

Banking Taskforce
Appeals Process
Independent External Reviewer
Quarterly Report
July - September 2015

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1. Introduction and Summary

I am now well into the fifth year of the Appeals Process and still continue to learn and gain knowledge of what we all have to do to drive the 'better conversations' between Small and medium-sized enterprises (SMEs) and Lenders.

This quarter is no different and appeals numbers remain steady while the overturn rate falls again. The number of appeals reflects the balance between the changing processes that include having more applications reviewed before they are decided upon, and the introduction of new applications from sources which have previously been excluded or forgotten for various reasons. All are now included in the Appeals Process and none of which I can say are in any way due to any bank wishing to 'hide' applications. Over the 4½ years the Appeals Process has been running there have been almost 14,500 appeals and the overturn rate has fallen from almost 40% at the end of year one to just under 25% in the first half of this year. On the overturns I physically see (which run at just over 63% of all the overturns made) just over £55 million has been put back into the economy. While I have always said that I would not try and estimate what the real total is in increased lending from the Appeals Process which includes not only all overturns but those SMEs who return to the bank later and are funded because of the better decline process that is now in place, I think I can safely say that the total must now be at or near £100 million.

Also, while great progress has and is being made in the way that all the processes that surround this are evolving and changing, I still come across others that need investigating to see if they help or hinder this.

To be clear, not all of these are driven by the lenders and some come from customers who want lenders to provide different services for them or in different ways. Also as banks do change their processes sometimes they have a knock on effect on other processes which can have unintended consequences which we then have to put right. Therefore, while we all – customers and lenders – want to change things as quickly as possible, doing all the testing and getting it right will sometimes take longer.

An example I highlighted in my last Quarterly Report was that SME customers have always pressed for an easy and instant way to apply for credit online and banks have tried to respond to that. In doing that though some have declined a large number that on investigation were because they would not allow some types of customer to borrow instantly or for that amount or length of time. They may have policies for example which exclude new customers applying instantly or a maximum limit on what they would lend instantly to anyone.

I have also highlighted in previous reports how banks do have general policies that may prevent them from lending to a type of company or to a specific sector usually for legal or anti money laundering reasons. I have been working with all the banks,

and indeed now have it as part of their Integration Plans, that they should be clear and transparent with SME customers on what the policies are and indeed even if they will slow down a process then they should make that clear. Similarly, these exclusions online need to be handled the same and in my view it would be better if banks listed those exclusions clearly on the online instant application sites so that SMEs know upfront when they are not able to use this channel to apply for credit. That is not stopping the customer from applying just pointing them to the correct channel for them, which has to be in everyone's interest.

This has made me now expand the criteria I am using with each bank in terms of the Integration Plans I am putting in place with them to ensure that, over time, the Appeals Process becomes an integral and ongoing process within each bank that they can monitor, judge and develop themselves. This will take a number of years but all have started the journey positively and I will have in place firm Integration Plans with each by, at the latest, spring of next year with timescales and milestones in them as well.

The criteria I am using to work with the individual banks to get to that point are:

1. Policies and Exclusions, which I have expanded to include the latter as is explained above. This ensures that lenders are clear with their customers on what their policies and exclusions are and how they affect them.
2. People both within their Appeals teams and generally within their bank who affect their performance with SME customers.
3. Process again specifically to do with Appeals but also more generally in terms of allowing that 'better conversation' to take place between them and SMEs.
4. IT systems which impact on all the above relating to lending to SMEs and whether they are fit for purpose.

Only once I, and each of the banks individually, have reached a point where we have these criteria, at a point where we are both satisfied with each, will I then start to look at how each bank will put in place their own oversight and scrutiny to replace the task that I currently carry out. Once again, as I do each time I write that sentence, that is not saying that I see myself relinquishing my role anytime soon but need to put in place a programme that can, over the coming years, move to that position which will be different in time terms for each bank.

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SME Banking Appeals Process

December 2015

2. Comments on Numbers

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

Appeals - April 2011 to September 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 - Sep 2015	Apr 2011 - Sep 2015 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	3752	1724	14482
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	991	421	4686
Overturn rate (based on Appeals Received - ALL BANKS)	39.5%	39.2%	31.7%	26.4%	24.4%	32.4%
Total Value of Appeals Overturned = £ millions	£10.0	£18.5	£13.1	£10.1	£3.6	£55.3

Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	2147	918	9379
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	421	161	2464
Overturn rate (based on Appeals Received - Excluding Credit Cards)	32.6%	29.5%	28.3%	19.6%	17.5%	26.3%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£9.7	£17.7	£12.7	£9.3	£3.1	£52.6

Total No. of Cases Reviewed	946	1777	1759	1772	860	7114
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	47.2%	49.9%	49.1%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	67.0%	76.5%	63.2%

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

Appeals numbers continue to be steady and the overturn rate continues to fall which is the trend I want to see continue as it has been over recent quarters. This brings in the growing appeals from the new banks to the Appeals Process plus reducing the actual number of declines as more banks have or are now putting in place internal refer systems which allow SME applications to be looked at again within the bank before making an initial decision. This does not preclude the SME customer from appealing if they are still turned down but takes a lot of those that would have appealed and would have been overturned out before they get to a decline which is good and provides a much better overall customer experience. The pleasing picture now is that this trend now covers all forms of lending to SMEs including credit cards and while we have seen a slight increase in credit card appeals over the last 9 months due to the inclusion of all limit increase appeals that is beginning to show a downward trend. I am also pleased that I and my audit team, while observing good progress in relation to where each bank is in terms of its Appeals Process and how often we visit them, we are still seeing almost half of all appeals and well over half of those that are overturned.

Chart 2: Appeals Table Years 3 + 4 + 5, Q1 + Q2 Appeals only

Comparison By Quarter	Q1			Q2		
	Apr 2013 - Jun 2013	Apr 2014 - Jun 2014	Apr 2015 - Jun 2015	Jul 2013- Sep 2013	Jul 2014- Sep 2014	Jul 2015- Sep 2015
Total No. of Appeals Received (ALL BANKS)	854	967	858	797	983	866
Total No. of Appeals Overturned (ALL BANKS)	310	254	196	273	284	225
Overturn rate (based on Appeals Received - ALL BANKS)	36.3%	26.3%	22.8%	34.3%	28.9%	26.0%
Total Value of Appeals Overturned = £ millions	£2.8	£4.7	£1.5	£4.0	£1.8	£2.1
Total No. of Appeals Received (Excluding Credit Cards)	695	540	430	652	507	488
Total No. of Appeals Overturned (Excluding Credit Cards)	237	127	71	200	86	90
Overturn rate (based on Appeals Received - Excluding Credit Cards)	34.1%	23.5%	16.5%	30.7%	17.0%	18.4%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£2.6	£4.4	£1.3	£3.9	£1.6	£1.8
Total No. of Cases Reviewed	434	422	439	439	425	421
Total No. of Cases Reviewed/Total No. of Appeals (as %)	50.8%	43.6%	51.2%	55.1%	43.2%	48.6%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	67.7%	70.1%	78.6%	71.4%	53.5%	74.7%

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

Chart 2 which shows changes by quarter year on year shows only marginal differences with the main numbers in Chart 1 and the difference in non credit card overturn rate quarter on quarter I do not think is important as the numbers are small but I will be able to verify at the end of quarter 3. However, I do know, as I state above, that we started adding more credit card and overdraft increase and renewal appeals in the latter half of 2014 to the appeals numbers and that could again have an impact.

Chart 3: Total Appeals - 3 Month Rolling Average Years 1-5 to End September 2015

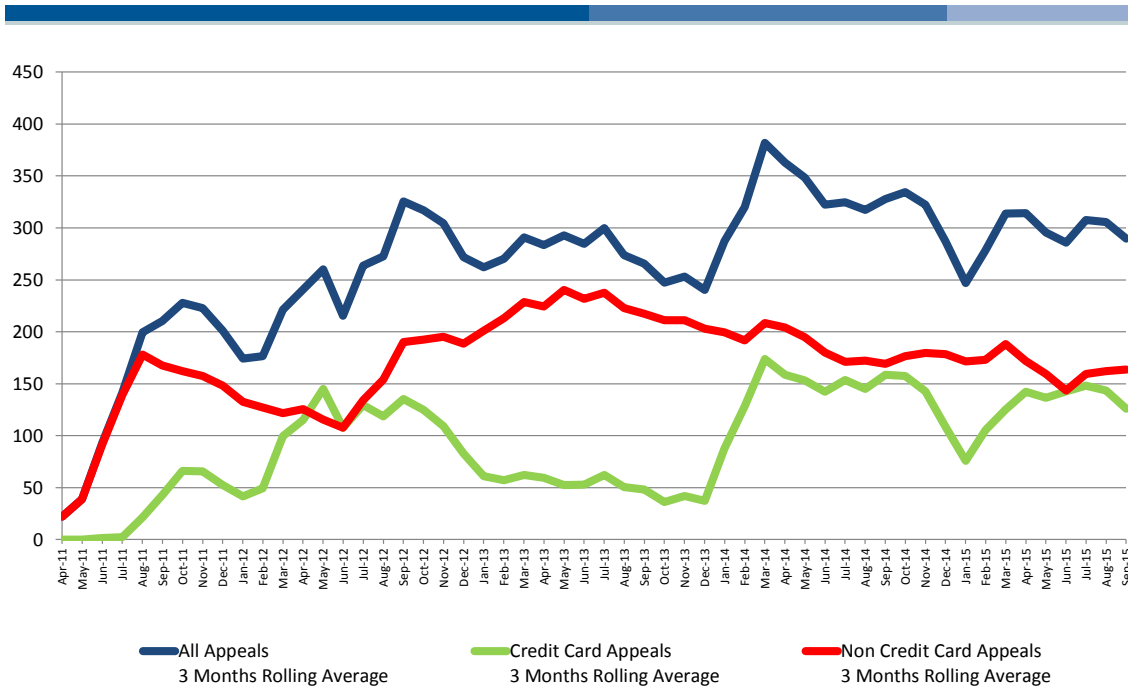


Chart 4: Overturned % - 3 Month Rolling Average Years 1-5 to End September 2015

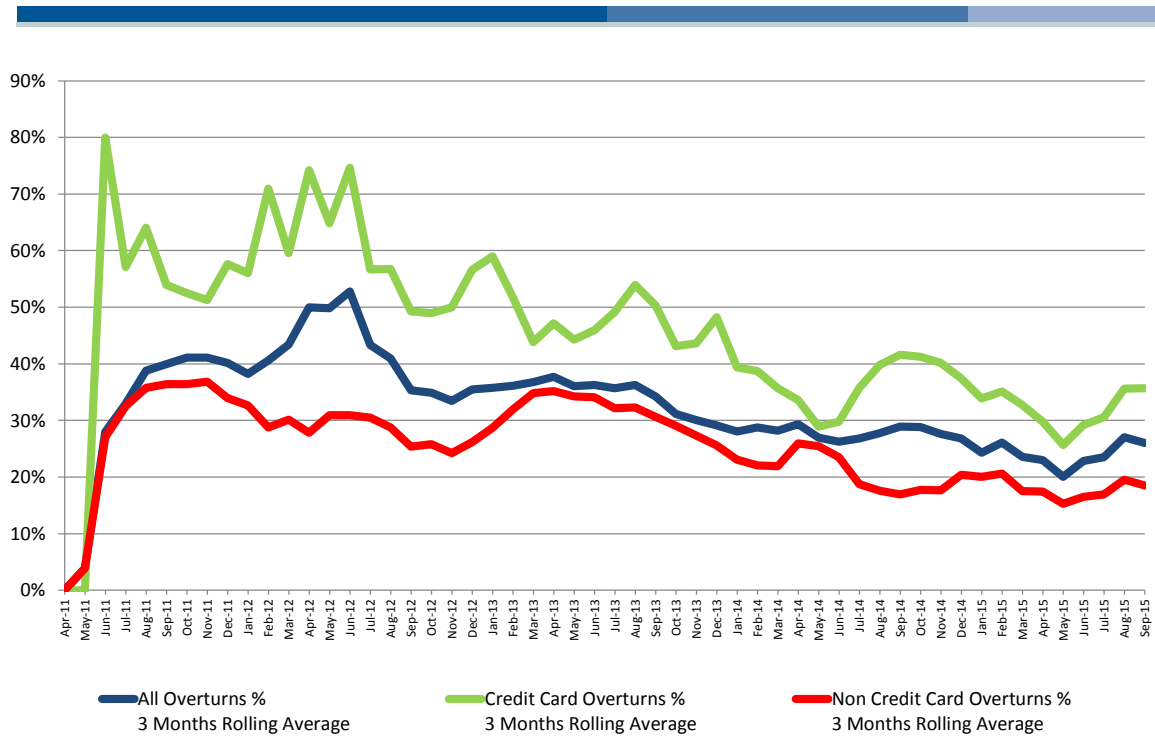
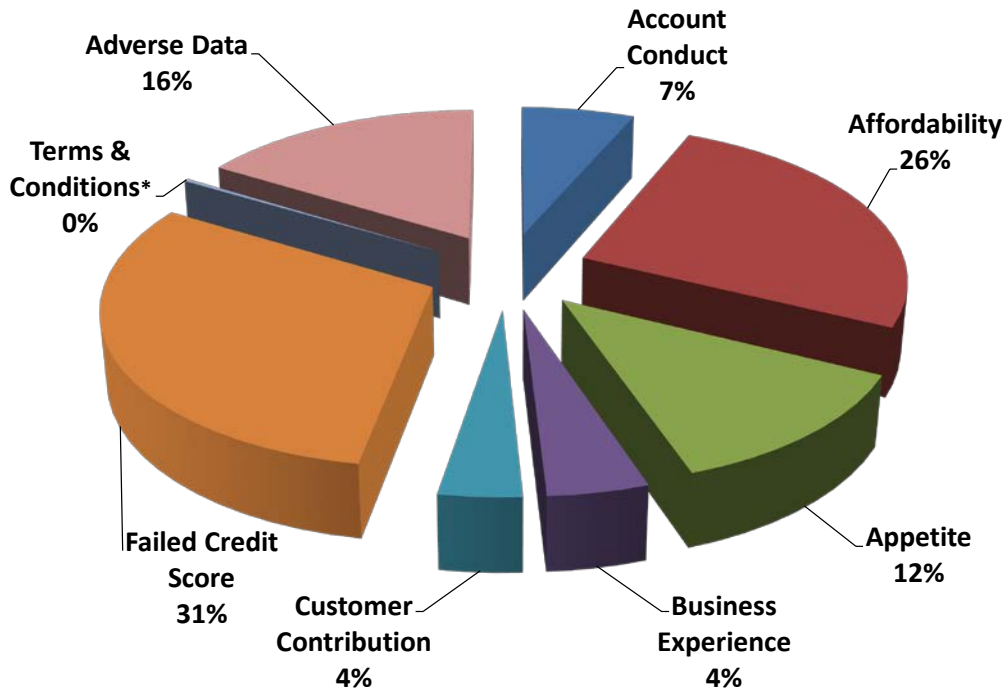
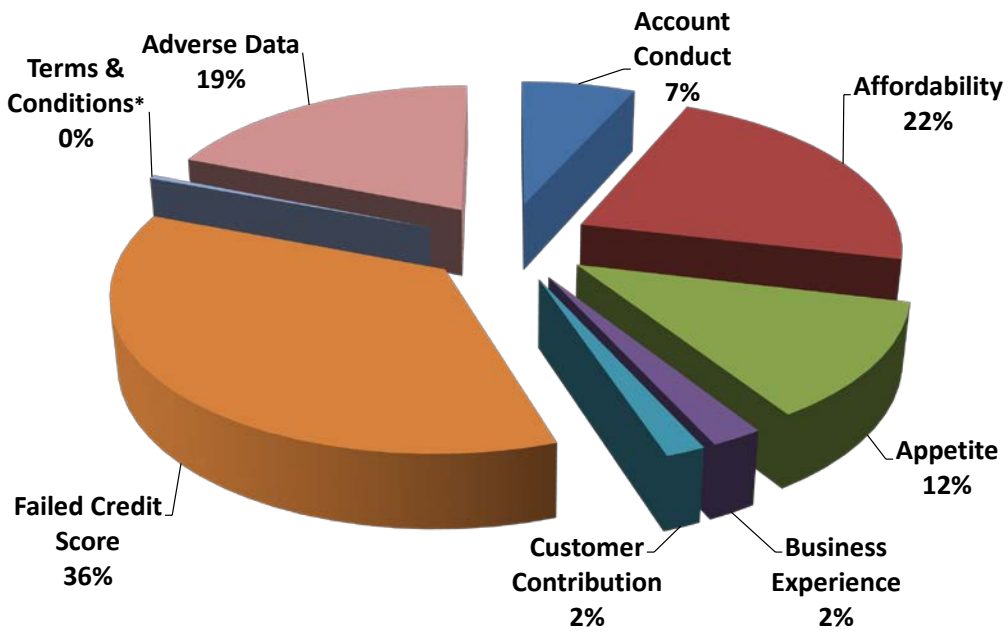


Chart 5: Decline Reasons all Banks for all Lending: Year 4 & Year 5 to September 2015 only



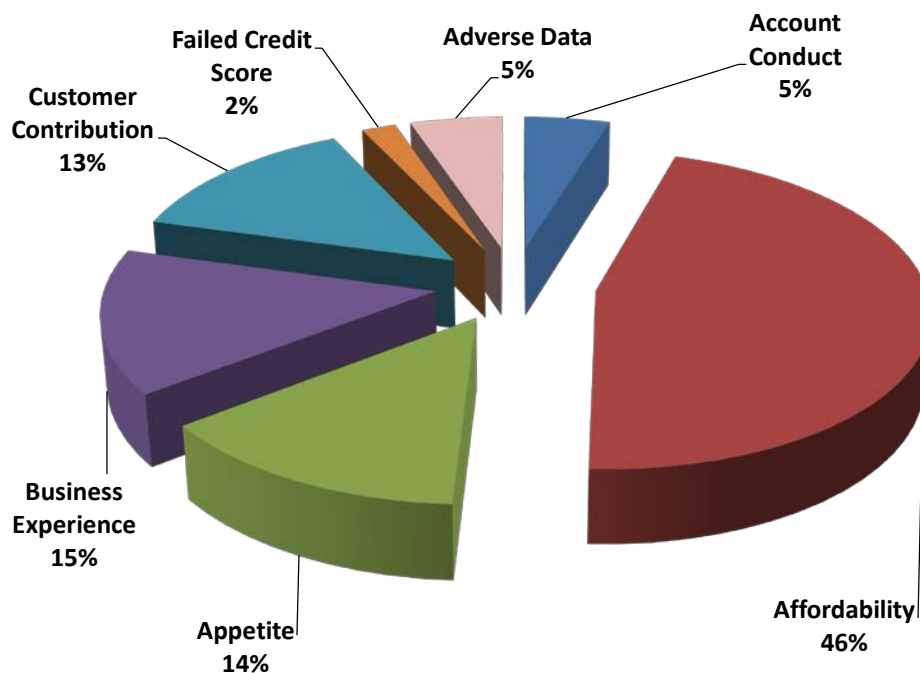
*Terms & Conditions appeals do not involve new money

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



Charts 5, 6, and 7 which show now, in increasing detail, the reasons for decline across all the banks show little difference once again in terms of the main categories. I have continued my discussions with the banks and others on how they use credit scoring and more importantly on the data they use to compile their scores and I still do believe that at some time we all need to stop and reflect on whether the criteria we use to form these credit scores, many of which have not changed greatly for many years, are still as relevant today as they once were or whether there are different criteria that we should be using. There is no doubt, from all the longitudinal research studies on lending that have been done over the years, that credit scoring is a good tool in looking at an SME's ability to borrow, but they are only as good as the data that inputs to them and I do see more and more cases that on examination the credit score decision is reversed which says perhaps there is a case for review of the component parts.

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

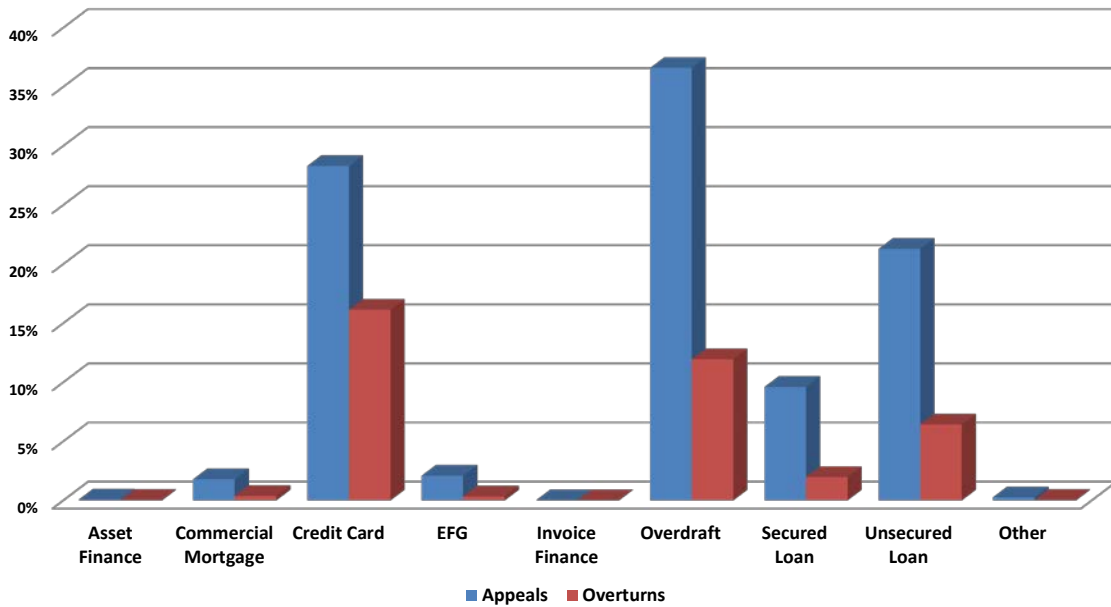


Chart 8 has shown little change as well which continues to show the reliance of SMEs on overdrafts to finance the working capital in their businesses. I continue to push for both lenders and SMEs to look wider than just overdraft for simple cash flow management as there are other products (credit cards and invoice discounting for example) which can provide a better alternative for many businesses. I am pleased to report that a number of the banks are proposing to become more active in offering those different options to their customers in the year ahead.

3. Other Issues

There is only one real new issue which has come to the fore since my last report which could turn out to be either important or not.

Some banks use brokers and other entities to promote their services and products for them and bring in customers. The agriculture and property sectors are good examples of where this happens but it can also happen more generally as well. SMEs can also use their own intermediaries e.g. accountants or lawyers to make their case for them with a lender or to look around lenders to find out who might be interested in a proposition they have.

Now many of these are only enquiries in the real sense of that where they are only sounding out lenders. However, there are also many genuine applications in those and it is those I am anxious to ensure that any SME who uses an intermediary or goes through a broker are treated the same as any other SME in terms of the Appeals Process.

That means that the application decision remains that if a piece of information is passed to the bank, either verbally or in writing, which allows the bank to make a decision then an application has taken place. More simply, the question is that if the SME was asked did they think they had applied then, if they thought they had, then they probably would have.

If the SME is declined, all be it through a third party, the SME should still get a decline letter including the right to appeal. I can understand the intermediary wanting to be involved as well but the SME should be the key recipient of any decision.

I have asked each of the banks to come back to me on how they deal with such situations and how they verify that those intermediaries do what they are supposed to do for them in relation to the Appeals Process.

I have highlighted before that I have concerns about the new SME lending referral process which the Government is in the process of implementing in hoping that it would not affect SME's right or desire to appeal. My understanding that this process is now unlikely to be implemented until sometime in 2016 and I hope by then all the processes around the customer journey will be in place to ensure that SMEs who opt for this, experience a positive journey that does not affect their relationship or opinion of the lending process which we are all striving to improve.

Finally, towards the end of November the Financial Conduct Authority (FCA) issued a discussion paper entitled 'Our approach to SMEs as users of financial services' (<http://www.fca.org.uk/news/discussion-papers/dp15-07-sme-approach>).

Using the FCA's own words:

'This discussion paper follows the emergence of a number of issues with the way in which some financial services firms have treated their SME clients. These have prompted questions from various sources, including the Treasury Select Committee (TSC) and the Parliamentary Commission on Banking Standards (PCBS), about whether more small business customers should be able to refer complaints to the ombudsman service. In this paper we acknowledge the high-impact cases the TSC and PCBS focused on but also consider provisions for SMEs throughout our Handbook, not just their access to redress.

Across regulated industries, SMEs have traditionally been treated as having greater self-sufficiency and bargaining power than individual consumers. So they have often been seen by regulators as requiring less assistance, even though their needs, behavior and expertise are often similar. Our own work has shown that SMEs can experience poor outcomes in a wider range of situations. They can be exposed to risk at the point of purchase due to product complexity, limited choice or poorly managed expectations. When things go wrong, some struggle to navigate the complaints and claims processes or to obtain redress.

In this document we seek evidence and views on whether our rules should provide SMEs with greater protections, including access to the ombudsman service, thus treating them more like individual consumers.'

The discussion paper is looking for input by mid-March next year after which the FCA will decide what to do next.

While I always welcome good new input that allows us to widen and better the discussion and solutions to ensuring that SMEs and lenders have better conversations that bring better outcomes for both, we need to be careful not to bring unintended consequences by trying to align SMEs more with personal customers. The reason for my concern is that if you look at the rules and regulations through for example things like the Consumer Credit Act, the consumer credit sourcebook (CONC), and the Mortgage Conduct of Business rules (MCOBs) all of which were put in place for consumers but have inclusion of some SMEs, they have hindered as much as helped in certain circumstances. Everyone, including the FCA, knows in those cases that there are things that need to be changed to take into account the different circumstances that SMEs have.

Therefore, we need to be careful that while aligning what personal customers and SMEs get may seem, on the face of it, to be a good thing it is not always the case, so we need to tread cautiously.

Also, if there were new rules or even guidance that tends to guide what lenders do and again has had negative as well as positive impacts on lending, as well as in some cases adding an extra layer of bureaucratic burden on SMEs which they never see as welcome. I will also consider my own response to the FCA paper and will watch what is submitted by others as both SMEs and lenders have moved forward greatly and in general positively in their relationship since the aftermath of the financial crisis and we have to be careful that we are not trying to fix something that is from a time past or now no longer needed.