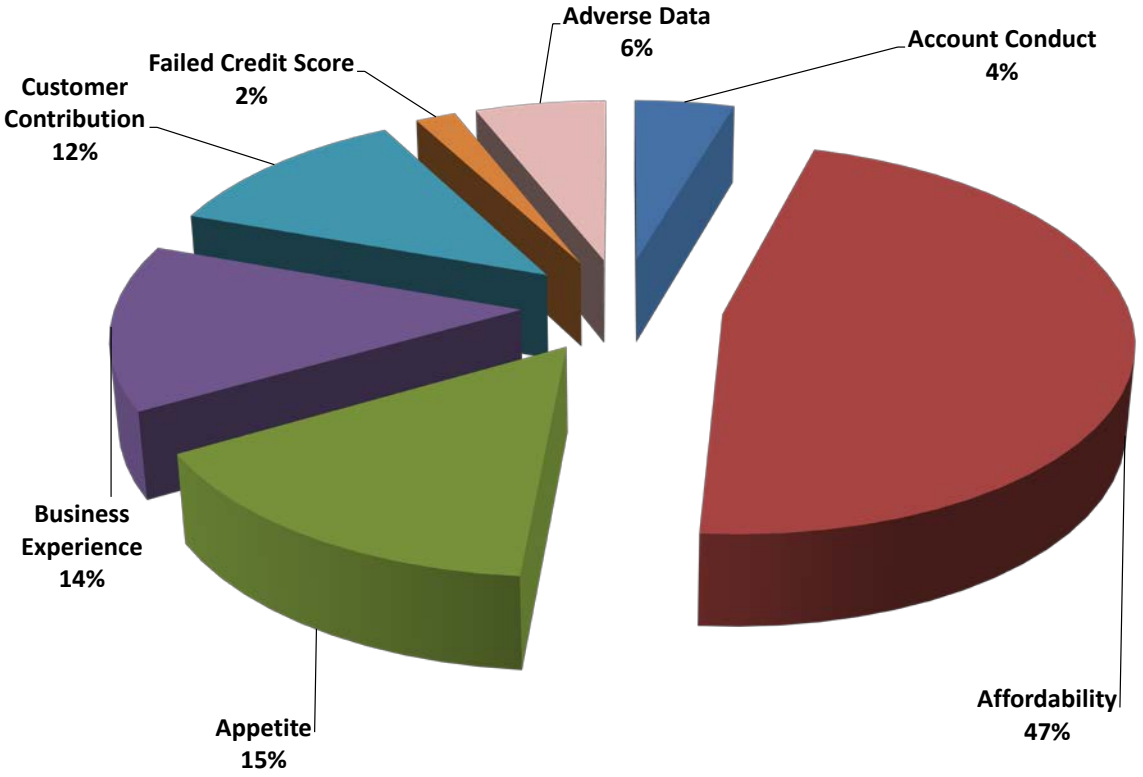
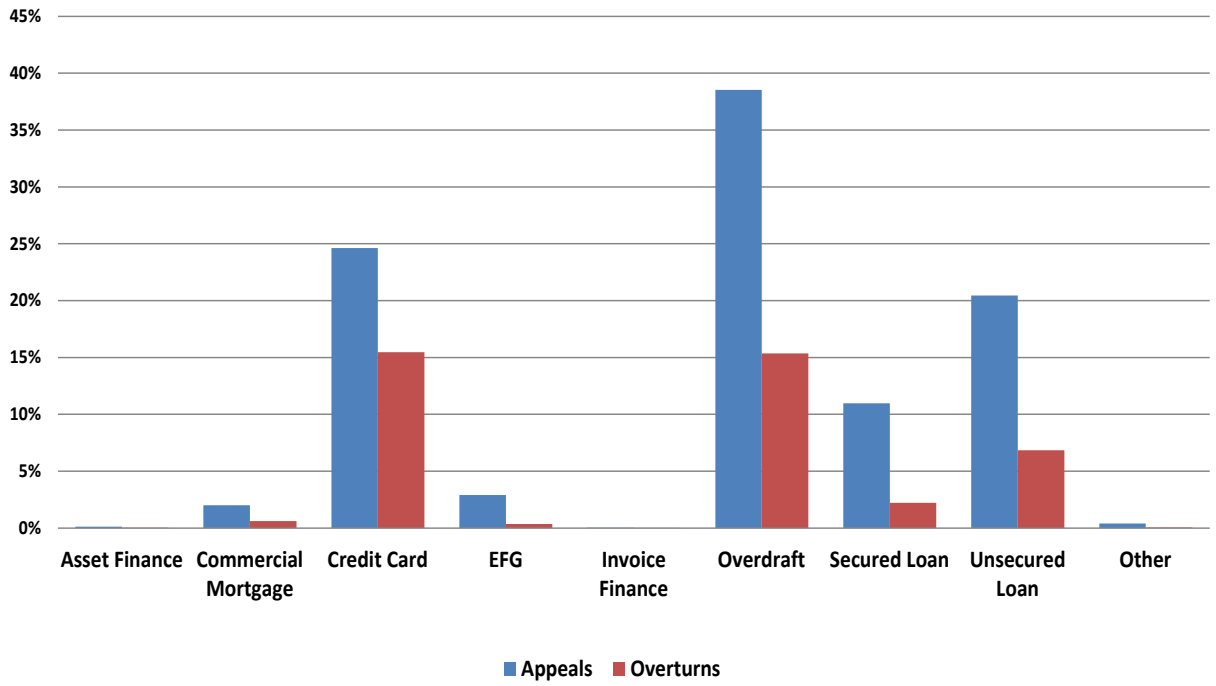


Table 8 below – again in two forms as table 5-7 above - highlights as in previous years SMEs continued reliance on overdrafts, loan and credit cards for financing their businesses. I still think there are opportunities for lenders and more especially those advising SMEs like their accountants and lawyers to make them aware of how using different products can be beneficial. I continue to be surprised at how few SMEs look seriously at invoice financing which still carries a stigma it should not have, is not as expensive as SMEs believe if you fully cost an overdraft, and can provide greater unsecured credit than an overdraft which today would at maximum be restricted to 10% of turnover. Also, as we move away from cheque payments and indeed cash ones, a commercial credit card can be a simpler and more effective way of managing your business finances especially for small business where most of their costs will be paid for by credit card anyway.

Chart 8a: Appeals by Lending Product: Years 1 - 5 (April 2011 – March 2016)



Note: these two charts include cases where customers have applied for up to two products and therefore actual number will be greater than the number of cases captured

Chart 8b: Appeals by Lending Product: Years 4 & 5 only (April 2014 – March 2016)

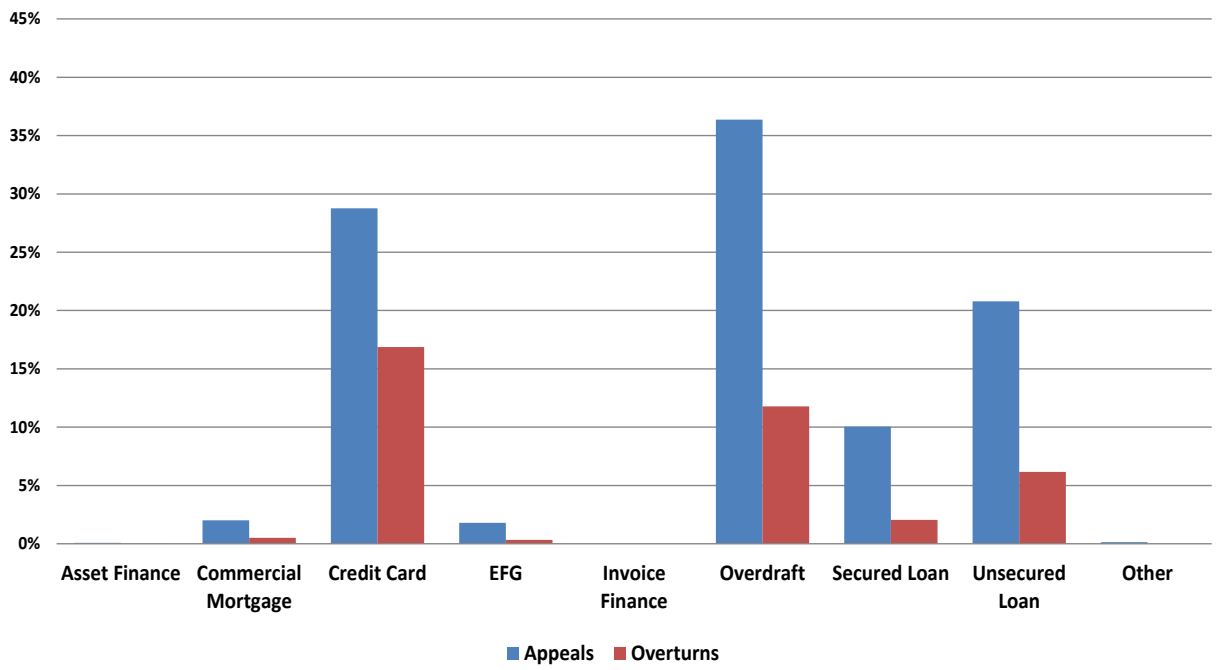


Table 9 below still shows that the majority of appeals still come from smaller businesses and highlights again that the bigger the business and the more skills and time they have on the financial part of the business the better the engagement with their lender and the less likelihood of challenges. Having said that the number is also driven by where the applications come from generally for credit which when they do still predominantly come in number from the smaller SMEs.

Chart 9a: Appeals by Size of Customer Turnover - Years 1 - 5 (April 2011 – March 2016)

Chart 9b: Appeals by Size of Customer Turnover - Years 4 & 5 only (April 2014 – March 2016)

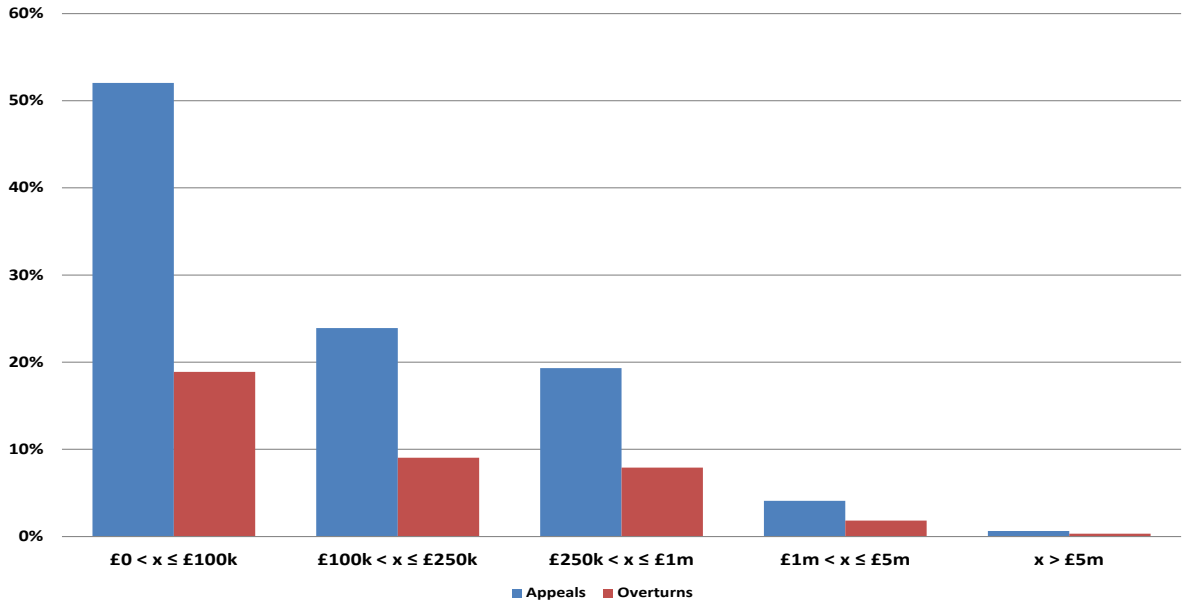


Table 10 mirrors table 9 above and shows that the majority of appeals and indeed applications are small in size.

Chart 10a: Appeals by Size of Lending Request - Years 1 - 5 (April 2011 – March 2016)

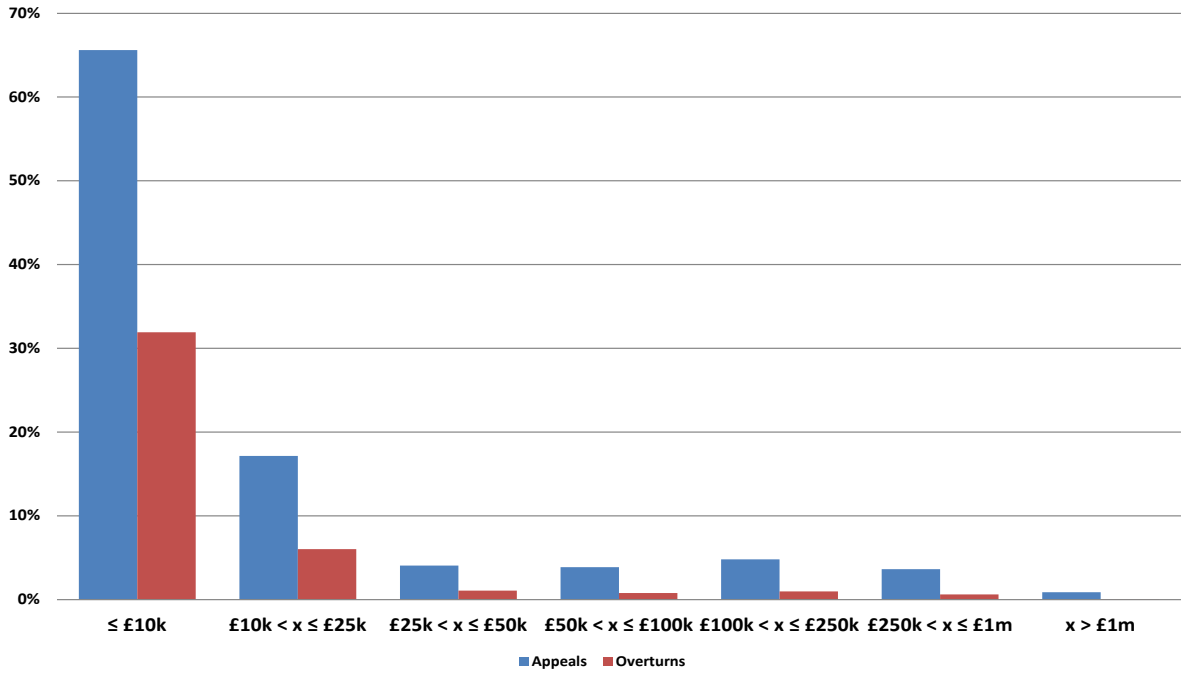


Chart 10b: Appeals by Size of Lending Request - Years 4 & 5 only (April 2014 – March 2016)

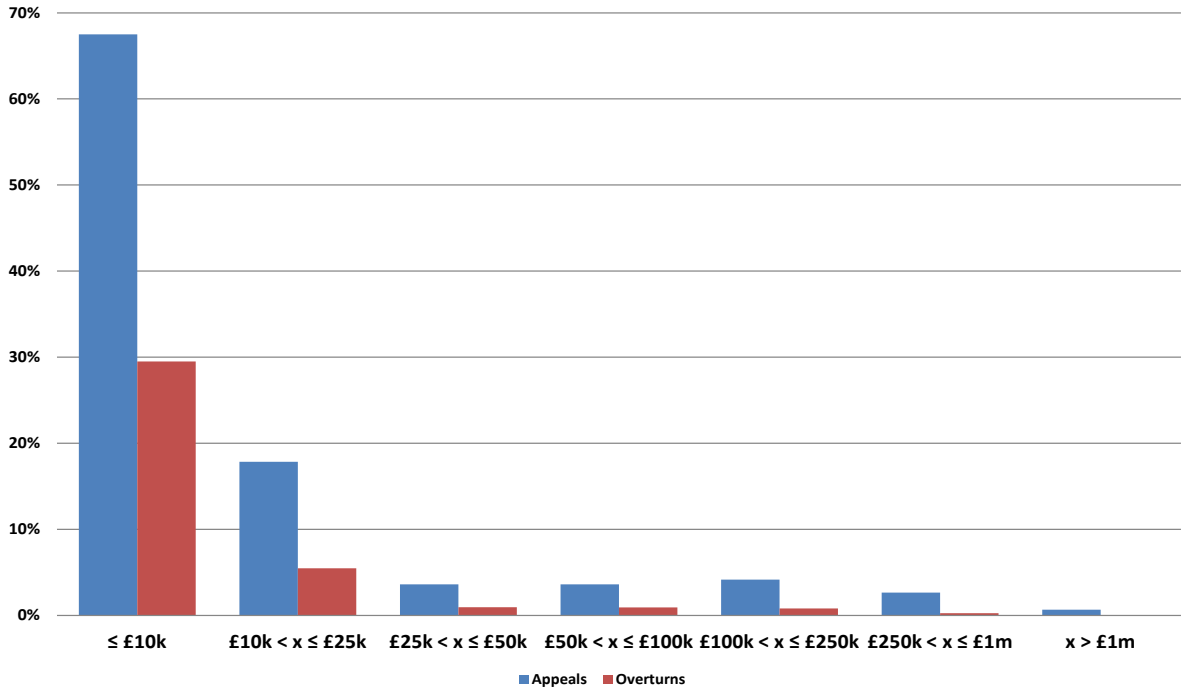


Table 11 below splits customers into existing customer, new customers which are existing customers moving from or with an account with another lender, and start-ups where they are new to business. What it shows is that where a bank has more information on you from its own records, their decisions tend to be better but for new customers and start-ups it is likely that you will have to be patient and resolute in getting your case across but if you do then it can be done.

Chart 11a: Appeals by Type of Customer - Years 1 - 5 (April 2011 – March 2016)

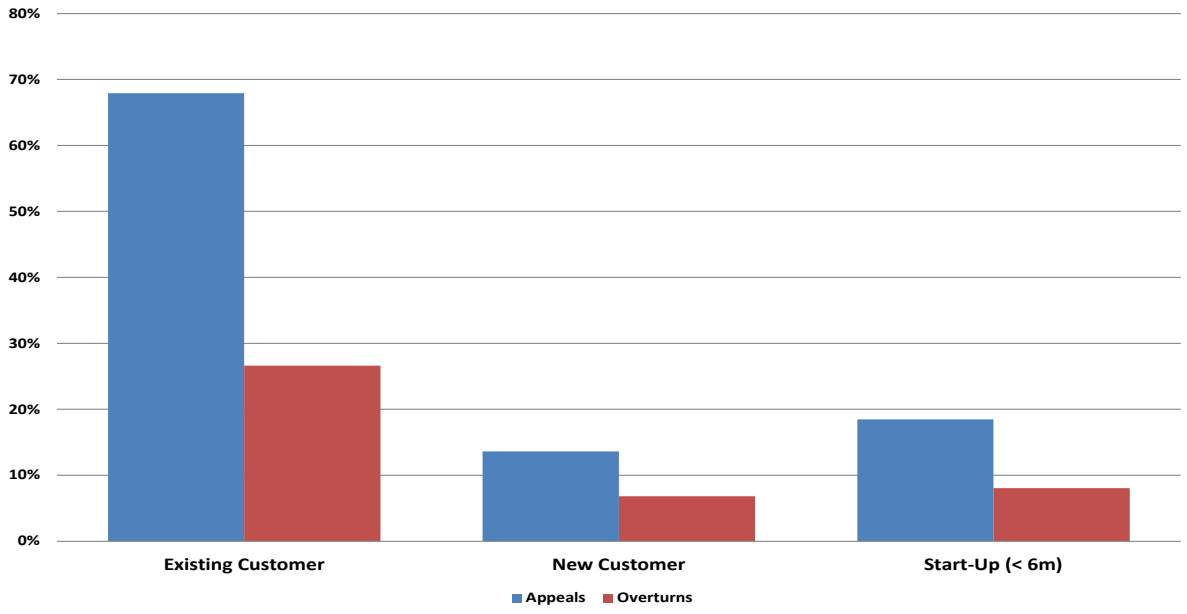
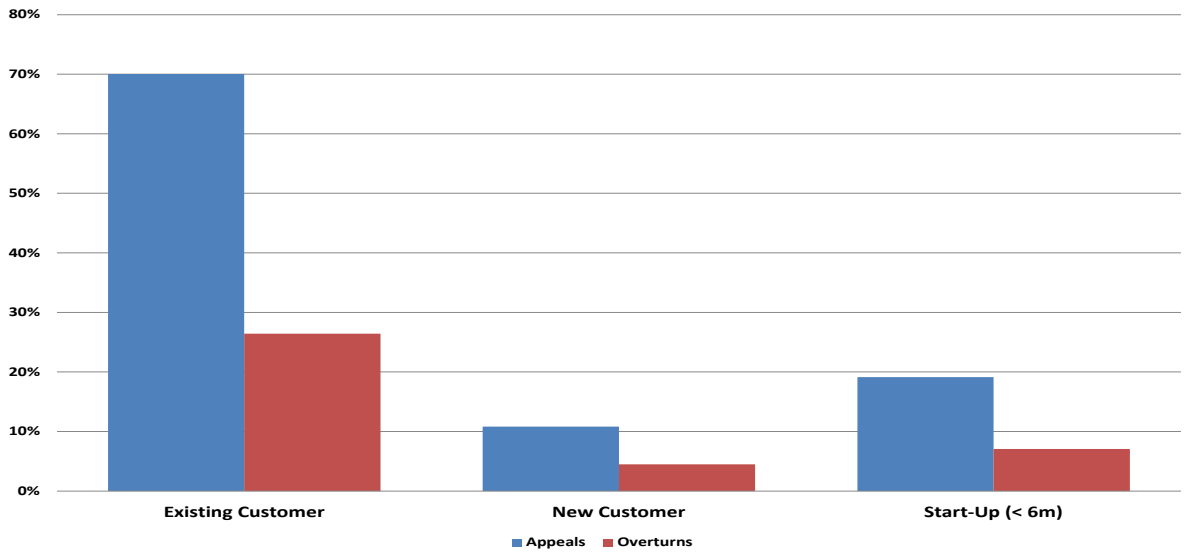


Chart 11b: Appeals by Type of Customer - Years 4 & 5 only (April 2014 – March 2016)



Annexe H contains the charts which show other key information in terms of sectors and geography which again have shown little change from previous years.

7. Compliance

I have mentioned a number of issues to do with compliance elsewhere in this report but will highlight two specifics in this section.

The first is to do with the ring fencing which all banks are tasked to do as a result of the outcomes of Sir John Vickers report and recommendations. I understand entirely what the report recommended and why the banks have to do this but there are unintended consequences that will impact on the Appeals Process and SMEs.

The purpose of ring fencing was to protect personal customers and small businesses in the ring fenced bank and that investment banking, large corporate customers etc. would be moved to the non-ring fenced bank. To do that two separate entities would be created which had to individually have sustainable balance sheets which could support each entity. All of the banks have embarked on that process and are currently in consultation with the regulators on what is in and out and importantly what can be classified as shared services across the two entities.

Two of the banks have already set the break point in terms of business split at £6.5 million turnover and while others have not and kept all SMEs within the ring fenced bank the challenge with those that have set the lower bar at £6.5 million, which I understand why they have done it, are two fold namely

a) The Appeals Process applies to SMEs up to £25 million turnover, so how will the process work in the non-ring fenced bank? I have had positive conversation with both banks on this and one hopes that the Appeals Process can be deemed a shared service so nothing will have to change and the other is still awaiting confirmation of their overall discussions with the regulators before deciding.

b) SMEs who move into the non-ring fenced bank I understand will have their sort codes changed will undoubtedly cause some challenges and a not insignificant amount of work.

I will report further later in the year as to what the final solution I come to is but this is a good example about how a desire to do one thing can impact on another.

As many of you will know the Competition Markets Authority (CMA) has been investigating the banking industry for some time now and published its final suggestions and recommendations and my second specific compliance highlight refers to that. In it is a part that is specific to SMEs which I have set out below.

Retail banking market investigation[4]
Provisional decision on remedies

We have provisionally decided to make an order requiring all lenders that provide unsecured loans and overdrafts to SMEs to display on their websites rates showing the cost of these products up to the value of £25,000. These rates must be displayed in a form used under the existing (personal) consumer credit regime. This includes:

(a) showing a representative annual percentage rate (APR) for unsecured loans; and

(b) an equivalent annual rate (EAR) for overdrafts to enable SMEs to make comparisons on the total cost of credit.

The rates that these lenders publish must be made available to at least 51% of SME customers applying for these products. In addition, lenders must make available these charges, terms and conditions, and how APR/EARs vary with loan size and length, as open data to third parties, such as comparison sites and finance platforms, including the eventual Nesta challenge prize winner or winners. This measure must be implemented within three months of the order coming into effect. We further require that all lenders who advertise prices for SME lending in marketing materials should always do so using an APR/EAR format from the existing (personal) consumer credit regime.

We have also provisionally decided to make an Order requiring RBSG, LBG, Barclays, HSBCG, Santander, Danske, BoI and AIBG to offer a tool on their websites to enable SMEs to obtain an indicative price quote and indication of their eligibility. This would cover all unsecured and secured loans and overdrafts up to £25,000. This measure must be implemented within six months of the order coming into effect. Access to these tools must be made available to any two finance platforms designated under the SBEE Act for a period of three years and any two comparison sites, including the eventual winner or winners of the Nesta challenge prize, for a period of three years after the prize winners have launched their products in the market.

I do understand that the above and indeed the whole of the CMA report are only for now 'provisional remedies' and have asked for comment from the banks and others but I do have a concern. My concern is in the final paragraph of the above which relates to the CMA's desire to want each of the banks listed to have in place an

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4 https://assets.publishing.service.gov.uk/media/573a377240f0b6155900000c/retail_banking_market_pdr.pdf

online tool so that SMEs can get both a price quote as well as their eligibility to be accepted for lending for the amount they are looking for. It is the last part of that which concerns me. The reason it concerns me is that anything that we do to help customers and banks should make that interaction and relationship between them better not worse and I am concerned that this suggestion would have the opposite effect and would worsen that relationship.

That the banks could produce a tool that could make that judgement is not in doubt. I have witnessed banks using or experimenting with both simple and sophisticated tools that can do that and do it well if the information that is inputted into it is accurate and therein lies the challenge I believe.

Over the last 5 years I have listened and watched many lending conversations between lenders and small SMEs which are those that are most likely to apply for less than £25,000 lending. As I have said many times in these reports, the sophistication in terms of financial knowledge tends to relate to how large the SME is and in this area they will tend to be small so less sophisticated in general. To obtain a sensible solution to eligibility the customer will have to provide turnover or revenue figure, costs, net profit etc. From my experience what small SMEs tend to answer to those questions varies greatly and is not always correct for a variety of reasons usually to do with what they think is revenue, what they differentiate between personal and business costs, and what net profit means. Now while the banks could make definitions of what they mean by each on their website, experience makes me concerned that SMEs will still enter incorrect data which could give the wrong answer in terms of eligibility either way.

Lack of financial and business knowledge has always been an issue with micro and small SMEs and still is and I see many times small SMEs being declined and then overturned because correct information has not been submitted initially.

It is well known that there is a lot of education that needs to be done with small SMEs and the debate has always been about who should do that and I recall us discussing that many times when I was Chair of the CBI's UK SME Council some years ago, with no solution. While I accept that these recommendations to the CMA may have come from the Trade Associations who have micro and small SMEs as members, with the best intentions they might give the opposite result than was desired.

What is meant by eligibility in the paragraph in the CMA report also needs defining as it could mean different things and also would have to be heavily caveated until full due diligence was done by the lender on any application.

I am all for putting new tools in place but only if they add value and make the relationship better and I am not sure that will be the case with this. I intend to write to the CMA in those terms.

Finally, under compliance it is just to note that I did respond to the FCA's discussion paper on SME lending[5] earlier this year. Attached as Annexe I is the response I put into that paper and look forward to seeing the outcome from the FCA to that paper later this year. While I inputted mainly in support of the proposal for those that lend to SMEs to put in place industry wide standards of best lending practice, it was also to focus on how guidance is currently used sometimes by regulators. Good regulation should have clear outcomes that it wants to achieve which can be recognised and measured. However if we are to encourage innovation and competition then how those outcomes can be achieved may vary and allow each business to do it in the way they think best within certain restraints. While I do have clear outcomes in terms of the Appeals Process in each part of it for the banks that are part of it, how each achieves those varies to fit in with how they operate as a business and only if I think the way they do it does not add value would I question it. Where guidance is published for regulation in terms of suggestions that people could use it is exactly that and mainly helps new comers to look at how they might do it. There is evidence though that some regulators use guidance as the 'only way' of doing something which is not correct and does not lead to good regulatory outcomes generally.

[5] http://www.fca.org.uk/static/documents/discussion-papers/dp15-07.pdf

8. Key Priorities for Year 6

Year 6 will be mainly about getting good Integration Plans with each bank by the end of the year that pave a clear route and timescale to where they need to get to and what they need to do to satisfy me that they are in a position to move to put in place systems and processes to audit and grow themselves. As I say elsewhere in this report I do not see any bank doing this before the end of 2017 and then others will follow over the coming years as they address the issues which they know have to be done before getting to that position.

I will also continue to follow issues around compliance and regulation which I think will not act to the benefit of the relationship we are all trying to put in place between SMEs and those that lend to them and particularly I will discuss with the CMA their specific recommendations in this area.

As all the banks put more into telephony which undoubtedly they will over the coming year and also develop new channels especially on the internet and through mobile devices, so I will make sure they do so to accommodate the Appeals Process and also the better conversations we are all looking to have. This will mean changes in how they relate to their customers and, as in previous years, I will make more of my time focussed on those that deal with customers through those new channels.

9. Appendices

Annexe A – Bank Commitments & List of Banks

The Taskforce banks committed to 17 actions across three broad areas. To improve customer relationships we will:

1. **Support a network of business mentors** by working with the business groups to deliver this free service to small businesses across the UK
2. **Improve service levels to micro enterprises** (businesses with fewer than 10 employees and turnover or a balance sheet under €2m) by setting out in a new Lending Code the levels of service banks will provide and outlining additional sources of help and advice
3. **Publish lending principles** which clearly set out the minimum standards medium-sized and larger businesses can expect when asking banks for loans and other services
4. **Establish transparent Appeals Processes** for when loan applications are declined, with processes independently monitored by a senior Independent Reviewer, who will publish the results of their review, to ensure each bank has a fair and equitable Appeals Process
5. **Initiate a pre re-financing dialogue 12 months' ahead of any term loan coming to an end**, which will include a timely review of business and re-financing needs and an assessment of what needs to be in place ahead of loan expiry to maximize the prospect of successful re-financing.

To ensure better access to finance we will:

6. **Establish and invest in a new £1.5 billion Business Growth Fund** (built over a number of years) to fill a crucial gap in the market and provide capital for viable businesses which want to invest and grow
7. **Support the Enterprise Finance Guarantee Scheme**, seeking continued Government backing through to 2012, and accommodating any changes made by Government
8. **Help mid-sized businesses access syndicated debt markets** by raising customer awareness, training customer-facing staff and engaging more actively with business groups and customers
9. **Improve access to trade finance** through targeted SME awareness-raising campaigns and exploring possible regulatory adjustments with the FSA. Seek to open with Government access to trade finance products for businesses that qualify for the Enterprise Finance Guarantee Scheme
10. **Signpost alternative sources of finance**, giving customers helpful information and advice if a loan is declined and raising awareness about the financial solutions they should consider

11. **Help improve the supply of credit to the wider economy**, working with the authorities to ensure that wholesale markets can support the necessary lending capacity as the economy recovers.

To provide better information and promote understanding we will:

12. **Fund and publish a regular independent survey**, commencing in early 2011, to a methodology agreed with Government and business groups, so there is an agreed and authoritative set of data on business finance demand and lending supply
13. **Enhance the cross-industry lending dataset** by broadening the statistics on lending available for wider bands of business activity; on lending to deprived areas; and on national and regional data on the provision of bank support to business start-ups
14. **Hold regional outreach events** throughout 2011 with business groups to enable business customers and business groups to meet with key staff from the banks to answer questions and explain what services are available
15. **Improve customer information** including a review of literature and other materials, so customers can more easily understand what products will best meet their needs
16. **Host a dedicated website** through the BBA to draw together and link useful sources of information to help customers access the most appropriate information. This will also connect mentoring networks
17. **Establish a Business Finance Round Table** where senior representatives from the banks and business groups meet regularly to discuss and review trends, identify emerging areas of concern, ensure problems are addressed and facilitate the implementation of the Taskforce initiatives.

List of Banks:

Barclays Bank
Barclaycard
HSBC
Lloyds Banking Group
Royal Bank of Scotland
Santander
Bank of Ireland
Danske Bank
First Trust Bank
Ulster Bank
Clydesdale
TSB

Annexe B – 'On Boarding' presentation

Task Force Banks
Transparent Appeals Process

Introductory Presentation
(On-Boarding)

Professor Russel Griggs, OBE – Independent External Reviewer

Overview

1. **Summary & Key Developments**
2. **Detail about the Appeals Process**
3. **Minimum Standards & Scope of the Appeals Process**
4. **Substantive Testing**
   - Bank's Appeals Process
   - Processing of declined applications
   - Receipt of an Appeal
   - Consideration of an Appeal
   - Monitoring of Appeals
5. **Themes arising from testing the Appeals Process over the last 5 years**
6. **Appendix / Further Resources**

Appeals Process: What is involved

- Monthly submission of Appeal numbers e.g. appeals received, appeals completed/overturned and completion of Appeal Review sheets covering a sample of completed appeals.
- Depending on appeal numbers, Quarterly visits by the review team, sometimes accompanied by Professor Russel Griggs, to carry out substantive testing of case files.
- Written feedback (please see appendix) provided after each visit.
- Professor Russel Griggs holds discussions with a selection of RMs and also customers. In terms of RMs the number meetings will be structured around how the particular banks structures itself.

Key developments and changes from Appeals Process work

- We have detailed data (including from our file reviews) on some 50% of all appeals made.
- We have used this invaluable knowledge to recommend and facilitate process improvements e.g. changing the point at which decisions are made to reduce the need for appeal.
- We have worked with CRAs and the banks to improve awareness to SME customers of the importance of credit scoring in lending decisions.
- We have engaged in dialogue with the FCA on the impact of the CCA on business lending caught by the Act and in conjunction with participating banks have provided views and ideas on changes.
- HMT asked us to review a sample of decline cases which did not appeal. This has produced interesting new information, including about the ability of banks to communicate the decline reason to the customer. This is also an area that is leading to process changes.

4

Summary of the Appeals Process after 5 years

- Almost 16,000 appeals made to participating banks since April 2011.
- **£60** million of additional lending to SMEs who have successfully appealed.
- Overturn rate on appeal currently around **26%** (19% excluding credit cards).
- Banks, BBA, Government (HMT & BIS) and TSC all value the work of the Appeals Process and have added to and expanded the original scope as the process has progressed.
- Independence of the Process and Russel Griggs in particular is clearly understood by Government. Any changes suggested to the process, even those made, e.g. by HMT, require Russel Griggs' approval.
- Findings and recommendations from Appeals Process work has led to process improvements at several banks and improved conversations between RMs and their customers. This is now seen as a key outcome of the Appeals Process in helping drive systemic change where necessary.

3

Appeals Process: What is involved

- Action Plans agreed with each bank which will be reviewed at quarterly meetings with senior key stakeholders in each bank to review action plan progress and to discuss issues. The bank will appoint an Appeals Champion and/or a senior person who will have overall responsibility for the Appeals Process.
- There is a cost for the services of Professor Russel Griggs and his review team which can vary depending on the level of appeals activity.

6

Minimum Standards and Scope of the Appeals Process

1. The Appeals Process is available to all SME customers with a Group Turnover up to £25million
2. "In Scope"
   - All types of lending products, funded and non-funded, required by bank customers to support them in the performance of their business activities
   - Applies to all "lending applications" including lending requests to the Bank where the customer has provided "New" information which then results in a negative view e.g. "Declined at Source"
   - Applies to applications which are declined where no offer has been made or where the customer does not agree with the Bank's Conditions for lending (excluding standard terms, fees and pricing)
3. "Out of Scope" (ineligible)
   - Customers within Bank's support or recovery units where lending is usually more structured
   - Where bank is precluded from lending to a customer because of market regulations, including AML or sanctions
4. Bank to communicate the reason(s) for the lending decline in writing and preferably verbally also. It is important that the bank keeps a written record of the decline conversation with the customer
5. The verbal conversation with the customer and the lending decline letter must include information on how to appeal e.g. signposting to the Appeals Process. As discussed above, a written record should also be kept of the decline conversation with the customer

Minimum Standards and Scope of the Appeals Process – continued

6. Decline letters should be written in plain English and include signposting to Alternative Sources of Finance, CDFI and business mentoring
7. Appeal Reviewers will be "Experienced Lenders" who have not previously been involved in the decline of the original lending application
8. Appeal Reviews to be undertaken on the basis of ensuring completeness of the original lending application. This will take into consideration any new or additional information which has been provided by the customer with their appeal or requested by the Appeal Reviewer subsequent to the receipt of an appeal
9. Customers are required to submit appeals within 30 calendar days of their receipt of the written decline communication. To provide for normal posting time we would regard this as 35 days from the date of the decline letter
10. The Bank is required to inform the customer of the outcome of the appeal within 30 calendar days of their receipt of the appeal. Appeal decisions to be communicated to the customer in writing:-
    - Where the original decline decision is upheld confirming the original decline decision stands an explanation of the decline reason(s) must be given
    - Where the original decline decision is overturned, in favour of the customer, it is considered prudent to confirm the amount that has been agreed, especially in the instance where the amount is less than originally requested by the customer

I. Substantive Testing – The Appeals Process

Bank's Appeals Process

Key Elements	Bank Response
Have the requirements been adapted for different access routes (RM, online, telephony)?	
Management oversight across business segments within SME Banking, Micro → Large corporates and brands.	
Staff properly trained on process?	
Clear documentation and process map for appeals and their handling?	

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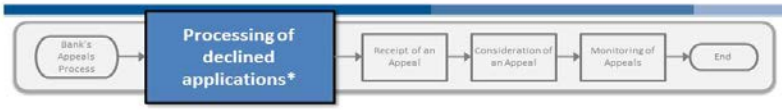
Processing of declined applications



Process Test	Evidence
How is the Customer informed of a decline decision?	This can be communicated to the customer orally and then confirmed in writing. *Review team will look to evidence a copy of decline letters when reviewing Appeal case files.*
Is the Customer informed of the reason(s) for the decline?	*When reviewing Appeal cases, the review team will check the reasons for the decline, as detailed in the decline letter, against those documented in the Appeal case file.*
How is the Customer signposted to alternative sources of finance?	The Decline letter must include signposting to 'Alternative Sources of Finance'.
Is the Customer informed of their right to Appeal?	The decline letter should inform the Customer of their right to Appeal within 30 days of being notified of their declined lending application and that the Bank will respond with the outcome of the Appeal review within 30 days.
Are communications understandable and in plain language?	It will be important this is achieved in the decline letters. *When reviewing Appeal case files, the review team will check this.*

* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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Receipt of an Appeal

Process Test	Evidence
How accessible is the Appeal Process to the Customer?	*The review team will look to evidence what access routes are available for customers to Appeal, where to write to or what online avenues exist.*
What is the system for receiving and recording Appeals?	*When reviewing Appeal case files, the review team will look to evidence how Appeals are tracked.*
Does the Reviewer have all relevant information from the original application?	*The review team will look to evidence the original lending application as part of the Appeal case review and that the Appeal is was reviewed by an experienced Lender who had not been involved in the original declined lending application.*
Is the receipt of Appeal acknowledged?	Some banks notify the customer that their Appeal has been received and is under consideration. This is not mandatory but is considered good practice.
Determine the suitability of the Reviewer	Appeal reviews should be conducted by an experienced Lender who has not previously been involved in the original declined lending application.

* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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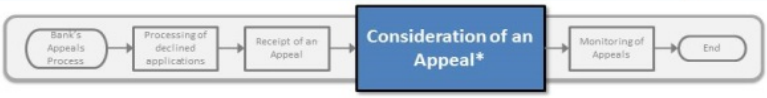
Consideration of an Appeal



Process Test	Evidence
If necessary, how does the Reviewer obtain additional information?	*When reviewing Appeal case files, the review team will note where additional information has been provided and how this has impacted the appeal outcome.*
Methodology in reviewing the Appeal	This will involve a judgemental review of the original lending application taking account of any additional information provided by the customer in support of the appeal. This will include information which has been requested by the Appeal Reviewer. Terms and Conditions can now be appealed (structure only and not interest rate, standard terms or fees), this can be both before signing the contract and after drawdown.
How is the Appeal outcome communicated to the Customer?	*When reviewing Appeal case files, the review team will look to evidence how and when the Customer has been informed of the appeal outcome. Overturn letters should confirm the amount of lending agreed.*

* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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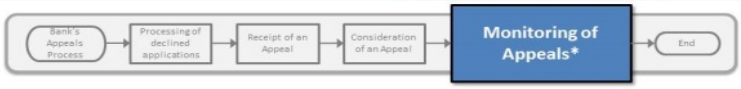
Substantive testing - Monitoring of Appeals



Process Test	Evidence
The use of MI to monitor the process internally	All appeals will be tracked by the Appeals team. *This is usually verified through Site Visits.*
Is there an internal QA process?	Whilst Banks are developing their own internal QA processes, it is evident that the feedback provided by the review team in Site Visit feedback to the major UK banks has been well received leading to process changes and the adoption of various recommendations.

* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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Some common themes arising from testing of Appeals Process over the last 5 Years

- **Internal Communication of the Appeals Process / Staff Training -** Have details of the Appeals Process reached everyone involved in Bank's various lending channels? It is important for banks to have plans for staff training, for testing front line awareness of the new process and for periodic monitoring thereafter.
- **Customer Awareness of the Appeals Process -** Banks have found that not all customers are aware of the Appeals Process and have considered raising awareness by communicating to all customers, even those whom have not sought to borrow. It would be good if the bank did some testing of its own of awareness on its customers.
- **Saying 'No' to Customers -** If the Customer fully understands the rationale for the Bank declining their lending application, the need to appeal the decision maybe lessened. Where Decline Letters are designed to only provide high level, standardised reason(s) for decline, consideration should be given to the quality of any oral communication with the Customer to reinforce their understanding. Oral conversations should have a record of the main points.
- **Decline Letters -** When using high level template Decline Letters, take care to ensure the correct version of the letter is selected that reflects the decline reason documented on file e.g. If the reason was lack of affordability, the Decline Letter should not state that it was due to, say, adverse Credit Reference Agency data. Also notification of the Appeals Process should be highlighted up front and plain English in the letters.
- **Front Line Training –** The Appeals Process has highlighted training and competency issues at Branch and RM level. Examples are set out on the next slide.
- **Appeal Numbers -** If volumes are low, consider what the drivers might be behind this and what can be discerned?

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Some common themes arising from testing of Appeals Process over the last 5 Years

Front Line Training :

- **Switchers -** as they have little / no account history, switchers are frequently declined lending by their new bank. On appeal, the Customer is asked for copies of their previous bank statements which, if they show good account conduct, might lead to the original decline being overturned.
- **"Joining up the Dots" -** long-standing Customers, with personal accounts, mortgages, credit cards with a Bank who chose to open a business account with the same Bank, are declined lending due to little / no account history. It is only on appeal that the Reviewer 'joins up the dots' and can see that the bigger picture, personal account conduct, mortgage repayment history etc.
- **Sole Traders to Limited Companies -** Customers who have operated their bank account as a Sole Trader, with good account conduct, are turned down for lending where the company structure has recently changed to a Limited Company. Quite often the Customer is treated as a 'start up' company and their Sole Trader history is not taken into account until appealed.
- **Bank 'Rules' / Risk Appetite -** front line staff are not always fully aware of the Bank's rules and risk appetite e.g. sector, location, account conduct, adverse Credit Reference Agency data etc. Customers operating a business for which the Bank has little appetite, or in a location that scores poorly by the automated credit score are subjected to loan applications that have little chance of success and the fruitless application has further damaged their Credit Score. Far better for front line staff to hold quality conversations with the Customer and source additional information that might support their application.

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II. Appendix

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Further Resources

I. Appeals Process – accumulative results

II. Professor Russel Griggs' Year 4 report & quarterly updates

III. Action Plan

IV. Decline Sampling

V. Site Visit Requirements for Appeals Files

VI. Appeal Review Sheet

VII. Site Visit Feedback

VIII. Standard Industrial Classification (SIC) Code List 2007

IX. Government Regions Map

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Annexe C – Appeals Case Review Form Updated

Appeal Review Sheet

PROMONTORY REF:	PRIVATE AND CONFIDENTIAL FOR PROMONTORY, PROFESSOR RUSSEL GRIGGS AND BANK ONLY		PROMONTORY
Bank Name		Office Location	
Bank Appeal Reference Number		Month of Review	
SECTION ONE	CASE SNAPSHOT		
Company Name			
Company Structure		Company / Group Turnover	
Nature of Business			
Business Category			
Business Location (City or County)	Please select City or County	Business Location (gov't Region) Auto Completes	Auto Completes
Business Start Date (MMM-YYYY)		Date Bank Account Opened (MMM-YYYY)	
Customer Type		Total Amount of Facilities Requested "New Monies"	
Product One		Product Two	
Type of Facility Requested		Type of Facility Requested	
Lending Product One		Lending Product Two	
Amount of Facility Requested "New Monies" (Product One Only)		Amount of Facility Requested "New Monies" (Product Two Only)	
Details of any other facilities requested in this application			
Purpose of Facility / Facilities? Are there any existing facilities for this customer?			
SECTION TWO	APPEAL SNAPSHOT		
How was Application received		Application / Credit Process	
Date the Application was Submitted (DD-MMM-YYYY)		Date of the Decline Letter (DD-MMM-YYYY)	
Date the Customer Appeal was Received by the Bank (DD-MMM-YYYY)		Date of the Appeal Receipt Letter or Email (If applicable) (DD-MMM-YYYY)	
Date of the Appeal Outcome Letter (or Email to Customer) (DD-MMM-YYYY)		Are copies of these Letters on file? [Yes / No]	
SECTION THREE	ORIGINAL DECLINE DETAIL		
Was the Customer declined all lending in this application? [Yes / No]		How was Customer informed of the decline decision?	
Bank's reason(s) for declining this lending application		Please indicate other decline reason (If applicable)	
Was the Customer given reasons for the decline decision in the written communication and does this fully convey the decline reason(s) on file? [Yes / No]			
Decline Letter signposts to the Appeals Process? [Yes / No]		Decline Letter signposts to Alternative Sources of Financing? [Yes / No]	

SECTION FOUR	CUSTOMER APPEAL		
Method of Customer appeal		Appeal Type	
Reason(s) given for the appeal			
SECTION FIVE	**BANK REVIEW OF APPEAL**		
Who reviewed this Appeal			
Was additional information received from the customer in support of this Appeal? [Yes / No]		*Please give details of any additional information received in support of this appeal*	
Review Methodology Please indicate action steps taken when reviewing this appeal. The Rationale for the Appeal outcome decision, including how the original decline reason(s) have been addressed or mitigated. Please also include comment with regard to the review of any additional information received (as applicable).			
Appeal Outcome		If Overturn, total amount of "New Monies" Lending approved	
Where Overturn provides for more than one Lending Product please give details e.g. Product One / Product Two			
How was the customer advised of the appeal outcome		Does the Customer communication fully explain the appeal outcome? [Yes / No]	
Please use this space for any additional comments relating to review of this appeal, including where the Appeals Process has not been followed correctly and/or where frontline feedback has been given.			

Version date 31MAY2016

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Annexe D – Appeals Process Site Visit Requirements for Appeals Files

Requirements

- Prior to the visit, we need to have a reasonable idea of the numbers of completed and in-scope appeals to be reviewed, and the number overturned by the Appeals Process. This is important for resource management purposes at Promontory, and reduces the need for repeat visits to the same site. Your help in communicating likely volumes for a visit is appreciated.
- For each visit, we need the files to be complete and in date order. Clearly labelled and organised files help us review files quickly and enable us to confirm compliance without undue additional work. Banks should also make sure, apart from the specifics listed below, that they include all other relevant documentation relating to the transaction.
- For individual files, the following information should be included where available:
    - Original application, including documentation that enabled the case to be decided, such as financial statements, account history, business plan, cash flow forecast, credit score outcome, accounts, etc. A summary containing the key data from these may be sufficient
    - Details (inc dates/amounts where relevant) of the customer, location, new business, new to bank, length of relationship, existence of other facilities, turnover/size of business
    - Clear details of what product(s) is being asked for and for how much. Details of existing facilities and terms where topping-up and a clear purpose of what the credit is being asked for.
    - Details of any internal "4 eyes" process prior to the original decision being given to the customer including notes and dates
    - Names of original decision-maker, including those involved in any "4 eyes" process
    - Details of any referral to "Credit" and any views given by them, also to include dates
    - Copy of the decline letter and any notes of conversations with the customer as part of that process (it is known that more clarity around reasons is often provided in this way)
    - Appeal letter/email/note of call from customer including details of any reason for appeal including "don't agree/not fair"
    - Acknowledgement letter when sent and where part of the process
    - Details of any information submitted with the appeal
    - Name of person who dealt with the appeal
    - Details of the appeal reviewer's assessment/conclusions of the case, including whether any further information was sought from the customer and, if not, reasons why.
    - Details of information given to branch/local RM by the appeal reviewer where appeal outcomes are conveyed locally
    - Appeal outcome letter sent to customer
    - Details of any other conversations with the customer relating to the appeal outcome
    - Where Minimum Standards documentation is missing or the process was not adhered to, there should be an explanation of why it is not available and what is being done to ensure that it will be in future

Annexe E – Appeals Process Site Visit Feedback

PROMONTORY

Promontory Site Visit Feedback

Site:

Date:

Attending:

Independent External Reviewer: Professor Russel Griggs, OBE

Promontory:

Appeals Reported to Date				Reviewed by Promontory	
Year	Appeals Received	Appeals Overturned	% Overturns	Total Reviewed	Reviewed This visit
Apr 2011-Mar 2012					
Apr 2012-Mar 2013					
Apr 2013-Mar 2014					
Apr 2014-Mar 2015					
Apr 2015-Mar 2016					
Please see appendix which provides breakdown of Appeals and Overturns by Quarter					

Appeals Process Updates / Discussions / Matters for Consideration

-

Case Reviews - Observations / Comments

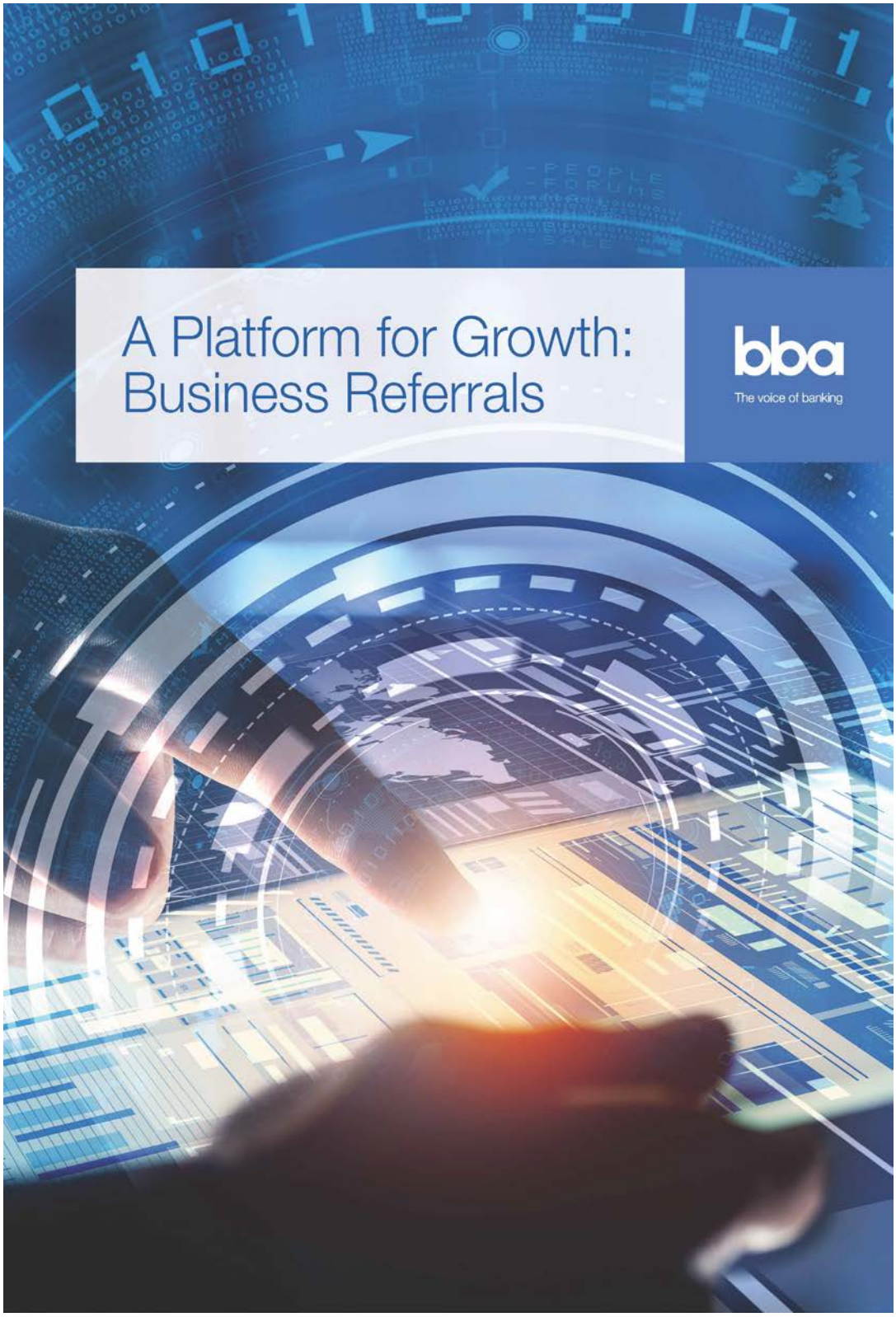
-

Appendix

Appeals received / Overturned by Quarter				
By Quarter	Appeals Received	Appeals Overturned	% Overturns	Appeals Completed
Yr. 1. Apr-Jun 2011				
Yr. 1. Jul-Sep 2011				
Yr. 1. Oct-Dec 2011				
Yr. 1. Jan-Mar 2012				
Yr. 2. Apr-Jun 2012				
Yr. 2. Jul-Sep 2012				
Yr. 2. Oct-Dec 2012				
Yr. 2. Jan-Mar 2013				
Yr. 3. Apr-Jun 2013				
Yr. 3. Jul-Sep 2013				
Yr. 3. Oct-Dec 2013				
Yr. 3. Jan-Mar 2014				
Yr. 4. Apr-Jun 2014				
Yr. 4. Jul-Sep 2014				
Yr. 4. Oct-Dec 2014				
Yr. 4. Jan-Mar 2015				
Yr. 5. Apr-Jun 2015				
Yr. 5. Jul-Sep 2015				
Yr. 5. Oct-Dec 2015				
Yr.5. Jan-Mar 2016				

The appeal overturn rate (%), as shown above, is calculated on the basis of the actual number of appeals cases completed. This is different to the first table where the overturn rate is calculated on the basis of appeals received.

Annexe F – Referrals Factsheet



This fact sheet provides information for businesses about new regulations that have the potential to boost competition for business finance.

Background

The aim of the Small and Medium Sized Business (Finance Platforms) Regulations is to help businesses potentially obtain finance from other lenders if their borrowing application to a 'Designated Bank' has been unsuccessful.

The Regulations require the bank to ask for your consent to provide information to Designated Platforms. Under the Regulations, the Platforms may not pass information that could identify your business to finance providers without your agreement.

The Designated Platforms have passed the Government's due diligence process and they will seek to match your business's needs with the most suitable lender(s) for your circumstances.

Designated Banks:

AIB Group (UK) Plc (t/a First Trust Bank)
Bank of Ireland (UK) Plc
Barclays Bank Plc
Clydesdale Bank Plc
Northern Bank Ltd (t/a Dankse Bank)
HSBC Bank Plc
Lloyds Banking Group Plc
Royal Bank of Scotland Group Plc
Santander UK Plc

Government Designated Platforms:

Business Finance Compared
(www.businessfinancecompared.com)
Funding Options
(www.fundingoptions.com)
Funding Xchange
(www.fxe.co.uk)

Eligibilty

For the purpose of these Regulations, businesses are those:

1. with turnover of up to £25m
2. with an address in the United Kingdom
3. which carry out commercial activities as their principal activity
4. which are not part of a group which as a whole has an annual turnover which is equal to or greater than £25m

Applications for the following products are within the scope of the Regulations:

a. Overdrafts

b. Loans

c. Invoice Finance

d. Asset Finance (excluding operating leases)

e. Credit cards

A Designated Bank will not offer a referral when:

a. the value of the finance facility applied for is less than £1,000;
b. the facility applied for is sought for a period of less than 30 days;
c. the bank is aware that the business is subject to a statutory demand for payment, enforcement proceedings or other legal proceedings in relation to payment obligations arising under an existing finance facility;
d. the bank is aware that the business is subject to a formal demand
e. you have declined the bank's offer of credit solely due to price considerations.

The Process

If your lending application is declined or you reject a facility offered on a different basis to the one you applied for, the bank will ask for your consent to refer you to the Designated Platforms. This will occur at the time the decline is communicated to you or when you decline the alternative offer.

NB: The offer of a referral is a statutory obligation and should not be construed as a recommendation.

If consent is given, the bank will send specified information regarding your application to all the Designated Platforms before the end of the next working day.

Upon receipt of this information each platform will contact you by email, telephone or text to start the process of helping you find the funding best suited to your needs.

Your specified information will not be passed on to any potential lenders until your further consent is given.

The specified information is:

a. the Business Name, postal, e-mail address and telephone number
b. the amount and type of finance requested
c. the legal structure of the business (limited company, limited partnership, partnership sole trader, or other)
d. the period in years and months that the business has been trading for and receiving income
e. the date by which the business requires finance and / or made the application

Your Options

1. You can provide your consent and the Designated Bank will pass information about you and your application to the Designated Platforms.

2. You can decide not to provide your consent. Your bank will provide you with the necessary information to use the platforms yourself at a later date.

3. Under certain circumstances, you may be able to appeal your bank's lending decision. Further information is available from your bank. You can make an appeal at the same time as consenting to a platform referral.

Frequently Asked Questions

1. How can I be sure that my data is safe and will not be used for marketing purposes?

The platforms are designated by the Government. As part of the designation process, platforms are required to demonstrate that their systems and processes comply with Data Protection regulations and that data is securely protected. Platforms can only use the data for the purpose of seeking finance for your business and cannot use it for marketing purposes without your consent.

2. What type or choices of lenders are there on each platform?

Each platform will provide access to a range of lenders including some high street banks and niche funding specialists. Across the platforms typical financing products include business loans, overdrafts, credit cards, asset finance and invoice finance.

3. Do I have to provide further information to the platforms?

Typically, the information provided by your bank would not be sufficient to enable another lender to undertake a credit assessment. The platform aims to provide you with a funding solution best suited for your needs by 'matching' your circumstances and requirements to lenders on their platform. To do this they may require additional information.

4. Do I have to use all the platforms?

Under the regulations your bank is required to submit information to all platforms. However, there is no obligation to use every platform and you may decide which platform(s) you wish to act on your behalf.

5. Will the platforms charge me a fee for matching me with other lenders?

No. A platform must not charge any fee to a business for use of this service.

6. How safe are the platforms?

The Designated Platforms have demonstrated that they have robust systems in place that protect against loss, corruption, destruction, misuse or unauthorised access of information.

7. What should I do if I make an unsuccessful application to a Designated Bank but no referral was offered?

If you feel that a referral should have been offered, contact your bank who will look into the matter for you, or you can also make use of the services offered by the platforms at any time by visiting their websites:

Business Finance Compared (www.businessfinancecompared.com)
Funding Options (www.fundingoptions.com)
Funding Xchange (www.fxe.co.uk)

8. If my bank declined my application, why would another provider accept it?

Lenders assess borrowing requests differently and therefore are willing to lend where others are not.

9. Will consenting to a referral harm my credit rating?

Providing consent will not harm your credit rating. Completing an application with a Designated Platform will not affect your credit score. If you make an application to one or more of the lenders it is likely that each lender will undertake credit searches and take previous searches into consideration as part of their risk assessment. However, a number of credit applications alone should not normally cause a problem for you.

10. Do the platforms offer financing themselves?

Platforms are credit brokers regulated by the FCA, they are not lenders.

11. What do I do if I no longer wish to use the services of a platform?

You should notify the platform directly.

12. What happens if I did not give consent initially but then change my mind?

You can make use of the services offered by the platforms at any time by visiting their websites.

13. Where can I go for further information and guidance about business finance?

"The business finance guide" has recently been published by the British Business Bank in partnership with the ICAEW. It is a unique guide that sets out the main things to consider and outlines sources of finance available to businesses. The online version includes an interactive tool allowing businesses to explore their financing options more easily. You can find the online version at thebusinessfinanceguide.co.uk.

General Questions

1. What is the designation process for platforms?

HM Treasury (HMT) have the power of designation based on advice provided by the British Business Bank (BBB) who undertake a process of due diligence.

2. Could more platforms or banks be designated in future?

Yes. Under the Regulations additional platforms and banks may be designated. Also existing platforms and banks could lose their designation.

3. What financial arrangements exist between a platform and lenders?

Platforms are commercial enterprises and need to generate income from the service they provide. This can be achieved in a number of ways such as by charging lenders to be included on the platform or by fees charged based on funding provided. Businesses will not be charged to use platforms.

4. What is the Financial Conduct Authority's (FCA) role?

The FCA oversees the regulatory compliance of these regulations by the Designated Banks and Platforms.

Annexe G – Appeals Process Promotion

Did you know you can appeal a lending decision?

NatWest

National Westminster Bank Plc. Registered in England No. 929027.
Registered Office: 135 Bishopsgate, London EC2M 3UR.

NW LA1215

The lending appeals process

We want to support growing businesses. While we always try to find a way to help, we may sometimes need to say no to a borrowing request.

We wanted to let you know that you can contact us if you feel we've unfairly declined your finance request, or unfairly applied lending conditions.

Can you appeal?

You can appeal a decision, if:

- it's made within 30 days of your borrowing request being declined
- your annual business turnover is up to £25 million.

Who looks at your appeal?

The lending appeals process is handled by a specialist team, Business Hotline.

They'll look at and reconsider all aspects of your application.

What Business Hotline does:

- confirm whether all appropriate information was considered in reaching the original decision
- look at loan conditions such as product type, loan duration and repayment schedules and how these fit in with your request
- take into account any security requirements before reaching a final decision.

Please note that any appeals relating to borrowing costs, agreed fees, or standard NatWest lending terms and conditions, are not in scope.

We'll let you know what's happening with your appeal as soon as possible

- we'll confirm in writing – within 24 hours – that we're reviewing your appeal
- we'll let you know – within three days – if your application has been accepted for review
- we may call you to talk through some aspects of your appeal before reaching a decision
- we'll send you written confirmation – within 30 days – explaining how and why we've reached our final decision.

How to make a business lending appeal:

Visit natwest.com/lendingappeals

Email us at lendingappeals@natwest.com

Call our Business Hotline team on 0800 158 5977
(Text Relay 18001 0800 158 5977)

Lines are open Monday to Friday, 8.30am to 5pm
(except on public holidays). We may record your call.

Did you know you can appeal a lending decision?

Royal Bank of Scotland

The Royal Bank of Scotland plc. Registered in Scotland No. 90312.
Registered Office: 36 St Andrew Square, Edinburgh EH2 2YB.
RBS LA1215

The lending appeals process

We want to support growing businesses. While we always try to find a way to help, we may sometimes need to say no to a borrowing request.

We wanted to let you know that you can contact us if you feel we've unfairly declined your finance request, or unfairly applied lending conditions.

Can you appeal?

You can appeal a decision, if:

- it's made within 30 days of your borrowing request being declined
- your annual business turnover is up to £25 million.

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They'll look at and reconsider all aspects of your application.

What Business Hotline does:

- confirm whether all appropriate information was considered in reaching the original decision
- look at loan conditions such as product type, loan duration and repayment schedules and how these fit in with your request
- take into account any security requirements before reaching a final decision.

Please note that any appeals relating to borrowing costs, agreed fees, or standard Royal Bank of Scotland lending terms and conditions, are not in scope.

We'll let you know what's happening with your appeal as soon as possible

- we'll confirm in writing – within 24 hours – that we're reviewing your appeal
- we'll let you know – within three days – if your application has been accepted for review
- we may call you to talk through some aspects of your appeal before reaching a decision
- we'll send you written confirmation – within 30 days – explaining how and why we've reached our final decision.

How to make a business lending appeal:

Visit rbs.co.uk/lendingappeals

Email us at lendingappeals@rbs.co.uk

Call our Business Hotline team on 0800 092 3087
(Text Relay 18001 0800 092 3087)

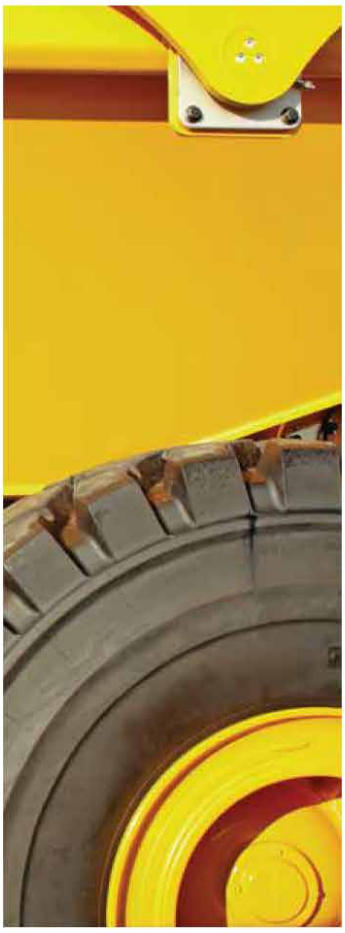
Lines are open Monday to Friday, 8.30am to 5pm (except on public holidays). We may record your call.

Clydesdale Bank

We care about here

<Customer Name>
<Add 1>
<Add 2>
<Add 3>
<Add 4>
<Add 5>
<Add 6>
<Post Code>

Don't let cash flow hold your business back



Let's get your business growing this year. We're here to help so that you can put the assets in place that could take your business to the next level. Sounds simple? It is.

Here to support your business

It's not always easy finding the cash to buy the assets you need to make your business a success. Our Asset Finance products and services are specifically designed to help; because whatever you want to purchase – a new vehicle, machinery, equipment or technology – we'll always try and find a solution for you.

We'll spend time getting to know your business and understanding your ambitions for the future, and regardless of the type or size of your business, we'll put together a finance package that suits its needs, so you can buy the assets you need without delay.

Competitive, flexible funding

We'll give you a choice of repayment options that work with your cash flow, and negotiate fees and charges depending on your circumstances. This means you could free up funds to use elsewhere in the business and grow without tying up hard-earned capital.

How to find out more

Want to know more about our competitive rates, quick decisions and access to the finance you need? Speak with your Relationship Manager on **0800 121 4619** or visit our website at **cbonline.co.uk/assetfinance**.

We're committed to helping support our customers and their businesses. If you apply for business lending facilities and we are unable to approve your application, you can ask for the decision to be reviewed by another experienced lender at the Bank who was not involved in the original decision. For more information visit **cbonline.co.uk/appeals**. Whatever you need, we'll be happy to help.

Yours sincerely

Iain Corbett

Iain Corbett
Head of Asset Finance

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Useful Links

- Foreign Exchange Rates
- Guide to Business Banking
- About Bank of Ireland
- Rates and Fees
- Newsroom
- Financial News
- Customer Commitment
- Dealing with Debt
- Lending Appeals Process
- Fraud and Financial Crime Information

Lending Appeals Process

The right type of funding can play a vital role in helping your business reach its potential. Our business lending appeals process enables you to appeal against a lending decision if your lending application has been declined or you are not completely satisfied with the terms of the lending offer, for example the need to provide security, regular financial trading information or up-to-date property valuations.

Informing you about this process is part of our commitment to supporting you and your business.

Under normal circumstances and subject to receipt of all necessary information, you will be advised of the decision regarding your lending application within 2 -3 days. Where an application for credit is declined, we will explain the reason why and how you can appeal against the decision.

When can I appeal?

You can appeal if your application was declined and:

- The turnover of your business is under £25 million (if part of a group of companies, this applies to the full group)
- Your lending application was declined in the past 30 days
- You provided all the required information to your Relationship Manager / local branch
- You have not previously appealed this decision
- Your existing lending is not subject to formal demand or enforcement or legal proceedings

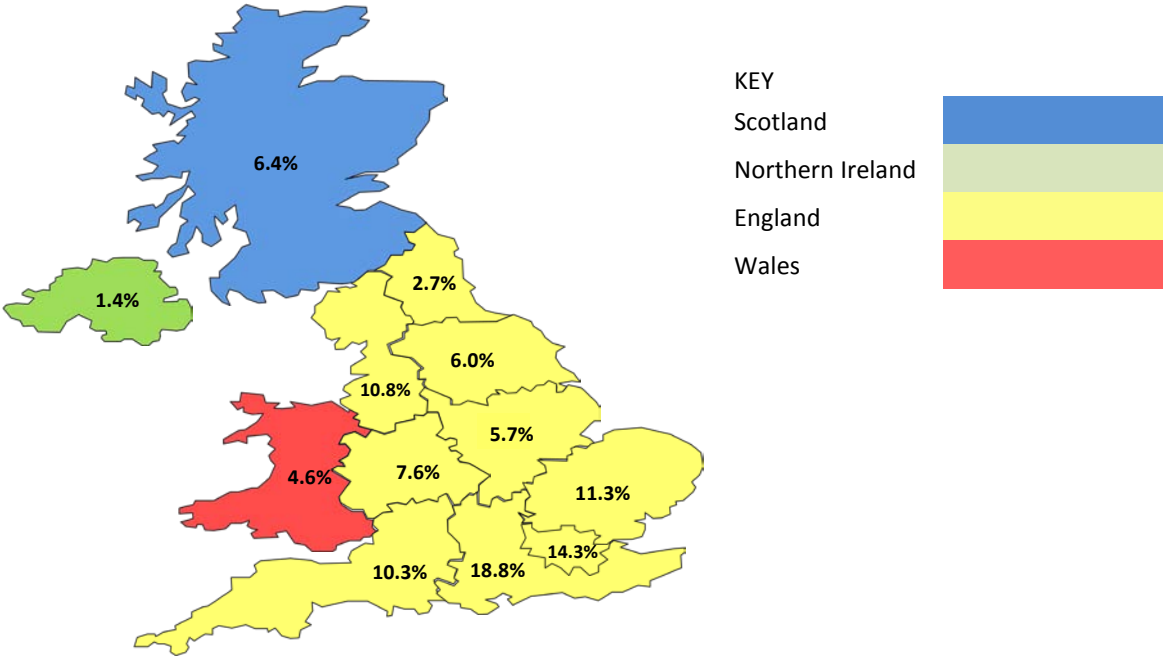
You can also appeal if your application was approved but you are not satisfied with the terms of the finance. This excludes the cost of agreed lending, such as interest rates, fees and costs or the standard terms and conditions. You cannot appeal after the funds have been drawn down.

How do I appeal?

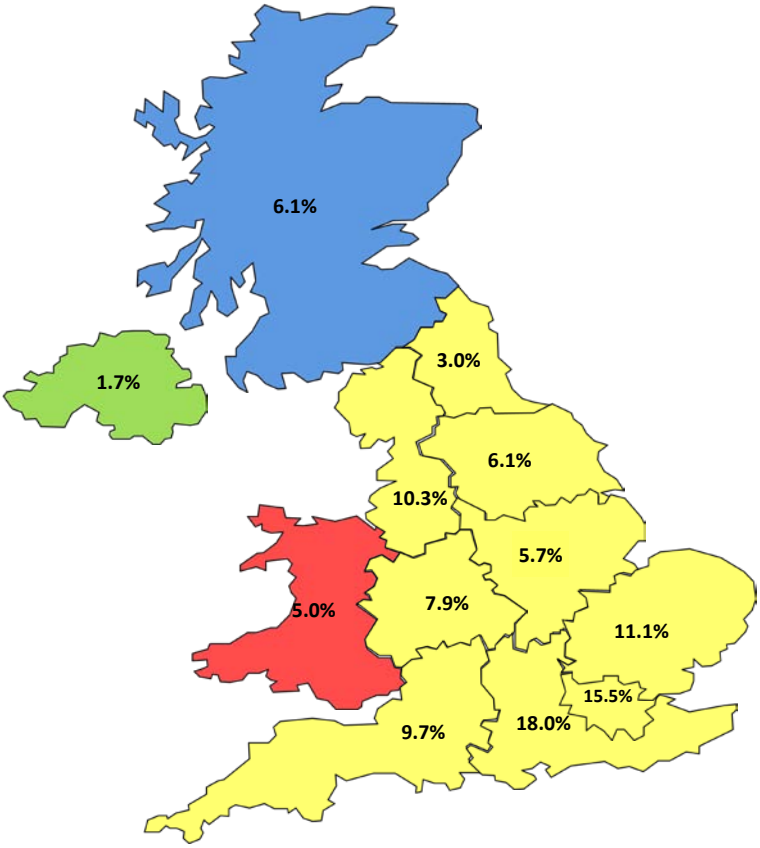
Appeals need to be made within 30 days of the decline decision being advised to you. Make sure you outline the reason for your appeal and include any additional information to support your case. We recommend that before submitting your appeal you talk to your Relationship Manager / local branch to understand why your application was declined, so those reasons can be addressed.

Annexe H – General Tables

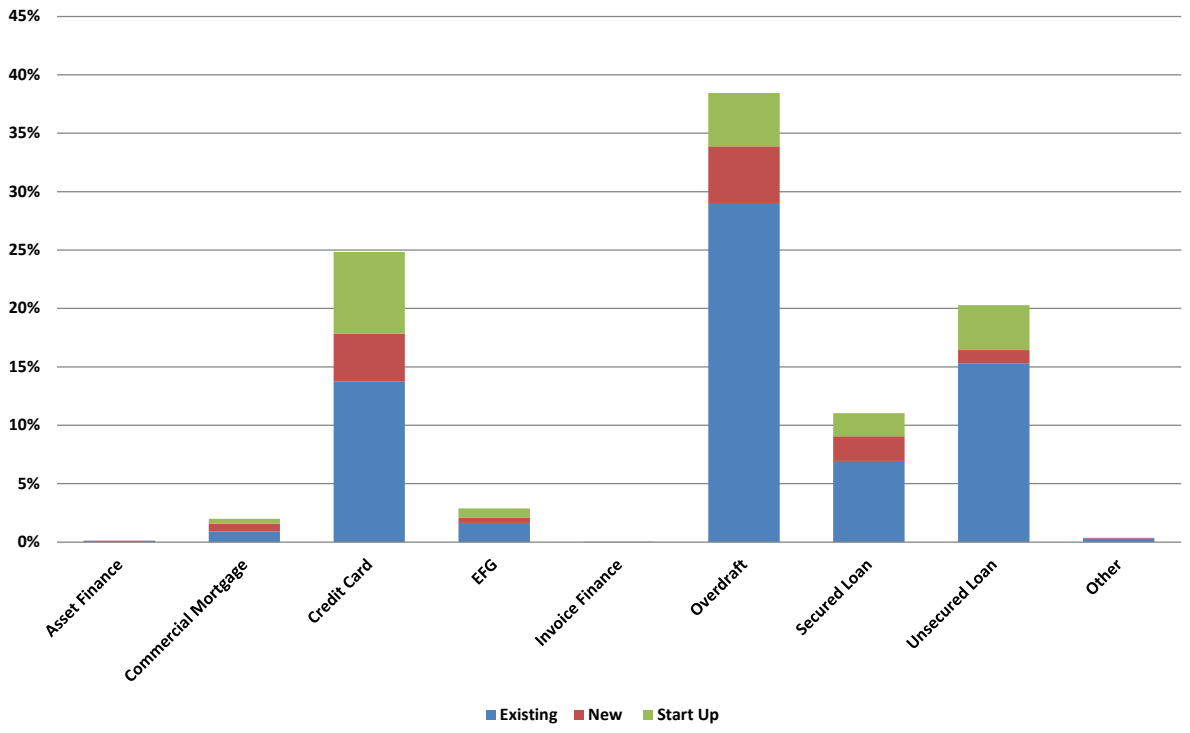
Appeals by Government Office Region – Years 1 - 5 (April 2011 – March 2016



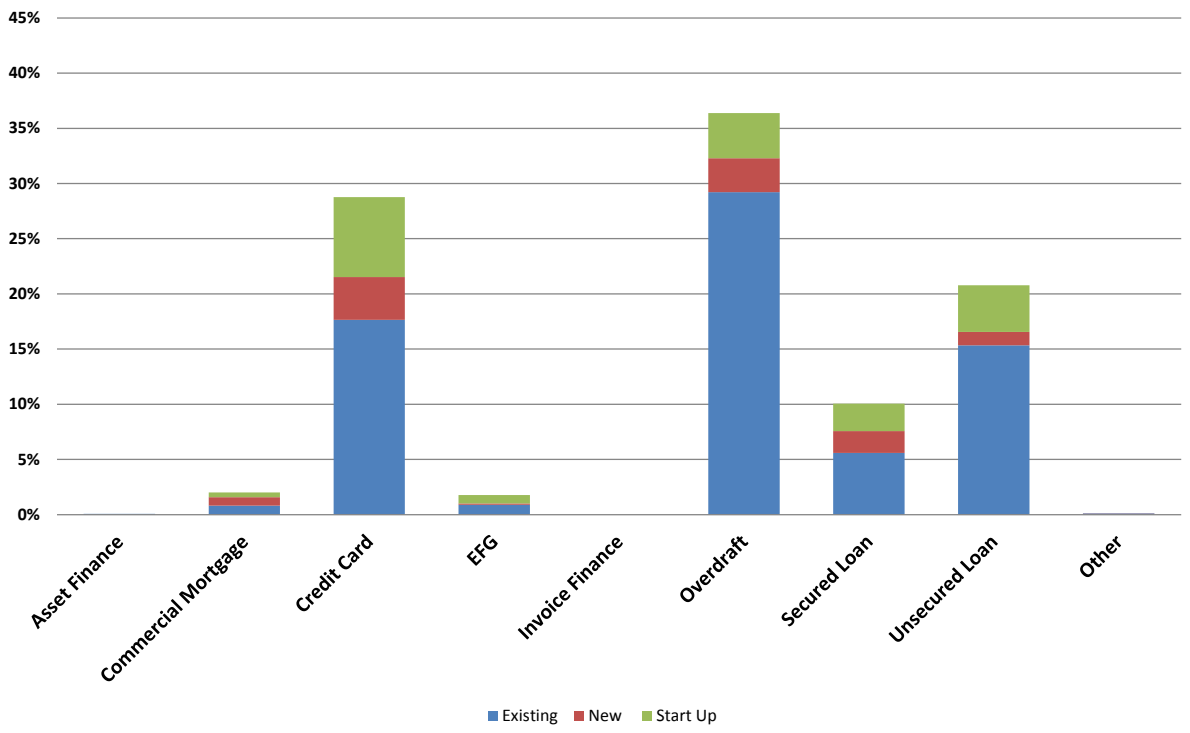
Appeals by Government Office Region – Years 4 & 5 only (April 2014 – March 2016)



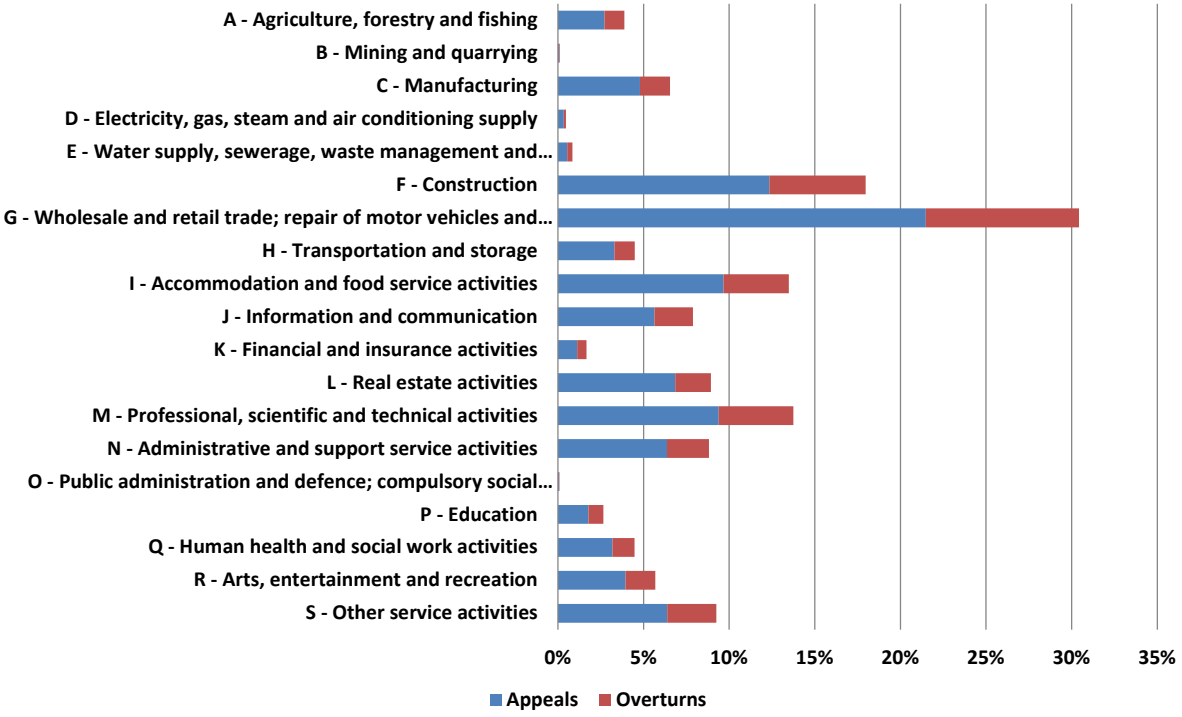
Appeals by Lending Product/Type of Customer: Years 1 - 5 (April 2011 – March 2016)



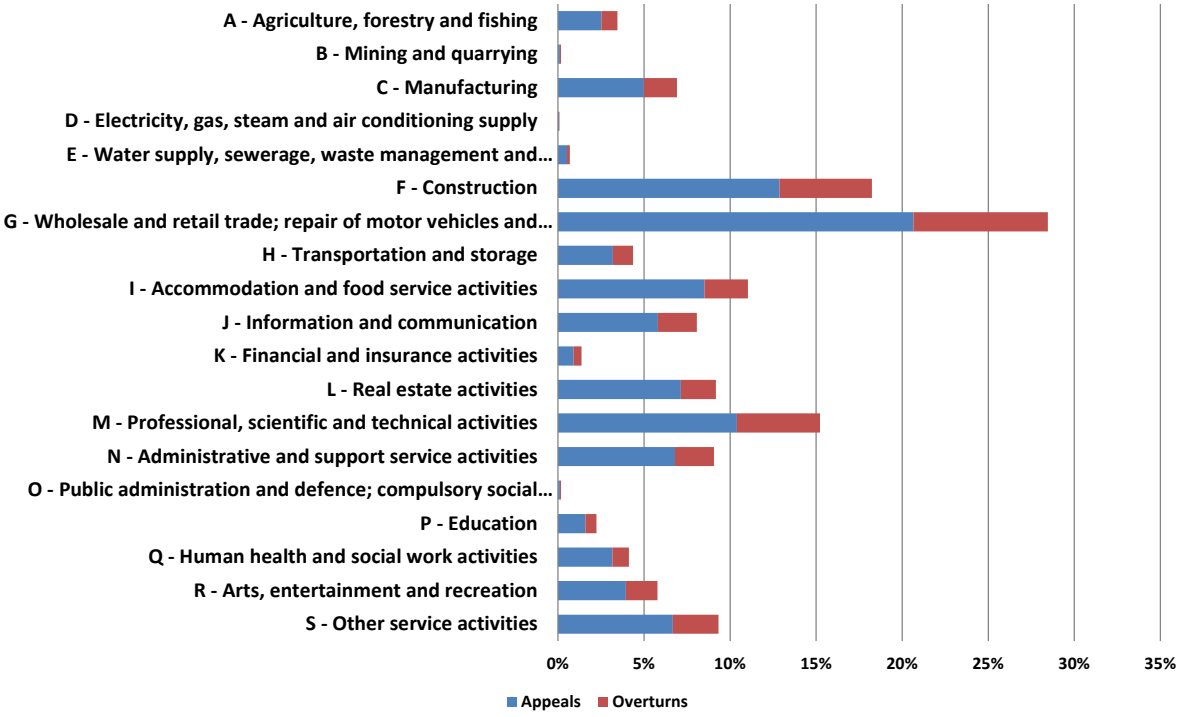
Appeals by Lending Product/Type of Customer: Years 4 & 5 only (April 2014 – March 2016)



Appeals by Industry Sector: Years 1 - 5 (April 2011 – March 2016)



Appeals by Industry Sector: Years 4 & 5 only (April 2014 – March 2016)



Appeals by Size of Lending Request: Years 1 - 5 (April 2011 – March 2016)

Size of Lending Requested (New Monies)	Appeals	Overturns
≤ £10k*	65.6%	31.9%
£10k < x ≤ £25k	17.2%	6.0%
£25k < x ≤ £50k	4.1%	1.1%
£50k < x ≤ £100k	3.9%	0.8%
£100k < x ≤ £250k	4.8%	1.0%
£250k < x ≤ £1m	3.6%	0.6%
x > £1m	0.9%	0.1%
All Lending	**100.0%**	**41.4%**

** Segment includes requests to review/renew facilities where no New Monies (additional funding) was requested*

Appeals by Size of Customer Turnover: Years 1 - 5 (April 2011 – March 2016)

Customer Turnover	Appeals	Overturns
£0 < x ≤ £100k*	52.4%	21.5%
£100k < x ≤ £250k	23.2%	9.6%
£250k < x ≤ £1m	19.1%	8.2%
£1m < x ≤ £5m	4.6%	1.8%
x > £5m	0.6%	0.2%
All Lending	**100.0%**	**41.4%**

** Includes appeal cases where customer turnover is unknown*

Annexe I – Response to FCA's discussion paper on SME lending

Subject: SME Lending Discussion Paper

Thank you for offering me the opportunity to respond to the above which I am delighted to do.

As you know since 2011 I have been the Independent External Reviewer to the banks SME Appeals Process which offers any SME the opportunity to appeal if they are turned down for lending by one of the participating banks, of which there are now 13. The appeal can be for any reason and includes terms and conditions but excludes price and covers all products including commercial credit cards.

I also last year carried out a review of the Lending Code. This is a voluntary code of practice which sets standards for financial institutions including debt collection and debt purchase firms to follow when they are dealing with their personal and small business customers in the United Kingdom. It provides valuable protection for customers and explains how firms are expected to deal with them day-to-day and in times of financial difficulties.

Between 2007 and 2011 I was the Chair of the CBI's UK SME Council and worked with all Government, and lenders, the financial crash of Autumn 2008.

Through all the above, and my continued involvement with SMEs in a number of ways today I have built up I believe a unique insight and knowledge into how lenders operate and function with SMEs plus what SMEs are looking for from those they wish to obtain credit for.

Since its inception in April 2011 the Appeals Process has had over 15,000 appeals from SMEs of which 32.2% have been overturned by the bank concerned and, as a result, at least £60 million has been added to lending to SMEs across the UK. This means that I now have one of the largest databases of information which allows me to examine in detail why SMEs have been declined and what can be done to alleviate that. This knowledge has meant that processes have changed in all the banks that allow them now to have 'better conversations' and outcomes with their customers as well as giving SMEs more detailed information on why they were declined which can help them to return to the lender with a stronger proposal once those reasons have been resolved.

From my review of the Lending Code I recommended that SMEs be treated separately to consumers as there are now many differences between how each is treated which needed reflected in any new code or standard. Those differences are good ones and reflect the differences between how SMEs and consumers operate, as trying to mix both together in the same regulation (e.g. the Consumer Credit Act) has in the past brought challenges which have adversely impacted on SMEs. I also recommended that the product range of the code be expanded and that the revenue level of SMEs covered by the code be increased.

Below are my answers to each of the questions you set out in your Discussion Paper.

1. Are there specific products, services or distribution channels that are particularly associated with poor outcomes for SMEs?

   It depends from whose viewpoint you are asking this question. SMEs themselves will be looking for a lending amount usually and many will rely on the lender to suggest what form that might take and lenders, having learned much from what has happened in recent years, have become much more skilled in ensuring the SME both gets the right product and that what it is and how it operates are clearly explained to them. Therefore, I do not think we should look backwards in this as in the work I have done on Appeals over the last 5 years the banks are not in the same place as they were when they perhaps did not do things as well as they could have but are now in a much better place to make sure the SME is well looked after. I have spent a lot of time working with the 13 banks that fall under the Appeals Process to make sure that SMEs served through any channel get the same treatment and service which is now happening so, while there are still things to do, all the banks understand what the process needs to be to give an SME a good outcome.

2. How and where should we draw the line between SMEs that should benefit from the consumer safeguards in our Handbook and those that should not? Should we aim to treat all SMEs in the same way where possible?

   SMEs are not all the same so trying to treat them the same would misunderstand that and in fact do them a disservice. They are also not consumers in the sense that current financial regulation tends to cover and it is known by all parties, including the past and current regulator that there are rules for example in the CCA which do not fit well with SMEs and indeed in some cases make it more difficult for them to borrow. They do though need a set of Lending Standards that ensure that there is a standard for best practice and consistent experience in the industry and only those with turnover up to £2 million are covered for example in the Lending Code currently. In the review of the Lending Code I did last year I did recommend that the limit and scope of the Code should be increased. I also pointed out that there are now more differences in how SMEs and consumers are treated than similarities so perhaps treating them differently was now the sensible view to take. Having continued that discussion with lenders and the LSB I am now of the view that

   a) There are a set of overarching principles that financial bodies can use for any customer of any type and form.
   b) Below that though how those principles transpose into a set of outcome based lending standards along the customer journey are different at many points so need separated into distinct standards for both to make clear what applies to whom.

   The FCA already covers part of that through CONC with consumers but not all of that fits with SMEs which is why a separate set of Lending Standards for SMEs would seem appropriate. However, having said that I do not believe they should be statutory as SMEs, as I state above, are diverse so a set of voluntary but independently reviewed standards would allow that diversity to be better served, and allow lenders to be competitive and flexible as well as give the SME the surety they need.

   In terms of level of turnover this standard should cover SMEs tend to become more self-reliant as they grow so given all the other changes that banks will have to make around ring

fencing etc. I think a level of £6.5 million turnover would be a sensible and balanced one to cover SMEs.

From the work I have done on Appeals over the last 5 years as well it is clear as banks have responded to the changes that I have asked them to make to ensure a better and more exact conversation (in whatever form) between themselves and their customer they have already themselves altered many processes to make that happen but have done so in a way that fits with their own commercial objectives which keeps the competition we need in the banking sector alive and healthy which is what we need.

In summary therefore no need to expand but a set of voluntary Lending Standards for SMEs up to £6.5 million turnover covering all lending products (excluding commercial mortgages) would be appropriate.

3. Is the current treatment of SMEs in our rules broadly correct? What do you see as the most important benefits and shortcomings of our current approach?

   As I state in 2 above I think for all sorts of reasons SMEs do have a lower protection level than consumers but that is easily remedied. SMEs by their nature are not just diverse but varied in their ability to deal with lenders but that is more at the sole trader and micro business end and as small businesses grow to medium and beyond so their sophistication and knowledge increase to a point where I doubt they need protection.
   Where there are challenges is in things like the CCA and indeed CONC where everyone is aware that there are issues where treating SMES as consumers does not work and while there have been several meetings over the years where all parties have accepted that work on delineation needs to be done I do not see much if any progress on those identified issues.

4. Should we expand the eligibility criteria of the ombudsman service? How and where should the line be drawn?

   It would be useful if eligibility was common across all that we do with SMEs so £6.5 million turnover would seem to be a level that is sensible so that would also be sensible for FOS.

5. Should the ombudsman service's award limit be increased from its current value of £150,000 for some or all of SMEs complainants? Would it be fair for different award limits to apply to eligible complainants depending on whether the complainant is a business or an individual consumer?

   I am not well versed or sighted on this issue but any change would have to be based on evidence that there was a need and would not have any unintended consequences.

6. Should we make our rules more consistent, to the extent possible, across the products and services used by SMEs?

   One of the reasons that the subscribers to the Lending Code agreed with my recommendation that products under scope for the current code should be increased to include all lending types and forms excluding mortgages was the fact that consistency was needed across them. It returns to the point I make above in that in many cases SMEs and indeed consumers wish to borrow and amount but leave it up to the lender in many cases to

offer them the form and type that they can to satisfy that need. Consistency in your rules would fit that view.

7. Should we encourage the development of voluntary codes of practice in the manner discussed in Chapter 6 of the Discussion Paper?

As I state in section 1 above I do believe that a voluntary code of Lending Practice would be a good thing for SMEs to have for a number of reasons

a) SMEs do currently have a lower protection afforded to them than others and while this reflects their need to be competitive and flexible entities in some sense the financial sector does recognise that it should treat them the same as they do any other customer.
b) A statutory framework of financial regulation for SMEs would go against the UK Governments objective of reducing regulatory burdens to SMEs.
c) From my experience of working with banks in the Appeals Process for the last 5 years and with SMEs for many more years the need for both to be allowed to operate flexibly within an agreed set of outcomes provides both with the flexibility they require to have the good and sensible business discussions they need to find the right solution for the customer.

In the review I did of the Lending Code last year I recommended that perhaps it was time to have a separate Standard for SMEs and I am pleased that the industry has agreed to do that.

The industry is currently working on a revised code of lending practice for SME lending with the help of the LSB and the BBA. The new standard will consist of:

- *A small number of high level Principles that will set the framework for how lenders will treat their customers (consumer and business)*

- *A set of desired customer outcomes, following the customer 'journey' and standards demonstrating how these will be achieved*

- *Practitioners' guidance on how the outcomes and standards could be delivered. The guidance is there to help those who may need that extra help and not as rules to be followed as there is a recognition that each bank will have its own way of achieving those outcomes. Therefore, it is important that both the FCA and FOS accept this guidance as just that and not use it for enforcement or judgement on any issues.*

The above will be independently reviewed by a new proportional methodology that after initial testing recognises the differences between lenders and how some will require more 'help and testing' than others.

A working group, of which I am a member, has been set up to finalise the detail of the above with a view to launching them later this year. I am more than happy with the progress to date and feel that target can be achieved.

I think this new voluntary Standard of Lending Practice for SMEs will give those SMEs whose turnover is up to £6.5 million the extra protection they need as well as recognising the flexibility both halves of this lending equation need to make the outcomes for SMEs what they require.

8. Should we issue guidance to firms on particular aspects of their dealings with SME clients, and, if so, which aspects?

   The challenge there is on any guidance coming from a regulator is that the Compliance Departments of lenders immediately turn that into the rules that they have to obey. This has been evidenced several times in recent years for example in the Guide to Irresponsible Lending that the OFT put out some years ago and also with CONC, MCOBS etc.

   Guidance should be just what it says and should recognise that each lender may be at a different stage of knowledge or development around a specific issue or item and guidance is there to help those who need that extra bit of knowledge to catch up.

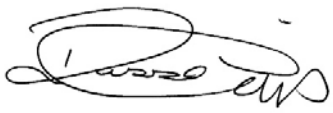
   That is why, as I state in 7 above, before the above proposed new Standard of Lending Practice for SMEs can be taken forward assurance would have to be had from both FCA and FOS that the Guidance to Practitioners that would be supplied alongside the monitored outcomes for the new Standard were there to help and aid those lenders who needed that and not as things that would be tested or used in for example evaluating a complaint.

   While I understand and value the use of guidance as a key part of any legislation or regulation it has to be just that and not part of what is tested or evaluated.

I am happy to discuss any of the above with you and look forward to seeing the outcome from your Discussion Paper.

Best wishes

Yours sincerely



Professor Russel Griggs OBE