Banking Taskforce

Appeals Process

Independent External Reviewer

Quarterly Report

July - September 2014

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1. Introduction and Summary

This is the second of my quarterly reports for the 2014/15 year and covers the period from 1st July to 30th September. Appeals for this quarter at 981 were just above those for the first quarter of the year which given that this quarter covers the summer months may at first appear surprising. However the increase comes mainly from credit cards where, as I indicated previously, there has been an increase due to us now capturing all the credit level increase appeals now. This is also why the overall overturn rate has increased slightly to 28.8% as without credit cards the overturn rate has continued to fall and fell to 17.0% for this quarter which may be an exceptionally low rate caused by a variety of circumstances which I explain further below. In terms of credit cards though we expect to see both the appeal rate and overturn rate fall over the next couple of quarters as the major credit card supplier has introduced a new approval and IT system which will make decision making better for both the approver and the customer.

Since my last report there has also been considerable movement in a number of areas. Major process change has continued in a number of the banks and I am beginning to see the positive effects of that in a reduction in declines and appeals and also, which is key to me, better conversations with customers due to the fact that the bank and customer has more or better information both to make the decision on but also, and just as importantly, where there is a decline help the customer understand why, which will help the SME to look at how they might be better placed to get their lending application approved the next time. I do not, and indeed it would be difficult to, collect data on how many SMEs come back to the bank later with a new or reworked proposal that gains them finance. Therefore while the total value of appeals that have been overturned is now in excess of £48 million that does not include any lending that has taken place as a result of the customer being better informed and thus being able to gain new funding in the future which they would not have done otherwise.

These process changes are also moving to a point where I will soon be able to say that all customers are being told in good detail why they have been declined, which is not always the case yet, and indeed that the Relationship Manager will also know all the detail, which again is not the case at present in every instance. That point I think will be in late 2015 which will be a major milestone for the Appeals Process and again shows the impact it is having.

In terms of doing the second round of sampling of declines which were not appealed, we have completed two banks so far this year with more to do. The results so far corroborate the sampling we did last year and still show a rate that is in the range of the previous sample of cases that were declined which might have been looked at again – that does not mean they would have been overturned just that there was something there that would warrant another look. This still leads me to believe that it is within the bounds of standard human error so I am not concerned that those banks that we have tested are missing too many possible lending cases.

I am also pleased to report that I approved the Appeals Process established by Clydesdale/Yorkshire and they will be launching their Appeals Process to customers before this quarterly report is issued.

Those who read my reports will know that I have been puzzled by the low uptake of invoice discounting as a method of funding business given the positive benefits it could bring. I mentioned in a previous report that this was not being helped by the fact that small SMEs who were subcontractors to large companies on infrastructure and other large projects were being prevented from doing so by the inclusion of a clause in their contracts that prohibited novation of their invoices. I am delighted to report that the Government's Small Business, Enterprise and Employment Bill currently going through Parliament contains a provision enabling the Business Secretary to introduce regulations making ineffective any ban on assignment of receivables in contract. This will address the points I raised and SMEs will now be able to use invoice discounting should they wish.

Finally, I continue my work with all the banks now in the Appeals Process on awareness of the Process both with their customers, SMEs more generally, and their own internal staff, both through the Action Plans I have with each and also now through a generic template for collecting awareness and reach and process data. I will publish a summary of that in my Annual Report next year.

The Better Business Finance (BBF) campaign continues to achieve strong results in raising awareness of the Independent Appeals Process among SME owner/managers. The campaign’s accessible website is regularly updated with practical tips for SME owners, supported by online advertising, social media engagement and public relations activity.

An estimated 8.2 million people have seen the campaign since it started – above the initial target of three million. Media coverage of the campaign has now reached 71% of the key audience of SME owner/managers and there has been a 196% increase in visits to the Better Business Finance website compared to the same period last year. The Appeals advertising ranks as the most successful of the campaign executions, reflecting its strong call to action. Annexe A sets out more detail of what the campaign has achieved.

Professor Russel Griggs OBE
Independent External Reviewer
SME Banking Appeals Process

November 2014

2. Comments on Numbers

Year 3 of the Appeals Process has been a year of consolidation and further learning for all those involved in the process including myself.

Chart 1: Appeals Table Years 1-4 to End September Appeals

Appeals - April 2011 to September 2014	Year One Apr 2011 - Mar 2012	Year Two Apr 2012 - Mar 2013	Year Three Apr 2013 - Mar 2014	Year Four Apr 2014 - Sep 2014	Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	1948	10954
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	537	3811
Overturn rate *(based on Appeals Received - ALL BANKS)*	39.5%	39.2%	31.7%	27.6%	34.8%
Total Value of Appeals Overturned = £ *millions*	£10.0	£18.5	£13.1	£6.4	£48.1
Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	1045	7359
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	213	2095
Overturn rate *(based on Appeals Received - Excluding Credit Cards)*	32.6%	29.5%	28.3%	20.4%	28.5%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ *millions*	£9.7	£17.7	£12.7	£6.0	£46.1
Total No. of Cases Reviewed	946	1777	1759	845	5327
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	43.4%	48.6%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	61.5%	60.5%

NB: Cases Reviewed and Overturn values based on data captured to end of September 2014

Chart 2: Appeals Table Years 3 + 4, Q1 + Q2 Appeals only

Comparison By Quarter	Q1		Q2	
	Apr 2013 - Jun 2013	Apr 2014 - Jun 2014	Jul 2013- Sep 2013	Jul 2014- Sep 2014
Total No. of Appeals Received (ALL BANKS)	854	967	797	981
Total No. of Appeals Overturned (ALL BANKS)	310	254	273	283
Overturn rate *(based on Appeals Received - ALL BANKS)*	36.3%	26.3%	34.3%	28.8%
Total Value of Appeals Overturned = £ *millions*	£2.8	£4.7	£4.0	£1.8
Total No. of Appeals Received (Excluding Credit Cards)	695	540	652	505
Total No. of Appeals Overturned (Excluding Credit Cards)	237	127	200	86
Overturn rate *(based on Appeals Received - Excluding Credit Cards)*	34.1%	23.5%	30.7%	17.0%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ *millions*	£2.6	£4.4	£3.9	£1.6
Total No. of Cases Reviewed	434	422	439	423
Total No. of Cases Reviewed/Total No. of Appeals (as %)	50.8%	43.6%	55.1%	43.1%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	67.7%	70.1%	71.4%	53.7%

NB: Cases Reviewed and Overturn values based on data captured to end of Sep 2014

Chart 3: Total Appeals - 3 Month Rolling Average

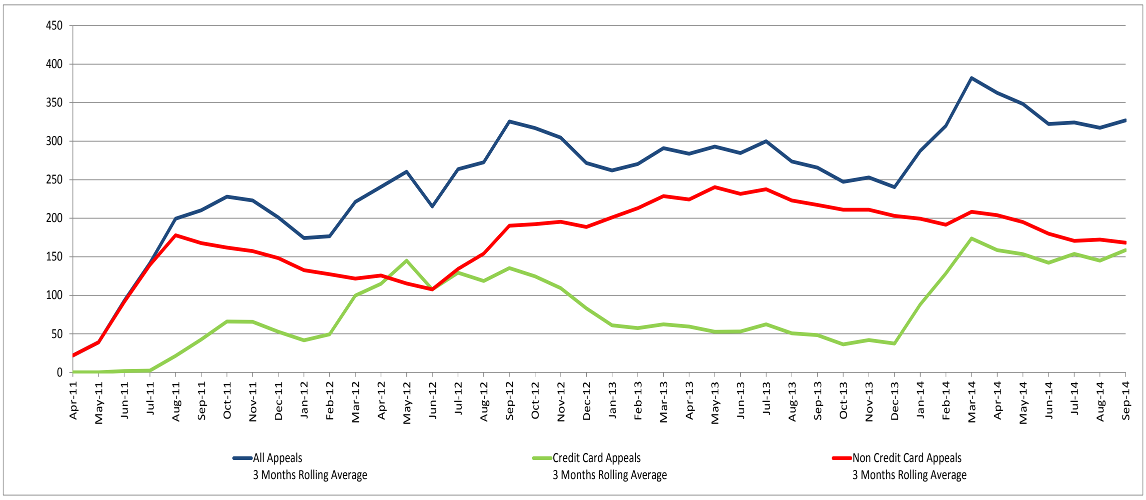
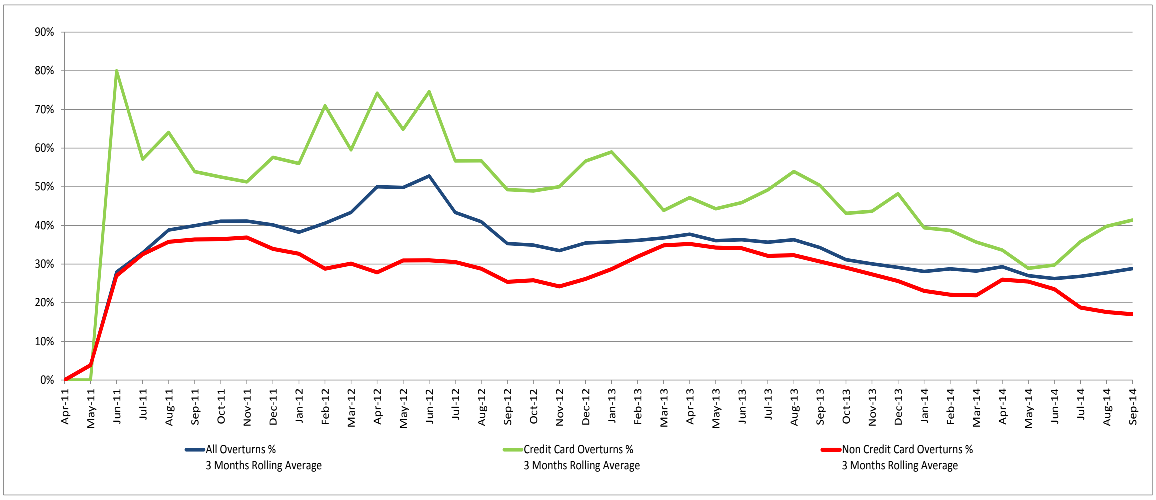


Chart 4: Overturned % - 3 Month Rolling Average



From Charts 1 and 2 above it can be seen that at the end of the second quarter Appeals for this year were just short of 2,000 and just short of 11,000 for the three and a half years that the Appeals Process has been running. As can be seen from chart 2 this year's numbers, in both the quarters so far, exceed last years although that is primarily due to credit card appeals increasing due now to the full inclusion of all limit increase appeals which was not the case until early this calendar year. The overturn rate has also continued to fall overall and especially in appeals excluding credit cards where for the first time since the Appeals Process began it has fallen below the 20% mark to 17%.

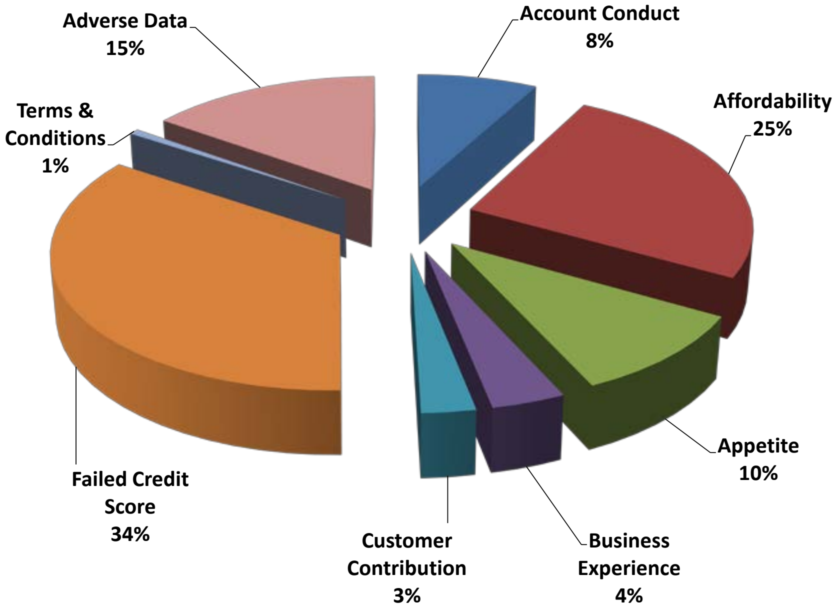
In terms of money put back into the economy this now is just over £48 million for the full time of the Appeals Process. Because of the way this number is put together it is worth pointing out that this is the minimum that has been lent to SMEs which would not have been without the Appeals Process. This is due to the fact that this number comes from all the cases which we physically check only, which is just under two thirds of all cases, plus it does not include lending which is made as a result of perhaps the appeal not being overturned but the SME understanding why they had been turned down and returning to the bank with a different application which is accepted. I have resisted ‘grossing up’ the number we have as there are too many imponderables and differences that could occur so I have stuck to the number that I can say is absolutely correct.

I think all these numbers are starting to show the impact that the Appeals Process has been having and its focus on cutting down the number of declines that turn into overturned appeals by making sure that all the banks have in place processes and systems that encourage that better conversation between the bank Relationship Manager and customer initially, which lead to better applications. My objective in tackling the high overturn rate that we have had is to focus on reducing those that get through to appeal that should be referred by asking the banks to put in a ‘refer’ category rather than just a straight yes or no. All of the banks now have that in place although in some it needs strengthening and I will keep focussing on that. Also, before the application gets as far as ‘refer’ ensuring that the Relationship Manager gets from the customer the information they need to make a good decision for both, which could sometimes be a decline. There is still much work to be done in this area but I am pleased to report that all the banks in the Appeals Process are now positively focussed on both these issues.

All the above has to do with processes, be they manual, telephonic, or IT, within the bank so some will take some time to change but I am working with each bank where change in those are needed to have as well as Action Plans, full Project Plans for each change so that I can see and track the milestones in each.

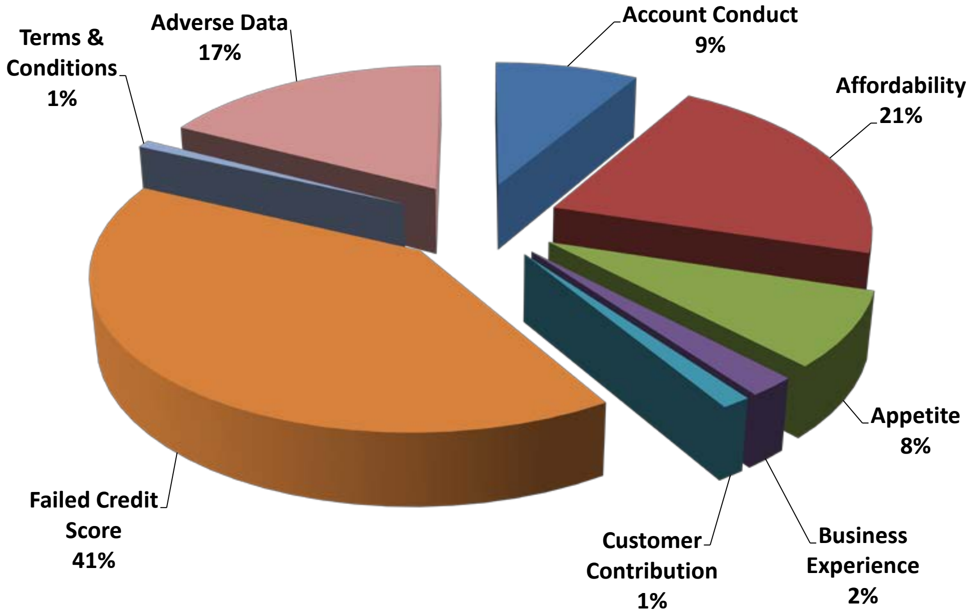
Charts 3 and 4 just highlight further the general downward trend in appeals and overturns and Chart 3 highlights the effect that bringing in now all limit increases had a few quarters ago as the peak can clearly be seen.

Chart 5: Decline Reasons all Banks for all Lending Year 3 & Q1-Q2 Year 4 only



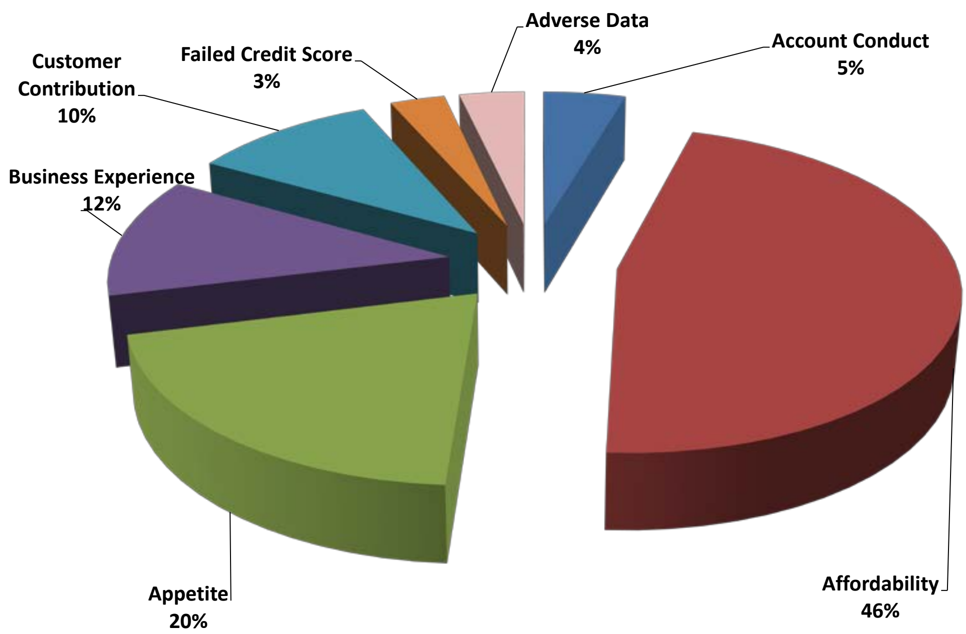
*Terms & Conditions appeals do not involve new money

Chart 6: Decline Reasons all Banks for Lending up to £25K Year 3 & Q1-Q2 Year 4 only



*Terms & Conditions appeals do not involve new money

Chart 7: Decline Reasons all Banks for Lending above £25K Year 3 & Q1-Q2 Year 4 only



It would be surprising on a quarter by quarter basis if there were any real changes in the figures in charts 5-7 and if there are they would only be small. They continue to show the predominance of credit scoring and adverse data as the main reasons for decline in the overall rate but show the distinct difference when you split those reasons at £25k lending. Affordability is still, and will remain, the key criteria across all lending and the credit scoring effect is because that is the tool banks use to judge that and other issues at the under £25k lending threshold.

3. Other Issues

I have discussed many times in my reports the influence and impact of the Consumer Credit Act and how that affects affordability etc. With the move of the responsibility of this from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) earlier this year, that has been highlighted even further. The FCA has now produced a 345-page Sourcebook of Rules and Guidance called CONC (Consumer Credit Sourcebook) which is putting further obligations on the banks in this area. Also, other new FCA rules around property in MCOB (Mortgages and Home Finance: Conduct of Business Sourcebook) are having an impact. That is not to say, as I have done before, that the issues dealt with in all of these are real and live issues that do need dealing with, but it is trying to separate SMEs, who are covered by them, from personal customers that causes some of the challenges.

I reported in my last Quarterly Report that I was facilitating a meeting between all parties to see what could be done and I am pleased to say that that meeting has taken place and I have to commend the positive nature of everyone from banks, HMT and especially the FCA from agreeing positively that there are issues that need to be dealt with and agreeing to a process for taking the work to identify what the issues are and how they might be rectified. This will not be an easy or quick solution in many of the parts of this and I would not expect to see a coherent road map on what can be done until the middle of 2015 and then some of the changes which require new or changed legislation may take some years to come through. However, I am pleased that at least we are now started on that journey.

I mentioned awareness raising earlier in this report and have been asked whether the banks should continue their generic campaign into next year. In honesty, I would be happier if they used that resource to continue the good work each is doing on an individual basis to promote the Appeals Process both within and outside their individual bank. In my Annual Report I will show the breadth of the work that is already being done and if I see gaps, be assured that I will continue to press to have them filled in.

Finally, one new issue which my team and I will pursue over the coming quarter is ensuring that the appeals that are actually received are known to the customer. That may sound odd as if the customer ends up having the appeal overturned and gets the lending support they require, does it matter who generates that appeal? From that point of view it does not but it matters if overturn rates are kept high by Relationship Managers appealing without telling their customer, as they see faults in their systems which the Appeals Process gets round. We have some banks who have high overturn rates where even after good and positive action to make their systems better while reducing their declines, appeals, and overturn levels, the latter still stays significantly above the norm. This will be a focus for us to ensure that there is in place a process that allows applications to be dealt with properly and while the ‘refer’ process I mentioned above has helped a lot of this, we need to imbed it further within some banks so that the Appeals Process is not used instead of it which keeps the appeals and overturn numbers high when there is a better way of dealing with these application for the customer.

4. Continuing or New Issues

Apart from those issues highlighted above I do not think there are any material new issues to report this quarter.

5. Appendices

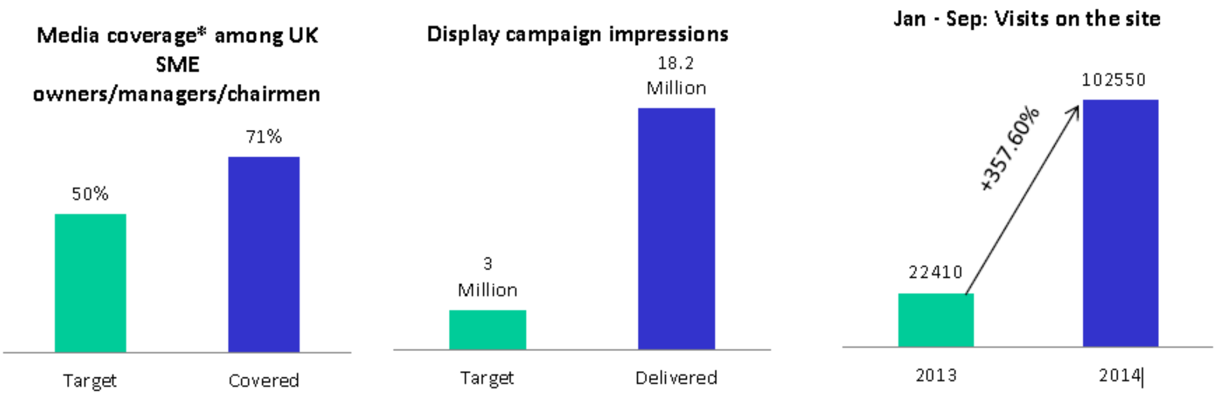
5.1 Annexe A – Awareness Campaign Summary

The Better Business Finance (BBF) campaign continues to raise awareness of the Independent Appeals Process among SME owner/managers.

The campaign's accessible website provides information on how to launch an appeal, as well as guidance related to finding finance, with over 500 finance providers represented. The past quarter has seen even more new content launched on the site, including a step-by-step guide to what business owners can expect from the appeals process and a blog post about the significance of credit history as part of finance applications.

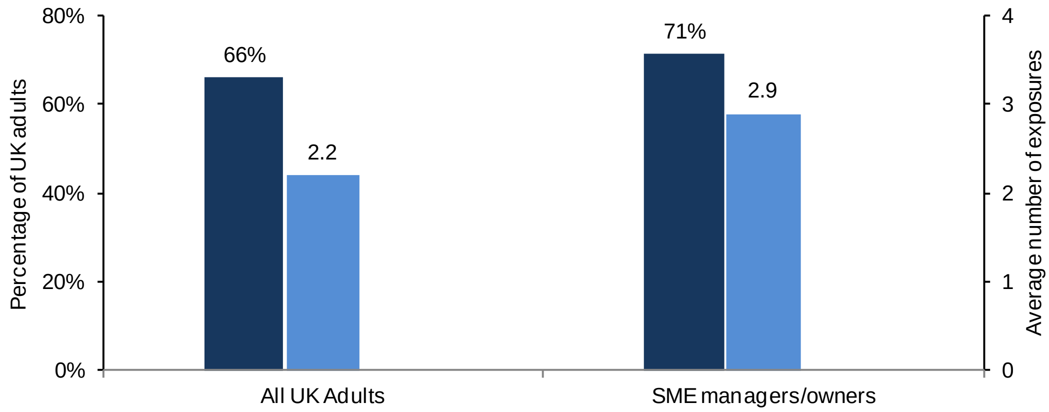
The campaign also includes an online advertising campaign, social media engagement, a public relations campaign, as well as information provided via bank websites, directly to customers and via third party business groups.

The campaign continues to perform very well overall, now beginning to reach audiences a number of times with key messages:



- 8.2 million people (estimated unique users) have seen the campaign since it started, which is above our initial target of three million
- There have been 902,706 PPC impressions (the number of times our Pay Per Click advertising has been seen), targeting small business owners with help, support and advice messages
- There has been a 196.16% increase in visits to the Better Business Finance website compared to the same period last year
- There has been a 224.02% increase in page views compared to the same period last year
- The Appeals advertising is the most successful of the campaign executions, reflecting its strong call to action

- Both Twitter and LinkedIn continue to perform better than their own industry-standard benchmarks



Media coverage of the campaign has now reached 71% of the key audience of SME owner/managers (see table above). Frequency of exposure to the campaign message has increased to 2.9 times each, a result above the minimum recommended to ensure retention of campaign messages. Media coverage has included a total of 105 articles to date.

The last quarterly report provided a strong hook for PR activity, and generated pieces in City A.M. and The Independent, along with regional and business trade coverage in titles like The Courier, Aberdeen Press & Journal and Real Business. This adds to the overall campaign coverage achieved so far across national press and radio, including The Times, BBC Scotland and Radio 4, the Daily Telegraph, the Financial Times and the Daily Mail.