

Banking Taskforce
Appeals Process
Independent External Reviewer
Quarterly Report
October - December 2014

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1. Introduction and Summary

This is the third of my quarterly reports for Year 4 and covers the period from October to December 2014. This Quarterly Report is significant as it marks two key events for me namely:

1. This will be the first report where I now have the Appeals Process up and running in all 13 banks that it now covers and, since those banks have the majority of lending to SMEs across the UK, I can now say that there will only be a few SMEs who will bank with a lender that is not part of the Appeals Process. Clydesdale/Yorkshire and TSB are now fully up and running and I commend both in the positive way they have approached the Appeals Process and taken the time to implement it properly within their respective banks and communicated it well to their customers. Both have had appeals and so are now full members of the process. I still hope to add another bank but only when they are ready; I will continue my discussions with them during the year.
2. The Appeals Process has now added more than £50 million to SME lending from the overturns the banks have made. While this is a significant number in itself I know it does not reflect the total amount of new lending that has come as a result of the Appeals Process. I only count those appeals that are overturned which have been captured as part of the review process but I know that because of:
 - a. More internal refers on applications before final decisions are made which has reduced declines per se
 - b. Upgraded systems at some banks have made decisions better and more transparent, and other upgrades are in train
 - c. Better conversations with those SMEs that are declined that allows them to understand better what they need to do to have an application accepted which has in some cases prompted them to come back at a later date with a successful application

I cannot estimate what the quantum of extra lending that it has brought other than it will be significant and well beyond the £50 million I have recorded.

I have also this quarter continued to gather information on how the banks have individually been promoting the Appeals Process both within their own banks and to SMEs as well. I have a standard template now in place with each – See Annexe 1 – and have already received a wide range of information on what is being done by the banks to enhance knowledge and awareness. I will report on this in more detail and depth in my Annual Report. The generic campaign on appeals that all the banks have been part of is drawing to a close and in similar manner that I have done in other Quarterly Reports Annexe 2 gives a summary of the progress made over the last three months. Again I will review the whole campaign more fully in my Annual

Report; I think what the banks are doing individually now is probably better and more focused than any generic campaign can be.

In a similar vein, I have been talking with each of the banks about how they are dealing with discouragement in terms of how they are trying to persuade those SMEs who, for whatever reason, are discouraged from applying for lending to do so. Again, I will report on this in more detail in my Annual Report but it is clear that all the banks are taking action to deal with this issue.

Finally, this quarter I have continued to look at the way that the unintended consequences of increases in the burden of compliance have on customers where processes may be affected or extended to accommodate the new rules. I will report on this issue much more fully in my Annual Report which I hope to publish in June this year; it will also contain the final Quarterly report for this year.

Professor Russel Griggs OBE
Independent External Reviewer
SME Banking Appeals Process

February 2015

2. Comments on Numbers

Chart 1: Appeals Table Years 1-4 to End December 2014 Appeals

Appeals - April 2011 to December 2014	Year One Apr 2011 - Mar 2012	Year Two Apr 2012 - Mar 2013	Year Three Apr 2013 - Mar 2014	Year Four Apr 2014 - Dec 2014	Apr 2011 - Dec 2014 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	2810	11816
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	769	4043
Overturn rate (based on Appeals Received - ALL BANKS)	39.5%	39.2%	31.7%	27.4%	34.2%
Total Value of Appeals Overturned = £ millions	£10.0	£18.5	£13.1	£8.7	£50.3
Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	1581	7895
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	322	2204
Overturn rate (based on Appeals Received - Excluding Credit Cards)	32.6%	29.5%	28.3%	20.4%	27.9%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£9.7	£17.7	£12.7	£8.1	£48.2
Total No. of Cases Reviewed	946	1777	1759	1315	5797
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	46.8%	49.1%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	65.5%	61.3%

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

Chart 2: Appeals Table Years 3 + 4, Q1 , Q2 + Q3 Appeals only

Comparison By Quarter	Q1		Q2		Q3	
	Apr 2013 - Jun 2013	Apr 2014 - Jun 2014	Jul 2013- Sep 2013	Jul 2014- Sep 2014	Oct 2013- Dec 2013	Oct 2014- Dec 2014
Total No. of Appeals Received (ALL BANKS)	854	967	797	983	721	860
Total No. of Appeals Overturned (ALL BANKS)	310	254	273	284	210	231
Overturn rate (based on Appeals Received - ALL BANKS)	36.3%	26.3%	34.3%	28.9%	29.1%	26.9%
Total Value of Appeals Overturned = £ millions	£2.8	£4.7	£4.0	£1.8	£3.5	£2.2
Total No. of Appeals Received (Excluding Credit Cards)	695	540	652	507	609	534
Total No. of Appeals Overturned (Excluding Credit Cards)	237	127	200	86	156	109
Overturn rate (based on Appeals Received - Excluding Credit Cards)	34.1%	23.5%	30.7%	17.0%	25.6%	20.4%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£2.6	£4.4	£3.9	£1.6	£3.4	£2.1
Total No. of Cases Reviewed	434	422	439	425	456	468
Total No. of Cases Reviewed/Total No. of Appeals (as %)	50.8%	43.6%	55.1%	43.2%	63.2%	54.4%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	67.7%	70.1%	71.4%	53.5%	86.2%	75.3%

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

Charts 1 and 2 above highlight that the appeals numbers are rising which shows both the effect of all the work the banks are doing on raising awareness plus, I have to say, I and my team especially finding other lending not previously captured under the Appeals Process which we have now brought in. This, I should add, is usually not because a bank has not tried to bring them in; but because banks are large and complex, and geographically spread organisations, therefore sometimes communications may not have reached all sectors. Some of the rise, but not all of the rise in appeals numbers, will be down to that. However, while I am anxious that every SME knows and understands what the Appeals Process can do for them, a permanent rise in appeals numbers over time might not in itself be a good thing.

What my focus is on, as I have said many times, is ensuring that through better conversations between the Relationship Managers and their SME customers, and through better and more transparent systems which allow all to understand better how decisions are made, there is a reduction in the amount of declines in the first place and while there will always be appeals their number could in fact drop if better decisions are being made at the initial application stage. That is why I continue to be pleased to see a drop in the overturn rate as is shown in the two charts above. This shows that more good decisions are being made and agreement reached with SMEs before the need to appeal ever arises.

Chart 3: Total Appeals - 3 Month Rolling Average

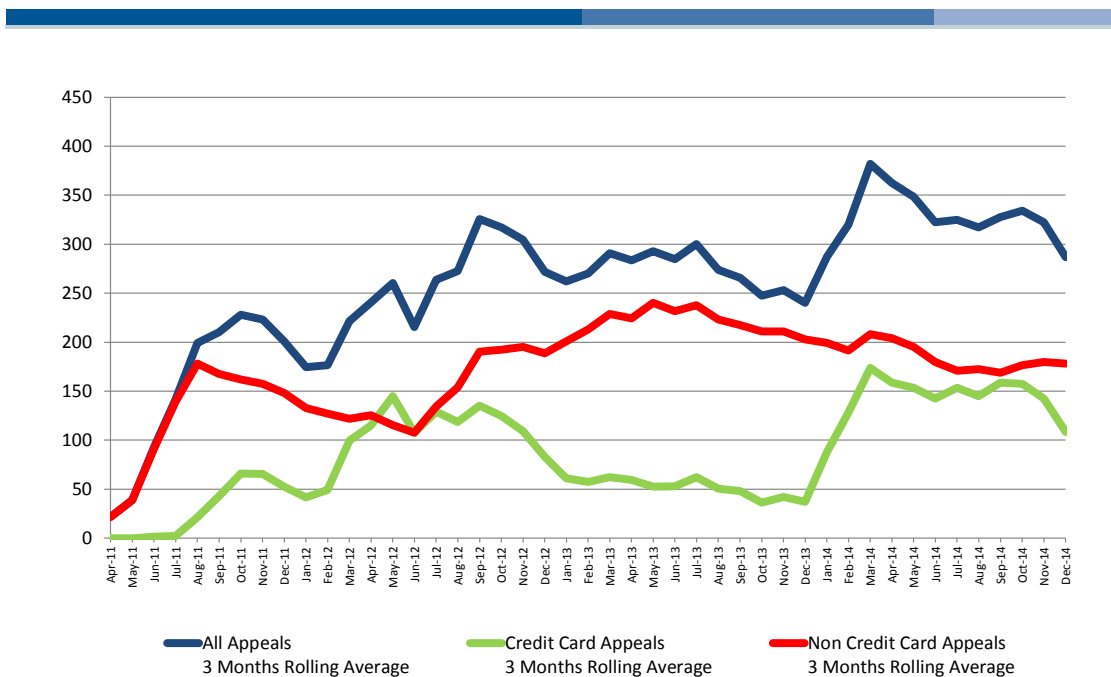
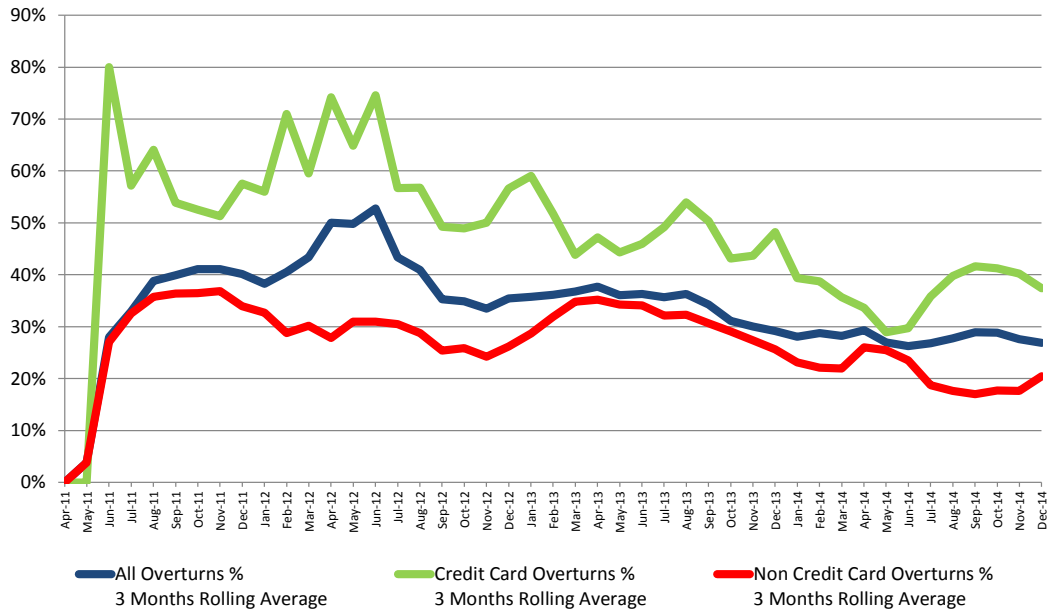
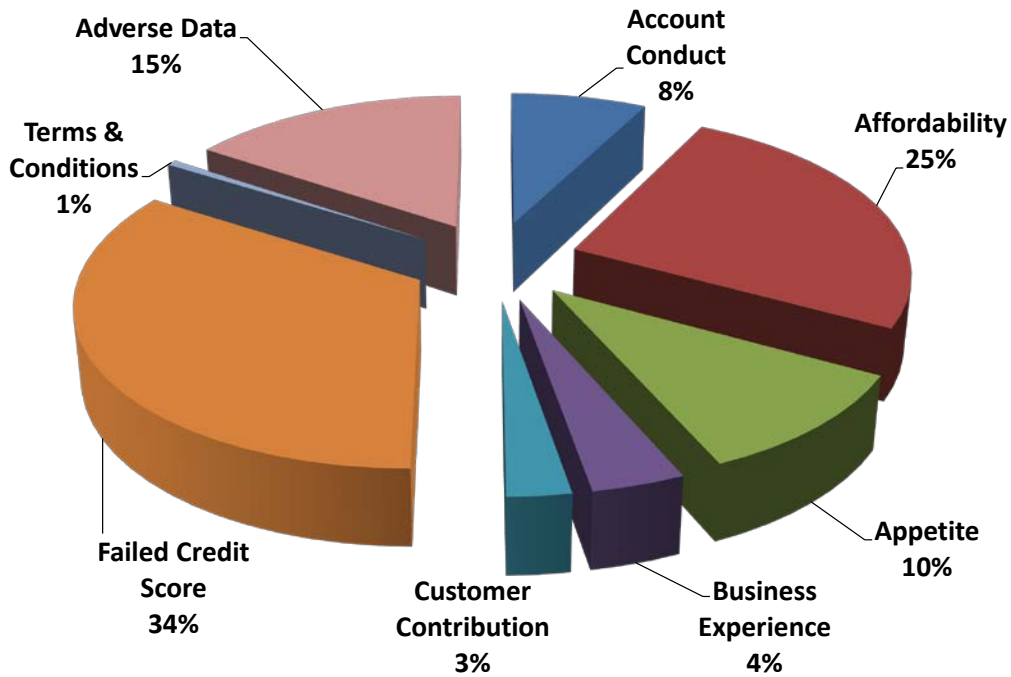


Chart 4: Overturned % - 3 Month Rolling Average



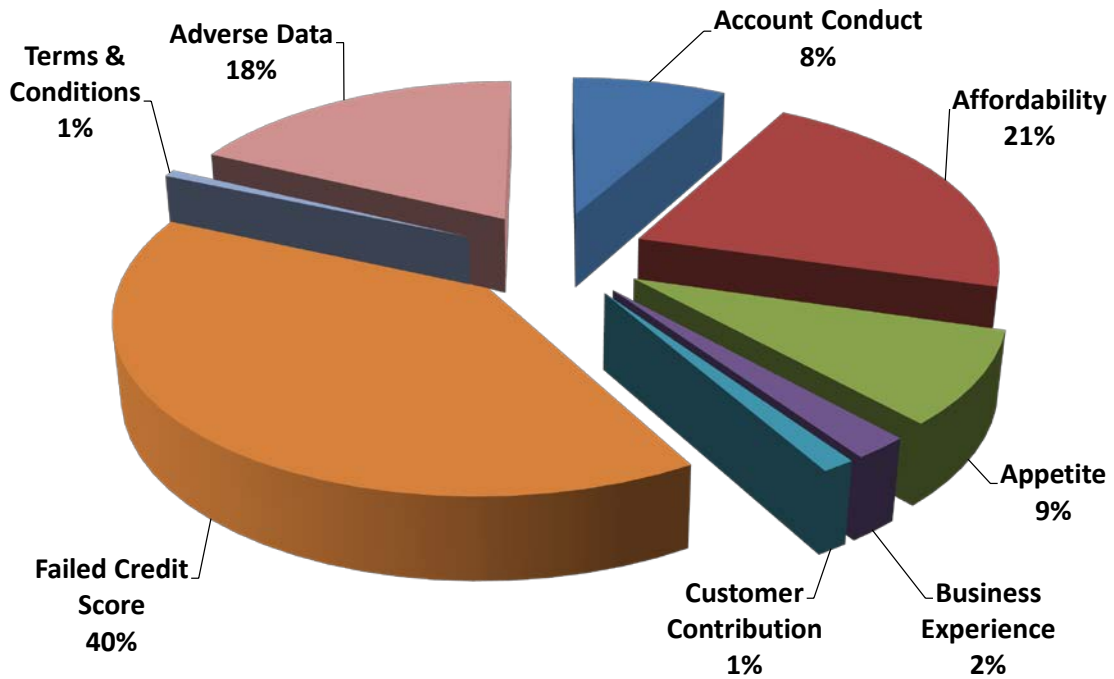
The two charts above focus more graphically what Chart 1 and 2 show but also highlight better the differences between credit card appeals and other appeals both in terms of numbers but also the overturn rates. Credit card applications and declines will always be an area where I would expect more appeals and overturns due to the nature and typical size of these transactions. It is pleasing though to see even here that overturn rates are falling as I still believe that, for micro businesses, a well-managed commercial credit card can be a much better way of financing working capital in your business than an overdraft facility.

Chart 5: Decline Reasons all Banks for all Lending Year 3 & Q1-Q3 Year 4 only



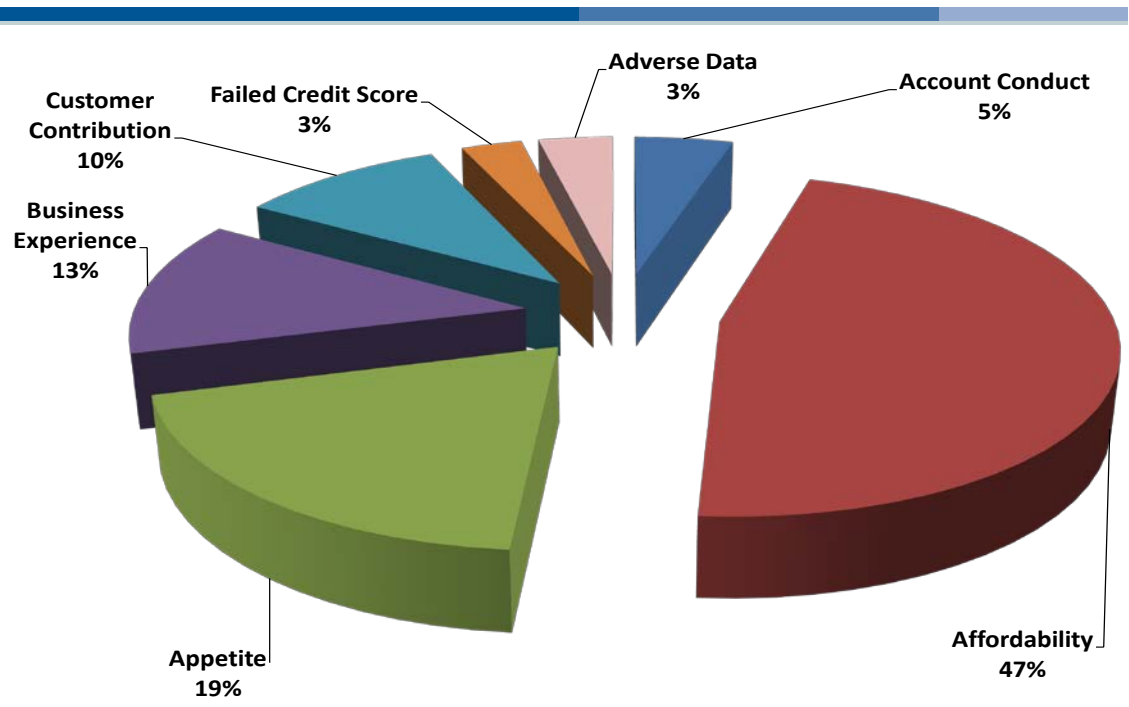
*Terms & Conditions appeals do not involve new money

Chart 6: Decline Reasons all Banks for Lending up to £25K Year 3 & Q1-Q3 Year 4 only



*Terms & Conditions appeals do not involve new money

Chart 7: Decline Reasons all Banks for Lending above £25K Year 3 & Q1-Q3 Year 4 only



There have not been significant changes in the reasons for decline in this quarter and I continue to work with the banks to ensure that they know what factors affect individual credit scores; what is material and what is not. It is clear, as I think I have said before, that mobile phone companies for example are very quick taking customers to the County Court over even tiny amounts of money including whether they are in dispute. That County Court Judgement can impact very negatively on the ability of an SME to borrow and it is good to see at least some, if not all of the banks, now are looking at County Court Judgements to see what they are, before deciding how much they should affect their lending decisions.

We continue to see incidences of multiple credit searches which have been conducted by mobile phone companies and others which can also negatively impact the credit scoring process.

What the pie charts above also continue to highlight is the break point at £25,000 lending where credit scoring ceases to be the main reason for decline which is in part to do with how lending of that size is handled, but also much more to do with the impact of the Consumer Credit Act which now falls under the Financial Conduct Authority and not the Office of Fair Trading. This is leading to enhanced regulatory scrutiny and the requirement to follow more rules which add to the processes and timescales that lenders may have to use in fulfilling lending. The guidelines from the Consumer Credit Act have now been turned into extensive rules by the Financial Conduct Authority through the Consumer Credit sourcebook (CONC) which at 345 pages has added significantly to what lenders have to consider in the space where the Consumer Credit Act operates.

3. Other Issues

I have no real new issues to report this quarter but would highlight two areas which I intend to examine in more depth over the coming months.

There has been much said in the media and elsewhere about the need for SMEs to have face to face meetings with their Relationship Managers as this is one of the things hindering more lending. I have to report that all my own evidence, which is now considerable, leads to the opposite conclusion in that what SMEs want is to deal with their bank in a way which they find most appropriate and efficient for them and for many that is now by phone or via the internet.

To that end I have been looking at how some of the banks now handle their relationships with their SME customers and where they have decided to go to a telephony route – especially for renewals or simple product lending – how it works. I sat in on a few of these and have been impressed by how it is done as well how much value the customer gets from it. In a 45 minute telephone conversation I witnessed, between a Relationship Manager and a customer to renew his overdraft, the Relationship Manager was able to ask all he needed and the customer – who had been prepared – had all the answers and they reached a good conclusion but a robust and proper conversation had taken place as it should. The benefit for the customer was that he was able to do it in transit between jobs and therefore did not waste any of his valuable earning time by having to come into a bank which was clearly what he did not want to do. Therefore, I think both customers and banks are now adapting to a varied communication environment which allows them both to better use their time in the best way they can which has to be good for both.

Finally, one last point on compliance which was prompted by a comment from a Relationship Manager of one of the larger banks I deal with who are good at what they do when she said 'lending the money is now the easy bit'. What she meant was that even if you are accepted now for lending, the final compliance and fulfilment checks that all the banks now have to do take time and sometimes that time can be drawn out, especially where property is involved. One of the issues I will therefore look at is how that possible delay is communicated to the customer. This will be a challenge as each customer and transaction will be different and therefore the questions they might have to answer and the information they may have to supply may be different, but it does add to the time taken to get the funding to the customer.

4.2 Annexe 2 – Awareness Campaign Summary

The Better Business Finance (BBF) campaign has continued to perform well. The campaign's accessible website is updated with advice pieces and blog posts covering topics of interest for SME owners, supported by online advertising, social media engagement and public relations activity.

An estimated 10.3 million people have seen the campaign since it started. Media coverage of the campaign has now reached 71% of the key audience of SME owner/managers and there has been a 122% increase in visits to the Better Business Finance website compared to the same period last year. Overall, the appeals advertising continued to perform most highly out of all the campaign executions, reflecting its strong call to action.

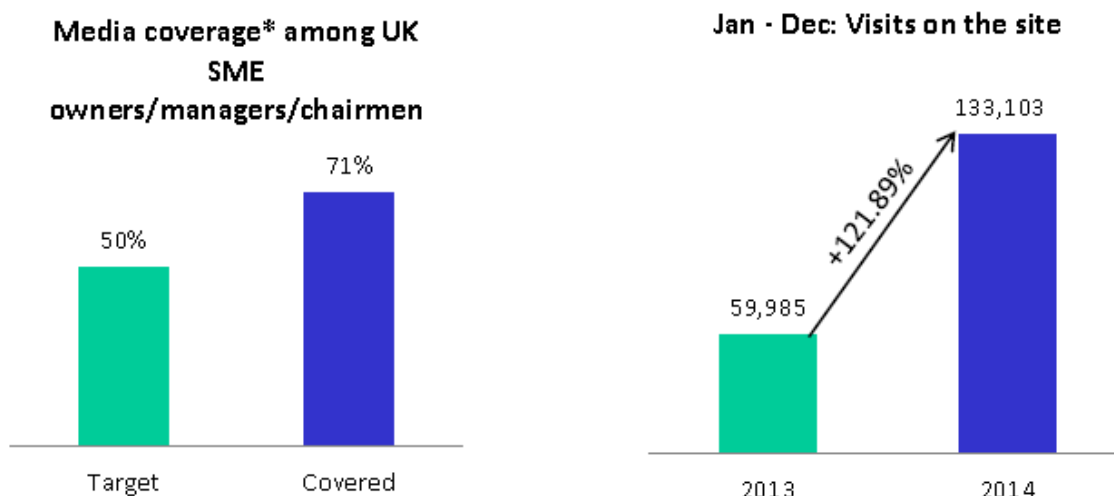
Awareness campaign summary

The Better Business Finance 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.

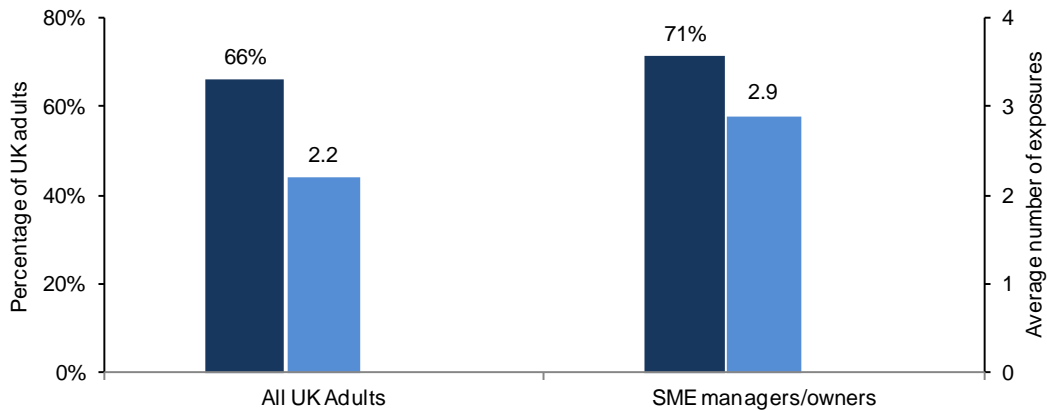
The campaign includes an online advertising campaign, social media engagement, a public relations campaign, as well as information provided via bank websites, directly to customers and via third party business groups.

The past quarter has seen continued advertising and social media activity as well as further PR activity with the launch of two media stories: one promoting the opportunity to appeal and one covering ten things SMEs may not have known about business finance.

Campaign performance overall has been strong, reaching audiences a number of times with key messages:



- 10.3 million people (estimated unique users) have seen the campaign since it started
- There have been 968,782 PPC impressions (the number of times our Pay Per Click advertising was seen), targeting small business owners with help, support and advice messages
- There was a 121.89% increase in visits to the Better Business Finance website compared to the same period last year
- There has been a 160.91% 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 continued 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 messages 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 107 articles to date.