

Banking Taskforce
Appeals Process
Independent External Reviewer
Quarterly Report
April - June 2015

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1. Introduction and Summary

As I move into the fifth year of the Appeals Process I am pleased with the progress although there is still a lot to do. What has pleased me most is that all the banks involved now see the Appeals Process as a positive step forward to help them assist their customers more. All of us have learned a lot from what we have discovered, and will continue to do so which in the end will lead to better lending for both the banks and their customers.

That progress is shown clearly in the first quarter figures which show steady numbers in terms of appeals but a continued reduction in the overturn rate. If I extrapolated both those forward now I would then expect to see appeal numbers being in line with last year but the overturn rate showing the same level of decrease from the previous year but as I have learned extrapolating in this area is a dangerous thing to do so we will see where we are at the year end.

This may seem anomalous with my continued assertion that I am happy with the amount of resource that all the banks are putting into making sure that all their customers, and their own front line staff, are aware of the Appeals Process and how to use it. However, where we need to see that increase is in the numbers in the parts of individual banks where I had concerns, and that is happening. Also, my focus has been to make the banks deliver a better decision in the first place so all the banks now have a better 'refer' process than previously which means that, rather than being declined, a lot of applications for credit are internally referred and reviewed before a final decision is reached. This has not only meant that more customers are being accepted for lending but crucially, where a customer is still declined, it is done after more conversations and exchange of information between the lender and the customer. The therefore customer knows more about why they have been declined which means, in many cases, they understand and accept the reasoning and if they can, go away to do something about that reason which may allow them to apply again later.

Therefore, the appeals that are coming through from those parts of the banks that are 'referring' more are less, which is a good thing given that the issue has been already sorted beforehand and that removes a lot of the cases that were overturned on appeal in the early years of the Appeals Process.

That also highlights the other point I made in my [Annual Report](#)¹ that the value of extra lending going into the economy as a result of the Appeals Process is very understated in these reports as it only includes those I can physically see and not all

¹ [http://betterbusinessfinance.co.uk/images/pdfs/Annual_Report_2015_\(Year_4\)_FINAL.pdf](http://betterbusinessfinance.co.uk/images/pdfs/Annual_Report_2015_(Year_4)_FINAL.pdf)

the other lending that has come from changes in process and other things that the Appeals Process has put in place.

The other key issue for me this year is moving the Action Plans I have with all the banks to Integration Plans. I need now to start the process with each bank of making appeals a standard service and how that will then be operated and monitored by them into the future. Let me say at the outset that this does not mean that I see myself or the Appeals Process as it is today disappearing anytime soon but, since that process of integration will be different and take a different length of time with each bank, then I need those Integration Plans in place by the end of this year so I can then work with each bank through to its final implementation which could be some years away.

To do that I will work with each bank across four headings, namely Policies, Processes, People, and IT systems, to ensure that each bank is in a place where I am happy they are running those four facets of the Appeals Process as effectively and efficiently as they can. Once I am happy with that, I will then look at how each bank will monitor their Appeals Process themselves to ensure it gets the continuing feedback and development it needs.

I have started those discussions with some of the banks already and will complete those initial discussions over the summer and early autumn. Again, I am pleased with the approach that each bank is taking and some have already stated that they would wish to look at how they keep or replicate the independent perspective that someone sitting outside the bank brings so I will reflect on that as part of the process going forward as well.

Finally, in terms of the individual banks putting in place a research process to ensure that their customers are and were aware of the Appeals Process at the time of them wanting to obtain credit, I am pleased to say that all are now doing that but it will take time to build up a reliable set of data. This is due to the fact that this requires research on customers who have asked for credit in the last 2-3 months were declined, but did not appeal and checking that they knew of the Appeals Process. This is a small research cohort to begin with and also the hit rate for any research with SMEs tend to be in the 1 in 10 to 1 in 20 range so it will take time to build meaningful data sets but I hope to have those later this year. I am happy though from the initial numbers I have seen that there was a significant awareness of the Appeals Process in these SMEs.

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SME Banking Appeals Process

August 2015

2. Comments on Numbers

Chart 1: Appeals Table Years 1-5 to End June 2015 Appeals

Appeals - April 2011 to June 2015	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 - Jun 2015	Apr 2011 - Jun 2015 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	3752	858	13616
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	991	196	4461
Overturn rate (based on Appeals Received - ALL BANKS)	39.5%	39.2%	31.7%	26.4%	22.8%	32.8%
Total Value of Appeals Overturned = £ millions	£10.0	£18.5	£13.1	£10.1	£1.5	£53.2
Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	2147	430	8891
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	421	71	2374
Overturn rate (based on Appeals Received - Excluding Credit Cards)	32.6%	29.5%	28.3%	19.6%	16.5%	26.7%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£9.7	£17.7	£12.7	£9.3	£1.3	£50.7
Total No. of Cases Reviewed	946	1777	1759	1772	437	6691
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	47.2%	50.9%	49.1%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	67.0%	78.6%	62.6%

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

Chart 2: Appeals Table Years 3 + 4 + 5, Q1 Appeals only

Comparison By Quarter	Q1		
	Apr 2013 - Jun 2013	Apr 2014 - Jun 2014	Apr 2015 - Jun 2015
Total No. of Appeals Received (ALL BANKS)	854	967	858
Total No. of Appeals Overturned (ALL BANKS)	310	254	196
Overturn rate (based on Appeals Received - ALL BANKS)	36.3%	26.3%	22.8%
Total Value of Appeals Overturned = £ millions	£2.8	£4.7	£1.5
Total No. of Appeals Received (Excluding Credit Cards)	695	540	430
Total No. of Appeals Overturned (Excluding Credit Cards)	237	127	71
Overturn rate (based on Appeals Received - Excluding Credit Cards)	34.1%	23.5%	16.5%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£2.6	£4.4	£1.3
Total No. of Cases Reviewed	434	422	437
Total No. of Cases Reviewed/Total No. of Appeals (as %)	50.8%	43.6%	50.9%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	67.7%	70.1%	78.6%

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

Charts 1 and 2 above, along with the graphs in Charts 3 and 4 below, show that Appeal numbers are steady and that the overturn rate continues to fall whether it is in total or without credit cards.

As I state in the introduction, the steadiness in the appeal numbers should not be taken as appeal numbers not going up but rather many of the banks having a 'refer' process in place on lending now, where they think another person looking at it might be useful. This has the knock-on effect then of those that do appeal tending not to contain a lot of the marginal ones now, so the rate of overturn is reducing. I have always said that my aim, while ensuring that banks were putting the proper resource into making their own staff and customers aware of the Appeals Process, was not to see appeal numbers forever rising but having banks and customers engage in a process that brought better and more understood decisions initially. I think there are good signs now that this is happening.

Chart 3: Total Appeals - 3 Month Rolling Average

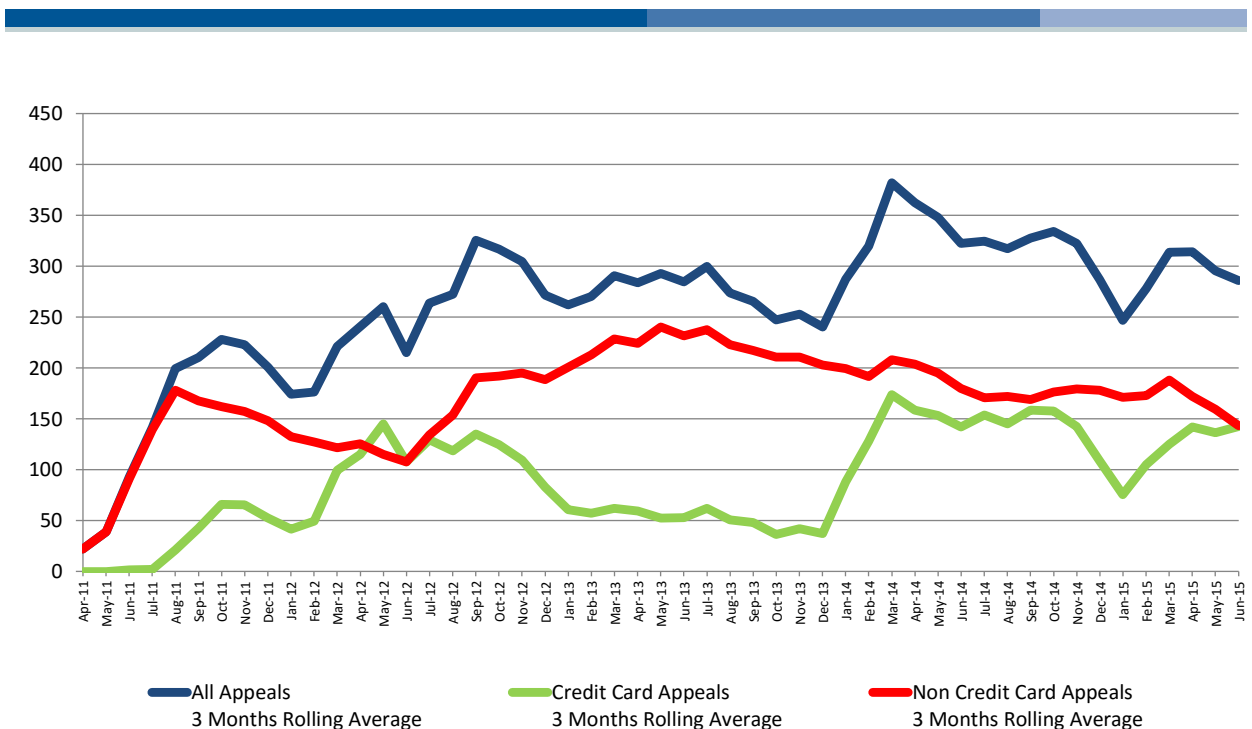


Chart 4: Overturned % - 3 Month Rolling Average

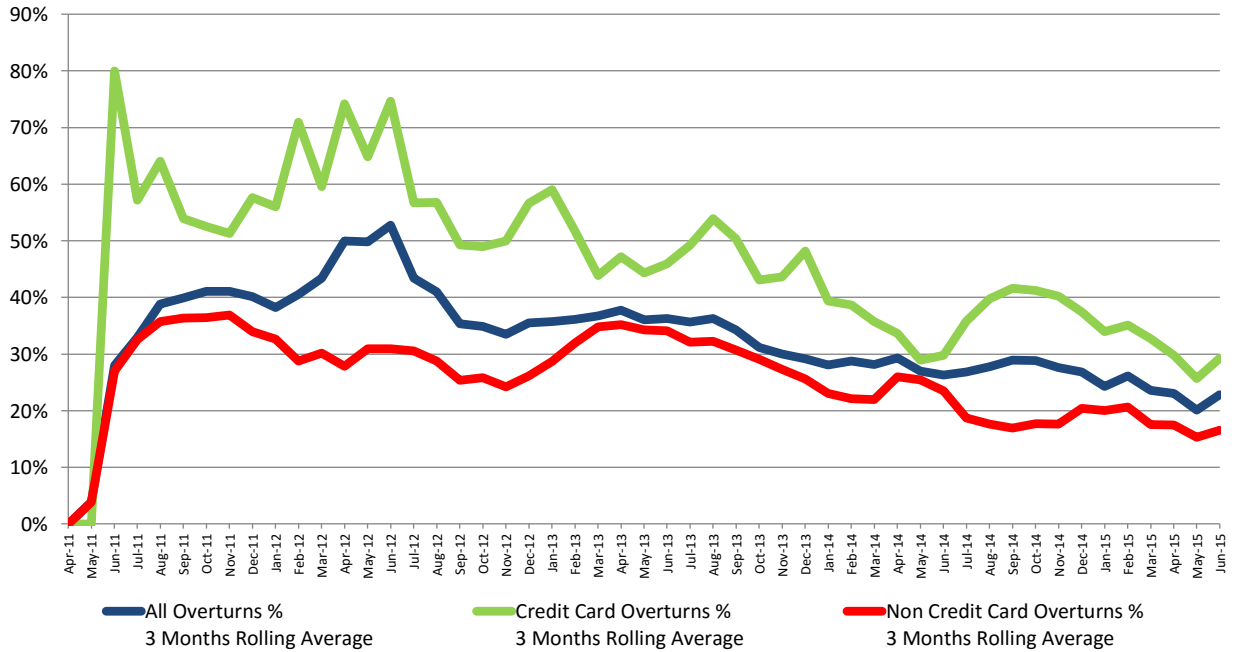
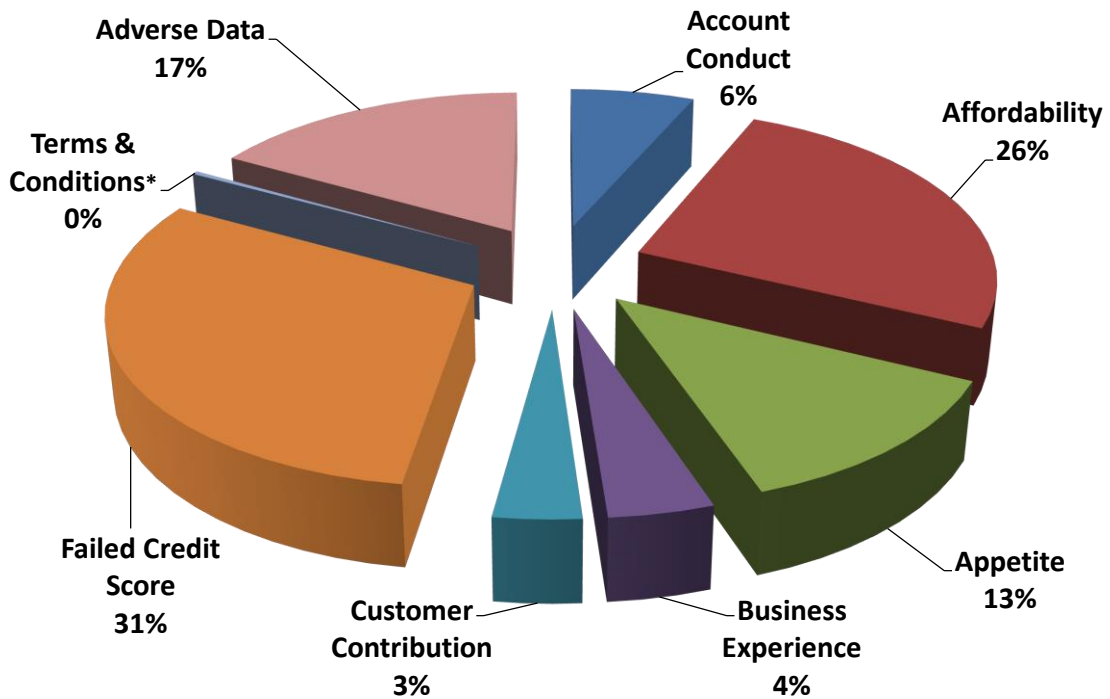
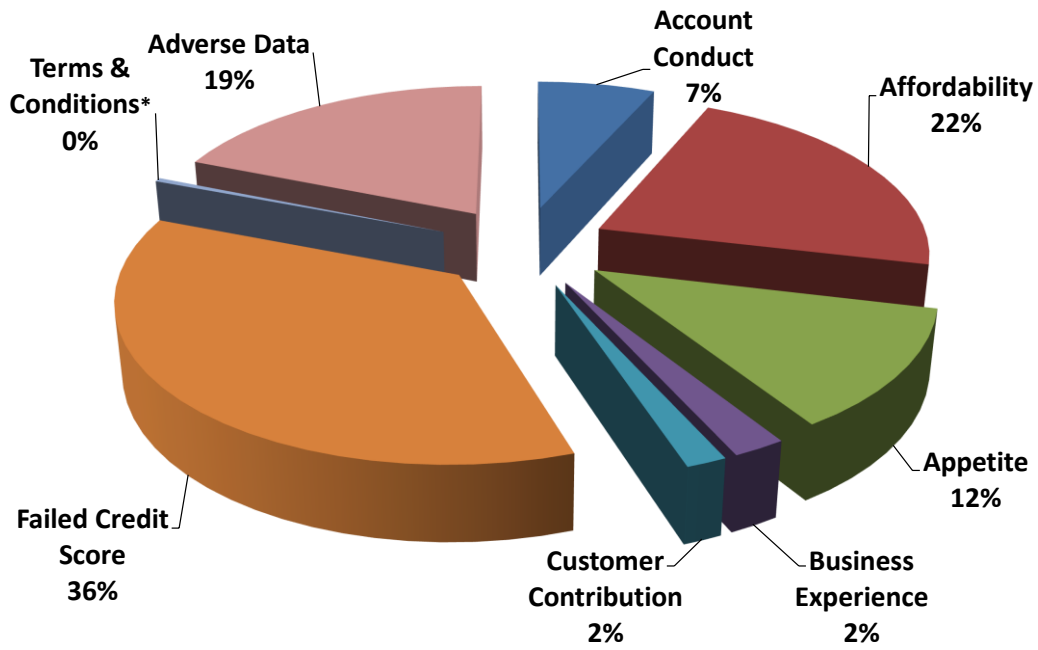


Chart 5: Decline Reasons all Banks for all Lending: Year 4 & Year 5 to June 2015 only



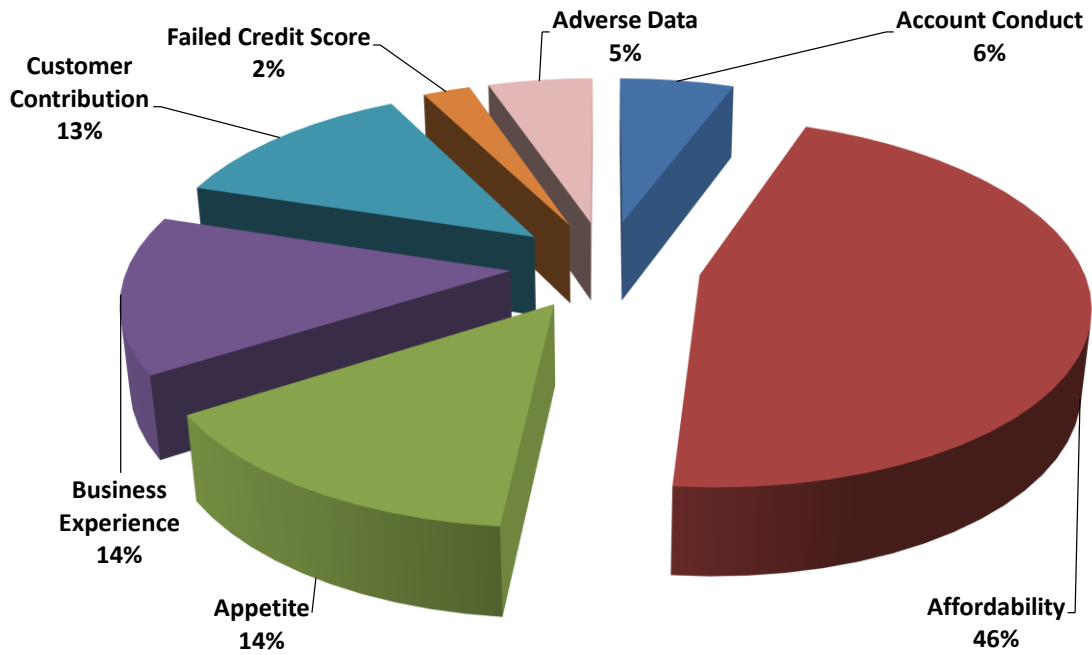
*Terms & Conditions appeals do not involve new money

Chart 6: Decline Reasons all Banks for Lending up to £25K: Year 4 & Year 5 to June 2015 only



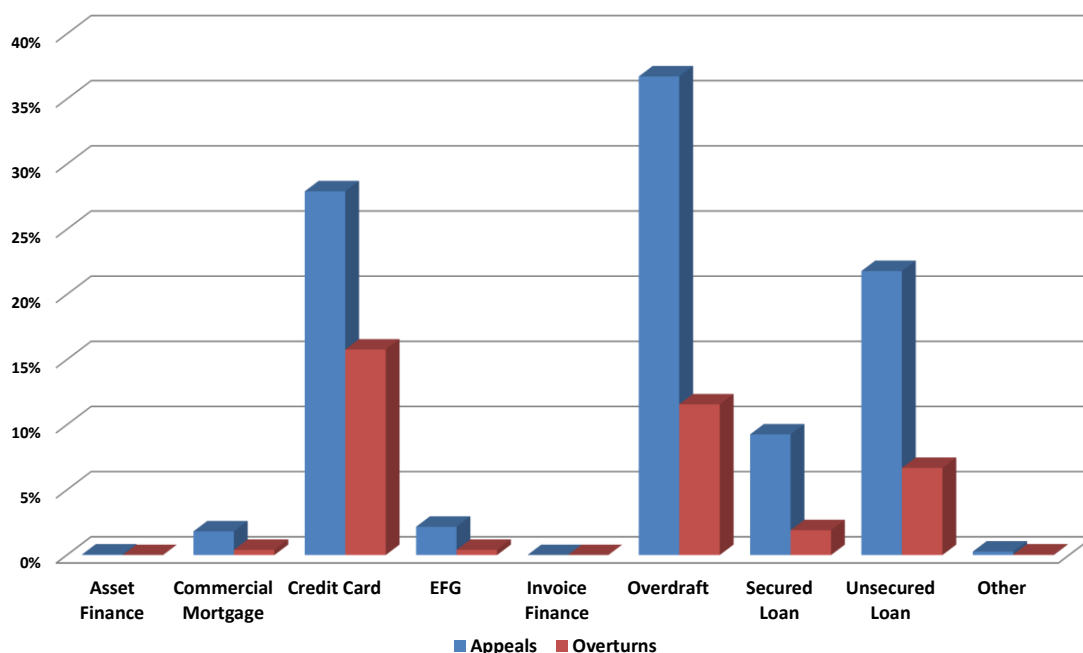
*Terms & Conditions appeals do not involve new money

Chart 7: Decline Reasons all Banks for Lending above £25K: Year 4 & Year 5 to June 2015 only



There have been no significant changes in the reasons for appeal this quarter but as we continue to get more data in terms of the numbers of appeal cases we have full data on, so the level of granularity increases. Therefore now, even in appeals for lending over £25k, adverse data and credit scoring can be seen but the difference is that adverse data is more prevalent than credit scoring in the over £25k lending whereas it is the other way round in the under £25k lending. This shows that adverse data is still a deterrent for banks at any level of lending and highlights once again that companies know the negative impact that County Court Judgements on debts, defaults on loans, and financial-related issues with individual Directors can have on their business.

Chart 8: Appeals by Lending Product: Year 4 & Year 5 to June 2015 only



I have highlighted this chart 8 above this quarter both to show the range of lending activity that the Appeals Process covers but, on the other side of that coin, to show that SMEs are still focussing on the very traditional lending products that are available. I have said in previous reports, and have no reason to change that view, that I expect to see a rise in the number of Micro businesses using commercial credit cards as the way of funding their business as it is for many the simplest and cheapest way of doing so, if managed properly. Also, I hope to see a rise in invoice financing which again is a lending instrument that I think is underused. Now that the Government has introduced legislation which takes away, correctly, the ability of large companies to prohibit their suppliers using invoice discounting as a way of funding their business I hope this will help that increase.

3. Other Issues

As I collect more and more data from the cases that I and my team examine, more detailed issues come to our attention and this has happened again this quarter plus a more general issue on which I am seeking advice.

In some professions what an individual has to do to become qualified or accepted can be complex and becoming a road haulier or heavy goods vehicle driver is no different. One of the requirements of the Vehicle and Operator Services Agency (“VOSA”) now Driver and Vehicle Standards Agency (“DVSA”) [certification](#)² that a HGV driver needs, is proof that they have £7,000 available to help them should they break down on the open road. This is a sensible precaution so that HGVs are not left by the road side due to the inability of the driver to pay for their repair or removal.

There have been a number of these cases come through the Appeals Process as, for a single HGV driver trying to get started, there can sometimes be a challenge in accessing this funding. It is an odd, but not peculiar, ask of a bank to have financial cover on something that you may never call on. Large companies are asked for this type of cover on many things to cover issues if things go wrong and usually do that through a bond or letter of credit which the bank or an insurer can provide. It is more difficult for a single driver starting up their business as there is not really a product that covers them and, while I and my team have seen lenders providing overdrafts or credit cards to cover this DVSA requirement they are not ideal and were never meant to cover things like this. Surely there must be a mechanism for the haulage industry and the lenders to sit down and devise a financial product or instrument that covers such occurrences as becoming a single road haulier appears to be something that more people wish to pursue as a business opportunity and it can be challenging for those individuals to get the cover they require.

Another issue that has become apparent recently is the desire by lenders, and indeed by customers, to have on-line applications and if possible instant answers to credit applications. The lenders have responded to this customer desire and this opportunity now exists for SMEs. However, I do feel that these sites need to be clearer on who can and cannot apply in terms of getting an instant decision as many have exclusions that are to do with the instant process itself rather than the lenders desire or the customer’s ability to borrow. Therefore, for example, if a customer has had to have an account with a bank for a specific period, or there are sectoral rules that apply; then these should be clearly stated before the application begins so as not to waste the SMEs and indeed the lenders time.

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/374913/gv79-annex-b-financial-levels-2015.pdf

Finally, in the last 3-6 months and especially in the decline sampling I do, I have seen more cases of customers being declined because they are not on the electoral roll. This in itself should never cause a customer to be declined but is a high weighted score in many credit algorithms so can push a customer into the decline category if there are other lesser issues as well. The reason that being on the electoral roll is scored as high as it is, that it was and to a degree still is proof that the person exists and is resident where they say they are as the lender can cross check the information the customer provides to them with the electoral roll. There is for many sole traders no other check that can be done, along with individual directors of companies, to prove that they are real.

What is happening now is that more and more people are not on the electoral roll for sensible and understandable reasons when you enquire, but a CRA check will not pick that up. As we become a more diverse society so many people will come to the UK who for whatever reason may not wish to vote. For example an EU citizen can move to the UK but can maintain their vote in the country of origin and does not need to register to vote in the UK. Also, we are changing the way we vote now with different registers for local and national voting as we allow different demographics to vote in some and not others.

Therefore, while being on the electoral roll was once a very good criterion to judge if a person was who they say they are, it is becoming less so. Should it still now have the same high scoring in credit terms as it once had? If not, then what else do you use as some sort of confirmation is required?

I have asked the UK Government to think about this issue and look forward to continuing this discussion with them.