

**Banking Taskforce**  
**Appeals Process**  
**Independent External Reviewer**  
**Quarterly Report**  
**October - December 2015**

## **Table of Contents**

<b>1. Introduction and Summary .....</b>	<b>2</b>
<b>2. Comments on Numbers .....</b>	<b>5</b>
<b>3. Other Issues .....</b>	<b>10</b>

## **1. Introduction and Summary**

This will be my last Quarterly Report for this year but will also be my last Quarterly Report of this type as I move to a different form of reporting.

When I went from producing just an Annual Report to producing Quarterly Reports in addition, it was at a time when the Appeals Process was still settling in and there was still much to do and new issues were arising constantly. Now that the Appeals Process is embedded more as 'business as usual' within each bank, I am moving towards integrating it into the fabric of each bank so that, sometime in the future, which will vary for each bank, they can take over the monitoring of the Appeals Process themselves through their own internal compliance systems. While that time is some years away, I think that there is no longer need for a full Report each quarter and so will move to a reporting cycle of an Annual Report, as I have done for the last four years, plus a half yearly Report at the end of September and statistical analysis only at the end of each remaining quarter.

I think the above now reflects the progress that has been made by each bank in dealing with each of the issues that has been reached. I manage this progress with each bank through individual Action Plans, which will now transfer into individual Integration Plans.

Having said that, new issues do still arise and this quarter has been no different. Each issue now is very specific to an individual bank and are to do with process rather than anything else.

The number of appeals is still at a level with which I am happy and balances the reduction I want to get as individual banks move to referring more internally before declining if there is a doubt. My continued drive is to ensure that all parts of each lender, most of which are large and complex organisations with many different product channels, includes a right of Appeal in all declines of any sort they send to Small and Medium sized Enterprises "SMEs".

While the overturn rate has increased slightly this quarter I will not be concerned unless it carries on into the next quarter. My view continues to be that as more banks move to internal referrals before initial decline, then there should be both fewer appeals going forward plus those that are would be less likely to succeed. Another reason for the increase this quarter could be due to us bringing in more credit card increase limit appeals into the overall numbers as the process around declines for them becomes better.

Since writing my last Report the Financial Conduct Authority “FCA” has issued a [Discussion Paper on SME lending](#);<sup>1</sup> I will be responding to that as I have made my concerns about the increasing burden of compliance clear over the last year and hope that this Discussion Paper can help surface some of the issues and begin the process of finding solutions to them.

There has to be more of a balance in the compliance under which lenders have to operate that responds to the understandable need to ensure that they operate properly and safely, making sure that it does not interfere unhelpfully with sensible lending. SMEs are different to consumers in many ways and history shows that where consumer and SME regulation has tried to be implemented through the same regulation or Act it does not always work effectively and indeed has worked against SMEs in some cases.

Linked to the above, since writing my last Quarterly Report I have met with the part of the European Commission that deals with lending to SMEs and was heartened by two things. Firstly, they see the UK now as a country of good practice through the Appeals Process getting banks to explain better and SMEs to understand better why they are turned down for requested lending. Both they and I agree that this has been done positively by lenders as they accepted that doing this helped them lend more and better than they had done previously. Interestingly, this is not the case overall in the EU as some member states still do not see the sense in doing this. Secondly, they agree with my own conclusion on compliance and that we have to be careful not to go too far and hinder rather than help lending. While we both agreed that those who need protecting should be protected, this should not necessarily mean that everyone has to do the same as sometimes what protects the few could inadvertently harm the majority.

The Chancellor’s Budget on 16<sup>th</sup> March announced the portals through which the proposed referrals scheme, which I have highlighted frequently in my Reports over the last year, will operate. I will not repeat the concerns I have raised, many of which HMT have resolved, but would make the point I would always make that referrals and appeals are different and so should be treated as such and no one, including lenders, should see one replacing or being an alternative to the other. Each offers customers a different outcome to the issue they have which are distinct and should be seen as such.

---

<sup>1</sup> [www.fca.org.uk/static/documents/discussion-papers/dp15-07.pdf](http://www.fca.org.uk/static/documents/discussion-papers/dp15-07.pdf)

Finally, I will be following the changes that banks have to make to comply with the new ring fencing rules to see how that affects the Appeals Process.

Professor Russel Griggs OBE  
Independent External Reviewer  
SME Banking Appeals Process

March 2016

## 2. Comments on Numbers

**Chart 1: Appeals Table Years 1-5 to End December 2015**

Appeals - April 2011 to December 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 - Dec 2015	Apr 2011 - Dec 2015 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	3752	2425	15183
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	991	630	4895
Overturn rate (based on Appeals Received - ALL BANKS)	39.5%	39.2%	31.7%	26.4%	26.0%	32.2%
Total Value of Appeals Overturned = £ millions	£10.0	£18.5	£13.1	£10.1	£6.7	£58.4
Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	2147	1285	9746
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	421	246	2549
Overturn rate (based on Appeals Received - Excluding Credit Cards)	32.6%	29.5%	28.3%	19.6%	19.1%	26.2%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£9.7	£17.7	£12.7	£9.3	£6.0	£55.4
Total No. of Cases Reviewed	946	1777	1759	1772	1261	7515
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	47.2%	52.0%	49.5%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	67.0%	76.0%	63.7%

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

As can be seen in both Chart 1 above and Charts 2, 3, and 4 below, SMEs are continuing to appeal in significant numbers and I would expect the total number of appeals I have received since the start of the Process in April 2011 to be close to 16000 by the end of this project year. The value will also reach close to £60 million but as I said in my last Quarterly Report I only count the number of cases that myself and my team have actually seen, so the total number is likely to be significantly higher. The overall overturn rate continues to fall albeit that in the last quarter there was a slight increase which I hope was just a blip but will see as I get the data for this quarter in. However, what is clear is that the main reduction for the steadying of the appeals number is not any drop off in lending or lack of desire by lenders to promote the Appeals Process to their customers. In fact, I now regularly receive copies of promotional material of all kinds that the banks have been using to promote the Appeals Process both to their customers and to their own staff. I am pleased also that I and my team still review over half of all appeals on an individual basis and will bring that 50% target to the fore as well as making sure that the lenders complete the same data for all appeals.

Chart 2: Appeals Table Years 3 + 4 + 5, Q1, Q2 + Q3 Appeals only

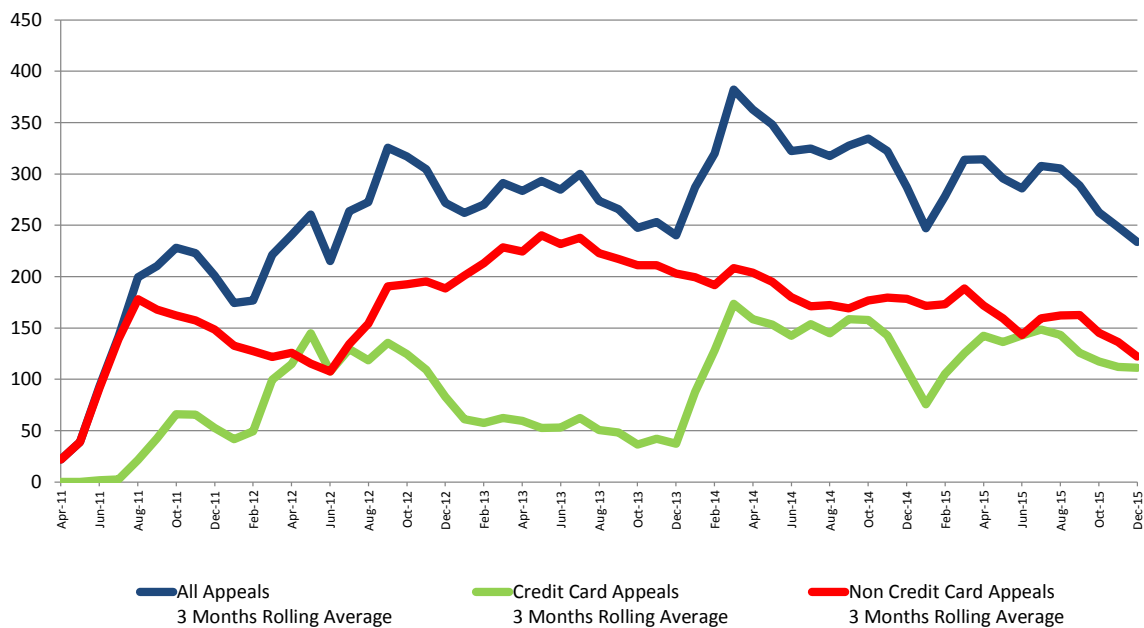
Comparison By Quarter	Q1			Q2			Q3		
	Apr 2013 - Jun 2013	Apr 2014 - Jun 2014	Apr 2015 - Jun 2015	Jul 2013 - Sep 2013	Jul 2014 - Sep 2014	Jul 2015 - Sep 2015	Oct 2013 - Dec 2013	Oct 2014 - Dec 2014	Oct 2015 - Dec 2015
Total No. of Appeals Received (ALL BANKS)	854	967	858	797	983	866	721	861	701
Total No. of Appeals Overturned (ALL BANKS)	310	254	196	273	284	225	210	231	209
Overturn rate (based on Appeals Received - ALL BANKS)	36.3%	26.3%	22.8%	34.3%	28.9%	26.0%	29.1%	26.8%	29.8%
Total Value of Appeals Overturned = £ millions	£2.8	£4.7	£1.5	£4.0	£1.8	£2.1	£3.5	£2.2	£3.1

Total No. of Appeals Received (Excluding Credit Cards)	695	540	430	652	507	488	609	535	367
Total No. of Appeals Overturned (Excluding Credit Cards)	237	127	71	200	86	90	156	109	85
Overturn rate (based on Appeals Received - Excluding Credit Cards)	34.1%	23.5%	16.5%	30.7%	17.0%	18.4%	25.6%	20.4%	23.2%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£2.6	£4.4	£1.3	£3.9	£1.6	£1.8	£3.4	£2.1	£2.9

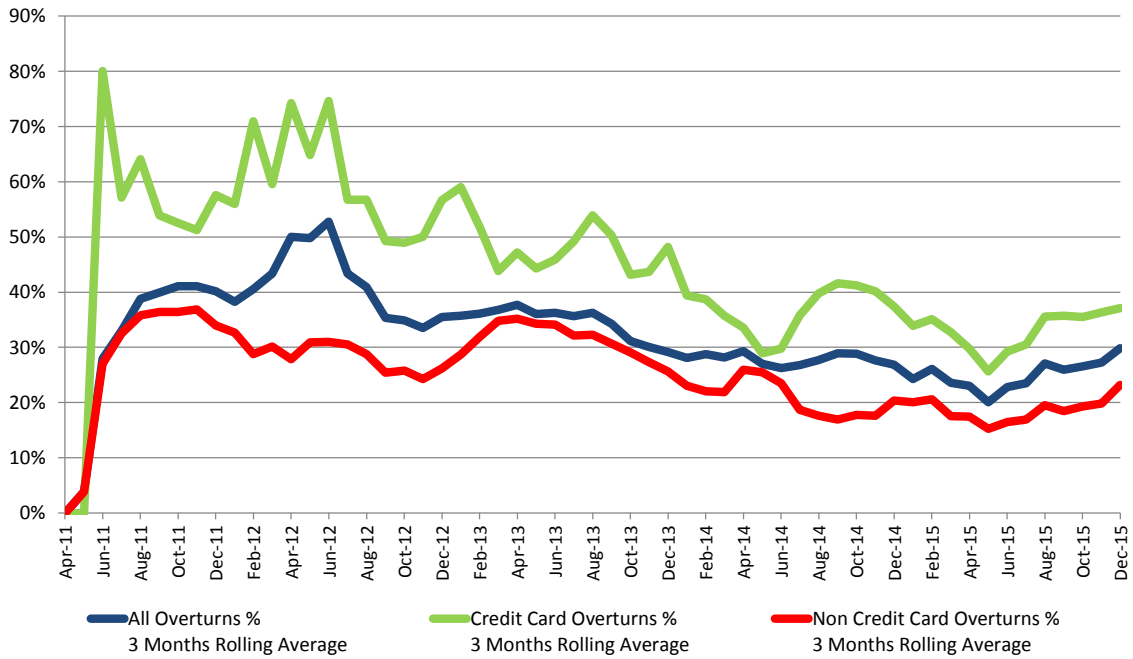
Total No. of Cases Reviewed	434	422	439	439	425	421	456	465	401
Total No. of Cases Reviewed/Total No. of Appeals (as %)	50.8%	43.6%	51.2%	55.1%	43.2%	48.6%	63.2%	54.0%	57.2%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	67.7%	70.1%	78.6%	71.4%	53.5%	74.7%	86.2%	74.5%	75.1%

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

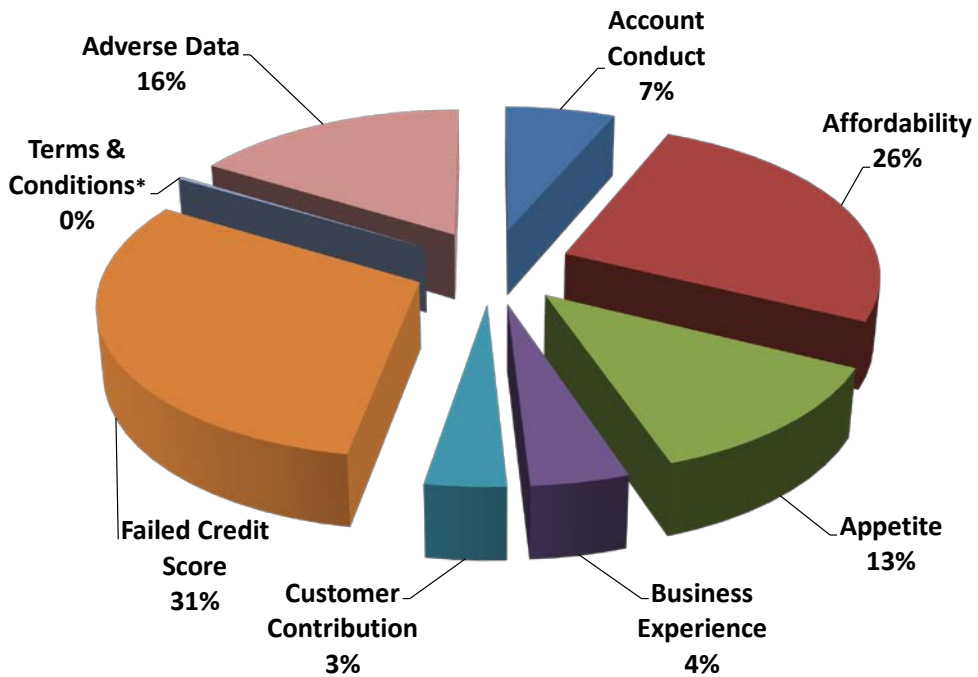
Chart 3: Total Appeals - 3 Month Rolling Average Years 1-5 to End December 2015



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



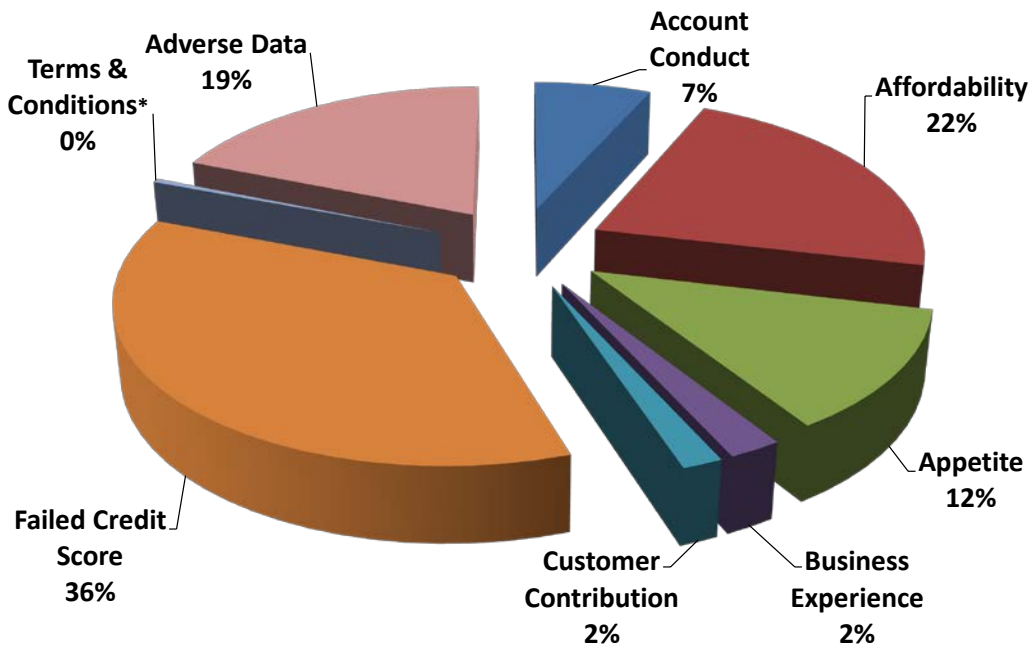
**Chart 5: Decline Reasons all Banks for all Lending: Year 4 & Year 5 to December 2015 only**



\*Terms & Conditions appeals do not involve new money

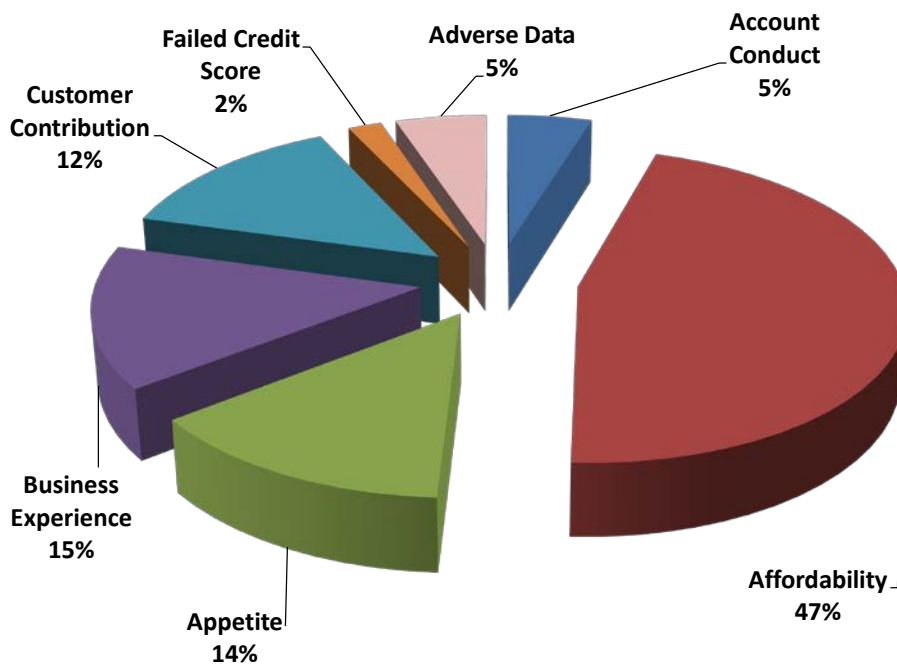


**Chart 6: Decline Reasons all Banks for Lending up to £25K: Year 4 & Year 5 to Dec 2015 only**



\*Terms & Conditions appeals do not involve new money

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



Charts 5, 6, and 7 show little change since the last quarter, so there is no real additional comment to be made than those I made in my last Report. However, in my Annual Report which I intend to publish in late May or June I will go into much more detail on what each means and also the real differences between those borrowing below and above £25,000.

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

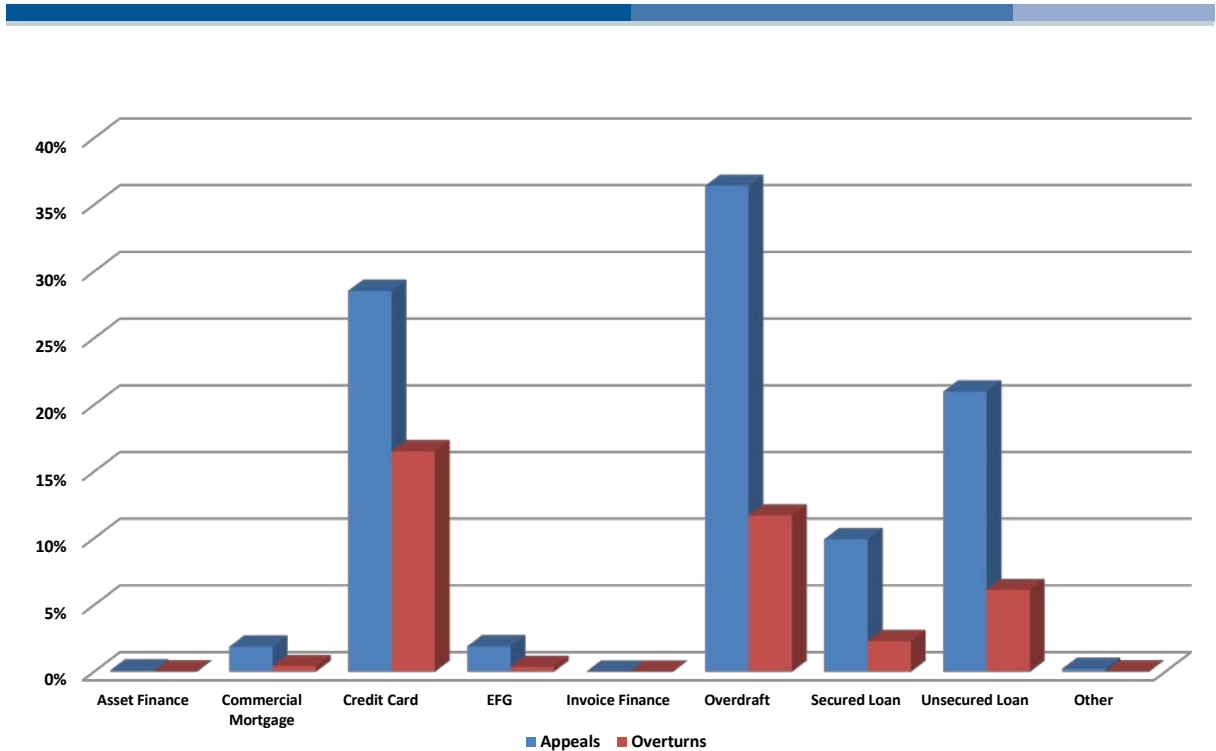


Chart 8 continues to show the diverse range of lending products that SMEs use but also, conversely, how they still stick predominantly to the traditional products of overdraft, loans, and credit cards. In my Annual Report I will expand on why I think the other types of lending that could be used are perhaps not being used as much as they could which may not be in the best interest of some SMEs.

### **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.

As part of the changes in banking regulation the banks need to split where necessary into ring fenced and non-ring fenced banks. This was primarily started to ensure that the investment arms, which are seen to be riskier, were separate to the traditional banking parts to safeguard customers. However, since one of the requirements is that both banks are sustainable and sound in their own right, this may mean that some banks will have to put some of their business customers into the non-ring fenced bank. I am in discussion with each bank to see how this affects the Appeals Process as the delineation has to be real with separate staff, new bank accounts, in the new bank. Not all the banks will do this but the level that most have set for the split should they need to do it is £6.5 million turnover which will mean that all small businesses would remain in the ring fenced banks but those above that definition would move into the other now separated bank, should that be necessary.

I will continue to monitor this and report more fully on ring fencing in my Annual Report but I do have concerns as to how customers above the threshold would view such a change and also how I need to expand the Appeals Process to accommodate this change.