

**Banking Taskforce**  
**Appeals Process**  
**Independent External Reviewer**  
**Annual Report**  
**2016/2017**

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## **1. Executive Summary**

As I go into year 7 of the Appeals Process, it is clear that interest in what banks do when a Small and Medium-sized Enterprise (SME) is declined lending is becoming a more widely discussed topic. In November last year, the mandatory referral process as set out in the Small Business, Enterprise and Employment Act 2015 was finally implemented, which means that the main UK banks now give customers the option to be referred to one of the three finance portals that have been put in place, with a fourth one being in place in November 2017, to deal with those SMEs who are eligible within the scheme, that wish to access alternative lenders when declined borrowing by the main banks. The Financial Conduct Authority (FCA) has also become more interested in declines and it will be interesting to see what if anything they say when they publish their response to last year's discussion paper on SME lending. Also, the Lending Standards Board launched the Standards of Lending Practice specifically for SMEs in July 2017, which will now become part of what most banks do and play a large part for those dedicated to what happens when they are declined.

Also, there is still much publicity around the legacy issues that some of the main banks are facing surrounding the lending to and treatment of SMEs pre-financial crisis, especially those that were already facing financial challenges. While those issues will be dealt with by the banks and the regulators they are not helping us all move on from what happened and the media continues to highlight those issues. However, what the media tend not to do, which is critical, is articulate that the way banks lent to and worked with their customers pre-financial crisis is, in the main, very different to the way both these processes are dealt with today. Therefore, in assessing how both banks and their SME customers are working together now, we should not be using this historical perspective to do so other than to ensure it will never return to that as this would be in nobody's interest. SMEs need faith in their banks and vice versa so we should all be working towards enhancing their interaction with each other, not hindering it by continued and unnecessary focus on the past from the media and others.

Those and other issues around Brexit and the economy have made the writing and publishing of my report much later than it usually is in order to make it as reflective as it can be about SME borrowing in 2017 and importantly, how all parties are working together to make it better.

The Appeals Process itself is progressing on the plan that I set out in the last two Annual Reports with it becoming part of Business as Usual. This means that the banks can themselves, sometime in the next few years, perform most of the tasks that I currently do and demonstrate the positive benefit of understanding why customers are overturned on appeal and reflecting on how they could change processes to try and mitigate it happening again. As those who read my reports will know, my main pleasure in terms of outcomes in overseeing this process since its outset in 2011, is the process changes that all the banks have made in how they deal with customers better. This has resulted in greatly decreasing the number of initial declines that are then overturned.

As at March 2017, there had been almost 19,500 appeals through the process of which over the whole six years, 31.4% had been overturned which has decreased significantly over the years although it has become more stable recently. As I say above, it is the process changes that all the banks have willingly embarked on that have given that reduction. Much of that reduction has come from the banks putting in their own 'refer' processes which allows them to look again at a proposal before declining it, which has meant that many are not declined or are discussed further with the customer before a final conclusion. Why the Appeals rate has stabilised is that I am still pushing all the banks hard to ensure that they include all applications in the Appeals Process which is still bringing in more numbers. Overall though, I can say that I am now only making small changes and additions as most of the major issues have been dealt with. I do highlight one issue in terms of my focus for next year which will help this again.

Having said that, I see process enhancements as the main success of the Appeals Process to date, it has also impacted on the amount of lending to SMEs in real terms. Given that I only have specific detail on those that I and my team actually see or audit, I can only forecast what that means in terms of extra lending. However, if there is a recorded actual extra lending of £67 million on those then I conservatively estimate that well in excess of £100 million has been put back into the economy by the Appeals Process over the last 6 years.

Also, for the first time this year, I have added some extra tables into Section 6 where the numbers are examined to show the changes over the years in certain aspects of the Appeals Process, decline reasons, split by various types, etc.

However, while all to do with the Appeal Process continues to move in a positive direction, I am less certain about the economic climate within which all SMEs operate, and their desire or ability to gain credit from banks or another source. The uncertainty that Brexit and other international issues bring is still affecting SMEs and, from the recent surveys I have seen, I see no reason to change that view.

That banks and indeed other financial entities looking to lend to SMEs have sufficient funds to meet demand is without doubt. The challenge is finding SMEs who want to utilise that funding. I hope that by the time I report next year this uncertainty will have lessened and banks will see lending applications increasing.

It is clear that how SMEs look to raise credit is changing and how banks and other lenders interface with them is changing as well. Later in this report I discuss more fully how new lenders have entered the SME market in the last few years and have made a definite impact which is positive. SMEs now do think beyond banks to where they can source finance for their business. Those range from peer to peer lenders, to finance portals, or the myriad of online providers for vehicle finance, etc. The choice is increasing all the time.

In terms of how banks interface with SMEs, that continues to change and adapt as both banks and SMEs try to find the best way to manage that relationship effectively. That means we all now need to try and understand that while the number of channels (face to face, telephony, online, digital, etc.) may not expand greatly, what goes on in each is changing a lot so we must be careful not to pigeon hole everything that goes on in one channel as being the same. Telephony is a real example of that today where that has traditionally been seen as a call centre answering lots of calls from customers who they do not know, being driven by time call pressures, etc., and while some are still like that the number of what I would rather call 'relationship by telephone' is increasing all the time. This is where the SME customer gets all the same services, time and expertise they would have received from a Relationship Manager, which they would traditionally have met in a branch face to face, by talking to a named person on the phone. It is beneficial to both parties in that the SME can pick the time and place, and for the bank where the Relationship Manager can have in front of them electronically much more than they would ever have had face to face. Therefore, the view that 'call centres' do not give the same relationship or benefits between a SME customer and its bank is becoming less and less true. Some I have seen this year are exemplars of how that task can be performed well and indeed better by telephone than face to face. What we need to do when we talk about specific channels therefore is either redefine them as they develop or split them into different types. This will take time as will developing simple and effective online or digital interactions for SMEs but the good news is from what I see more and more of now is that we are moving forward in a positive direction for both parties.

Finally, I mentioned last year that the EU was looking at how banks were handling lending declines across Europe and I had met with them to discuss what we do in the UK. They have now agreed a new protocol<sup>1</sup> on how lending declines should be handled. The UK, through the work of the Appeals Process and other initiatives, is ahead of the game on this compared to other parts of Europe so has agreed to abide with it.

Professor Russel Griggs OBE  
Independent External Reviewer

December 2017

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<sup>1</sup> <http://www.ebf.eu/wp-content/uploads/2017/06/High-level-principles-on-feedback-given-by-banks-on-declined-SME-credit-applications.pdf>

## **2. Introduction**

Year 6 of the Appeals Process has been a year of much activity across all the existing banks.

As I say every year in the Annual Report,<sup>2</sup> and see no reason not to continue to do so, it is my role as the Independent External Reviewer of the Appeals Process to ensure that the banks both promote and examine appeals in a way that is transparent and fair. In doing that I sit on neither side of the lending fence and try, from the evidence I and my team gather, to create solutions to issues in the lending process which benefit all parties. This can be from any direction and can fall not only on the lenders, but also on customers, those who advise them, and on Government itself.

The structure of this year's Annual Report follows the format of previous reports and focusses first on what economic context this fits into and then looks at the priorities set out in the last Report and what progress has been made. It then looks at the numbers and changes we have made in our own processes before focussing on what we will do in the year to come and, where appropriate, beyond that.

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<sup>2</sup> <http://www.betterbusinessfinance.co.uk/independent-reports>

### 3. Current Economic and Financial Context

This section of my report could be short or very long given the complex nature of both the UK and world economy at present. I will aim for brevity in this section as much of what is effecting the economy at the moment has nothing to do with business itself but the environment that they work in and mainly of a political nature.

As I have said in these reports in previous years, uncertainty is the thing that worries business most and in one of my earlier reports I quoted the reality of that by a comment from a small business who said:

*'We can cope with anything even if we do not like it or it impacts negatively on us because we know it will happen so can manage. It is what we do not know, where there are many unknown variables, or where there are mixed or unclear messages that causes business most concern.'*

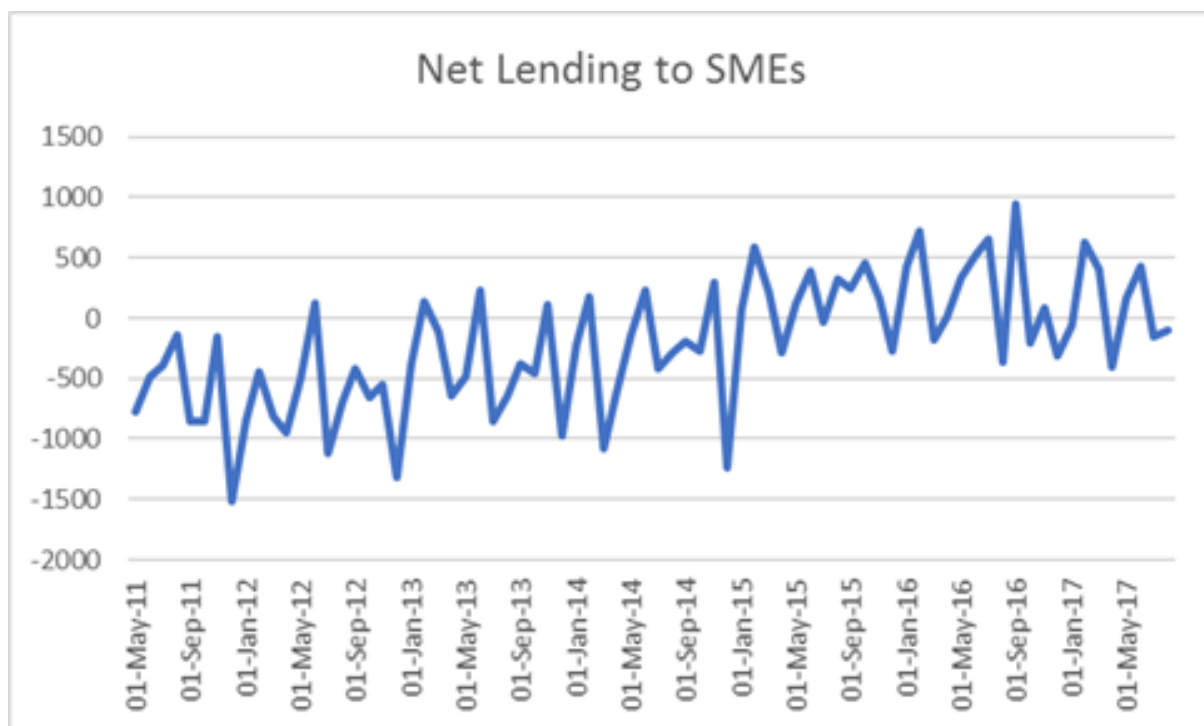
Therefore, in that key area my views on the economy today vary little from those I expressed back in 2011 when I wrote the first of these reports. For varying reasons, the UK economy has had that uncertain feeling all through the last 6 years, all be it for differing reasons during that period.

Currently, the uncertainty reflects where we are at the moment mainly with Brexit where it is unlikely that many things key to business stability or growth will be known for some time and even then, the impact of those even when known may not be clear for some time after that.

SMEs, who are my main focus in this, probably feel that uncertainty more than most so, while all are driving ahead with their businesses and doing the best they can, you can detect an extra caution and thought going into future plans especially those that rely on investment and, in specific sectors, the availability of key labour as well.

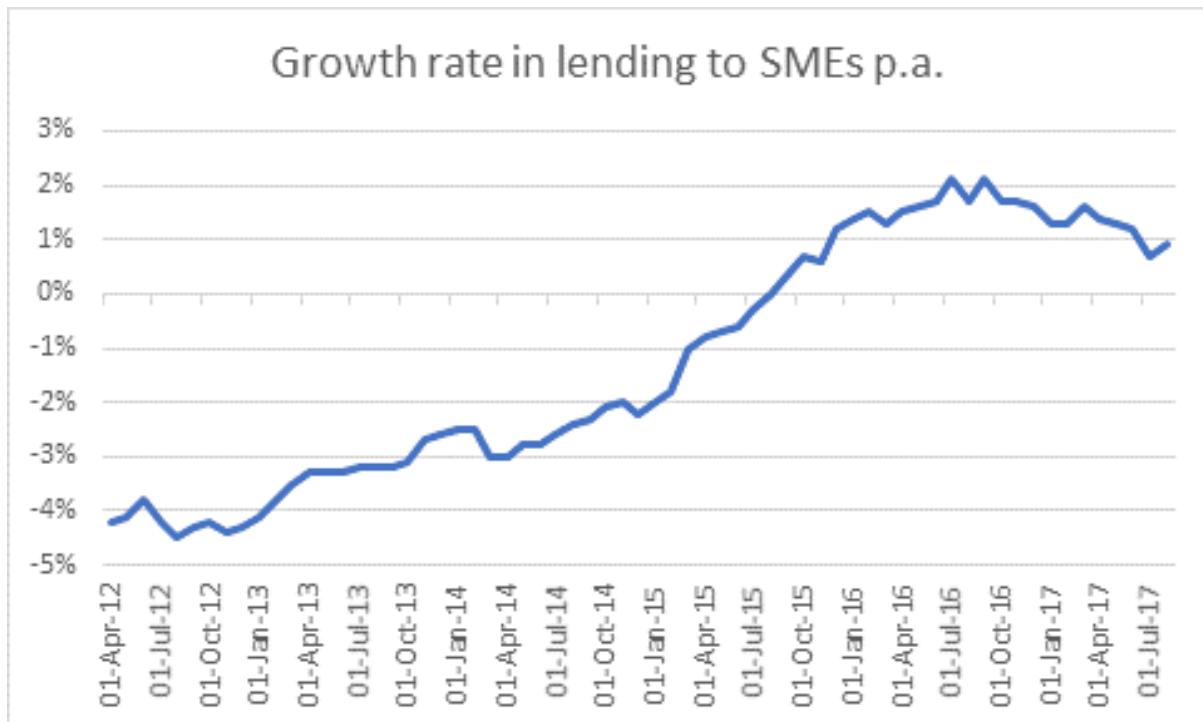
In terms of finance it is clear that, over the six years that I have been overseeing the Appeals Process, the number and type of products and entities offering funding to SMEs have increased greatly. When I started writing these reports in 2011, there was not much beyond the traditional banks for SMEs in terms of where to go for credit. Today the situation is totally different. The rise of, for example, the peer to peer lending market plus others, along with on-line portals offering access to a plethora of secondary lenders, has expanded the availability. SMEs are using all these options, albeit that what they will pay for their lending is above what would be normally available from a traditional bank. In 2011, new entrants like Funding Circle were only beginning to become established, now lending and borrowing through Funding Circle has grown approximately 80%-100% year-on-year. Cumulatively since 2011, investors have lent £2.5 billion to 34k businesses through the UK platform to date. From research commissioned by Funding Circle from the Centre of Economic and Business Research, last year found that 77% of businesses initially shopped around for finance. While I do not have comparable data for previous years, it shows that SMEs are now looking further than banks for funding.

Since the referendum last year, there appears to be some differences in the numbers on net lending as from data taken from Bank of England there appears to have been a significant decline in net lending by the banks '[Bankstats \(Monetary & Financial Statistics\)](http://www.bankofengland.co.uk/statistics/pages/bankstats/current/default.aspx)<sup>3</sup>'. I have not noticed the same fall off in either declines, appeals or overturns and the banks appear to have funds to lend to SMEs. Also, from other data since the referendum, net lending on loans and overdrafts which tend to be the products that most SMEs use has increased by £1.7 billion being the difference between the gross figure of £67.3 billion of loans and overdrafts lent to SMEs since the referendum and repayments of the same which totalled £65.8 billion. That net lending figure has been positive for 9 quarters albeit that it may have slowed recently. The two charts below show those trends in more detail.



<sup>3</sup> <http://www.bankofengland.co.uk/statistics/pages/bankstats/current/default.aspx>





80% SMEs<sup>4</sup> are getting the lending they are requesting and there continue to be the 'permanent non borrowers'.

My own view is that SMEs with good projects or proposals are getting the funding they require from whatever source they go to but there are signs of some great caution since the referendum in both SMEs and banks as the uncertainty continues perhaps longer than both sides of the lending equation would have wished.

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<sup>4</sup> [http://bdrc-continental.com/wp-content/uploads/2017/09/BDRC\\_SME\\_Finance\\_Monitor\\_Q2\\_2017.pdf](http://bdrc-continental.com/wp-content/uploads/2017/09/BDRC_SME_Finance_Monitor_Q2_2017.pdf)

#### 4. Priorities for Year 6 Past

Last year, as I do every year, I set out what my own priorities were for the coming year to ensure that there is a coherent flow to what the Appeals Process does. This is all centred on making sure that the conversation between lenders and SME customers continues to improve so both parties benefit.

1. *Year 6 will be mainly about getting good Integration Plans with each bank by the end of the year that pave a clear route and timescale to where they need to get to and what they need to do to satisfy me that they are in a position to move to put in place systems and processes to audit and grow themselves.*

I have Integration Plans in place with each bank and each knows the targets they must achieve and issues they must address before I will look at them taking on the task in total under Business as Usual. I have not changed my view since last year that, while some are more advanced than others, it is unlikely that all would be doing the process themselves until 2019.

2. *I will also continue to follow issues around compliance and regulation which I think will not act to the benefit of the relationship we are all trying to put in place between SMEs and those that lend to them and particularly I will discuss with the CMA their specific recommendations in this area.*

Other than the Mandatory Referral Process which I discuss elsewhere in this report, I have not seen any further compliance issues that cause me concern. I understand that the Financial Conduct Authority is also looking at issues around SME lending, so it will be interesting to see what they recommend.

3. *As all the banks put more into telephony which, undoubtedly, they will over the coming year as well as develop new channels especially on the internet and through mobile devices, so I will make sure they do so to accommodate the Appeals Process and also the better conversations we are all looking to have.*

I have spent significant time this year looking at the above and there are several issues which I will continue to watch.

There is no doubt that when telephony is done well, as it is in more and more banks now, it does not detract from the customer experience and indeed can add to it as the customer may be more able to control the timing and content of the call than they may be able to do for other channels. Therefore, it is not telephony per se that is the issue but allowing those who do that task within the bank the time they need to do each call correctly. What I know, from the years now that I have been doing this, is that each customer conversation of any sort is different in terms of how it is done. That is because there are two individual human beings having that conversation, who do so in their own way, which will have differences because of who they are. I understand that banks wish to look

at how telephony can allow them to deal with customers more efficiently but that should not be at the expense of allowing the call to be completed properly so that both parties achieve the outcome they wish and understand all that is communicated to them. Therefore, I am not sure that setting call time targets or number of calls per hour aligns with this; so, I am encouraging each bank to look at how they can get the efficiencies they want without it impacting on the 'good conversations' we all want.

Also, I am pleased to see that some banks are looking at how best to structure and manage calls and engagement they do through telephony and are doing some good research to see how best they can do that to give both parties the outcome they desire. Telephone conversations can become very mechanical sometimes if they are not structured properly, so would encourage each bank to continue to research how best to make them.

As I set out in the Executive Summary to this year's report, some banks are now moving their telephony services to SMEs to a different level and they are in simple terms Relationship Management by telephone giving the SMEs all the benefits they would get from a face to face discussion but in an environment that is better for both parties. This has been built a lot from the research some banks have done, mentioned in the paragraph above, and has only started to work in totality this year. I hope others will look at their telephony services as the only thing that is certain in the way that banks deal with SME customer is that more will move to a telephonic or online relationship which is as much at the behest of the SME customer as it is the bank.

In terms of online banking and the desire from customers to be able to do more applications etc. online, banks are developing more activities that can be done through this channel. My view continues to be that this is fine and extends the way SMEs can access finance so long as the bank puts into that channel the same filters and processes that allow access only to customers who can or should be using them. I understand completely why a bank cannot allow every customer to access this channel in the way they would like but that needs to be managed so the customer understands why.

## **5. Auditing Practices in Year 7 and Beyond**

The key challenge as I work towards moving this process into the banks as Business as Usual for each is to ensure that their own auditing regime is as robust as my own and that they continue to learn from what those audits reveal.

Therefore, one of my key tests for each bank as we move towards them doing this themselves is to examine carefully and critically 'who will be me' when I withdraw from that process. Those discussions are progressing well but are still not finalised for any of the banks. I need to ensure that their own internal auditing is not just an inspection or a test to see that they are doing what they should be but also looking at any issues that arise from the process and engagement with the customer to see how they could be improved as a result.

Also, the Lending Standards Board will be reviewing the Appeals Process as part of their work on the new SME Standards of Lending Practice so I will be liaising with them as each bank moves to Business as Usual and so ensure they understand where each bank is in the process.

Collection of data is also a key factor going forward. My team and I have carried out our own auditing in a way that we review sufficient number of cases to give us a meaningful data set to carry out the analysis we do in Section 6 of this report. Those numbers have remained around 50% of all appeal cases that have been reported and near to 100% for all overturns where we focus our attention.

To keep consistency across all banks we have set them the target of collecting the data we do on 100% of appeals which will then mean that, post my own involvement as the Independent External Reviewer, the banks will be providing UK Finance with the data that will allow the information that I publish each year in Section 6 of the report and in the Annexes to continue to be used and published by the industry and Government as one of the key data sets recording what happens to customers when they are declined and why they are declined in the first place.

## 6. Key Numbers for Year 6

In looking at the series of tables below I think this year it is worth looking and highlighting the progress, changes, and difference between where not just the Appeals Process but also the banks are now, compared to when we set out on this process in 2011. Below each table I will in the main compare this last year with years 1 and 2 of the Appeals Process. I am using both the initial years as year one was a settling in period for many banks so it was not real until year 2 that the data is stable enough for real comparisons to be made.

**Chart 1a: Appeals Table Years 1-6 (April 2011 – March 2017)**

Appeals - April 2011 to March 2017	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 - Mar 2016	Year Six Apr 2016 - Mar 2017	Apr 2011 - Mar 2017 Total
Total No. of Appeals Received (ALL BANKS)	2177	3311	3518	3752	3229	3426	19413
Total No. of Appeals Overturned (ALL BANKS)	860	1298	1116	991	844	983	6092
Overturn rate (based on Appeals Received - ALL BANKS)	39.5%	39.2%	31.7%	26.4%	26.1%	28.7%	31.4%
Total Value of Appeals Overturned = £ millions	£10.0	£18.5	£13.1	£10.1	£8.3	£6.8	£66.9

Total No. of Appeals Received (Excluding Credit Cards)	1587	2146	2581	2147	1758	1818	12037
Total No. of Appeals Overturned (Excluding Credit Cards)	518	634	730	421	336	352	2991
Overturn rate (based on Appeals Received - Excluding Credit Cards)	32.6%	29.5%	28.3%	19.6%	19.1%	19.4%	24.8%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£9.7	£17.7	£12.7	£9.3	£7.4	£5.4	£62.2

Total No. of Appeals Received (Credit Cards only)	590	1165	937	1605	1471	1608	7376
Total No. of Appeals Overturned (Credit Cards only)	342	664	386	570	508	631	3101
Overturn rate (based on Appeals Received - Credit Cards only)	58.0%	57.0%	41.2%	35.5%	34.5%	39.2%	42.0%
Total Value of Appeals Overturned (Credit Cards only) - £ millions	£0.3	£0.8	£0.5	£0.7	£0.9	£1.4	£4.6

Total No. of Cases Reviewed	946	1777	1759	1772	1671	1611	9536
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.5%	53.7%	50.0%	47.2%	51.7%	47.0%	49.1%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	49.5%	62.9%	65.7%	67.0%	76.2%	67.1%	64.7%

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

From the table above it is clear that in all categories, with the exception of credit cards, appeal numbers have been stable for the last couple of years and I would expect that to continue. Credit card appeal numbers have increased but that is due primarily to the process picking up more credit limit increase appeals as processes have been changed to ensure everyone gets an appeal. I do not expect them to continue to rise as what this increase has highlighted to the main credit card providers is that there are process changes they can make to better deal with many of the issues causing both decline and overturn. This means in 2017/18, I hope to see a decrease in the number of both declines and appeals in this area.

That appeal numbers have not increased I see as a good thing as I continue to work with each individual bank to improve processes and encourage more internal refers before a customer is formally declined which has reduced the number of both declines and appeals significantly. However, that does not mean that I do not still come across pockets where new processes or changes in process capture more customers that may want to appeal. One area I am focussing on now and will continue to do so throughout 2017/18 is, what I refer to as, the 'pending trays' that most Relationship Managers at banks will have. These are the discussions that they are having with SME Customers which as an "application" have not reached a conclusion in terms of whether it will be processed as a proper application. That does not mean in my terms that some are not already applications in the agreed definition we have but, until they are concluded, nothing officially will be done by the bank. Most of these tend to be cases where the bank is waiting for the SME Customer to provide more information and sometimes it never comes and the banks are not always as good as they should be at closing these off. While I understand that banks will not want to put a customer off by being too aggressive in looking for things, I do believe that there must be a process in each bank that closes each of these down after an agreed amount of time and, where it is an application in the sense that we have all agreed, then a decline letter which includes the appeals language is either given or sent to the customer.

In terms of overturn rates, while overall it has increased this year after several years of decline, I am not concerned as, if credit cards are excluded, the rate is stable and that is because the rate of improvement that can be made will reduce as time goes on. In terms of credit cards, the rate of overturn increase relates almost entirely to credit limit increase overturns and as I state the main bank in this sector is making changes that should reduce both declines and appeals.

**Chart 1b: Appeals & Overturns Table Years 1-6 (April 2011 – March 2017)**

<b>Appeals - April 2011 to March 2017</b>	<b>Year One Apr 2011 - Mar 2012</b>	<b>Year Two Apr 2012 - Mar 2013</b>	<b>Year Three Apr 2013 - Mar 2014</b>	<b>Year Four Apr 2014 - Mar 2015</b>	<b>Year Five Apr 2015 - Mar 2016</b>	<b>Year Six Apr 2016 - Mar 2017</b>	<b>Apr 2011 - Mar 2017 Total</b>
<b>No. of Appeals Reported by Banks</b>	2177	3311	3518	3752	3229	3426	19413
<b>No. of Appeals for which Review Sheets Received (Data Captured)</b>	946	1777	1759	1772	1671	1611	9536
<b>Appeals Reported by Banks/Review Sheets Received (Data Captured)</b>	43.5%	53.7%	50.0%	47.2%	51.7%	47.0%	49.1%
<b>No. of Appeal Case Files Reviewed (Audited)</b>	946	1028	972	1103	1142	1012	6203
<b>Review Sheets Received (Data Captured)/(Audited)</b>	100.0%	57.9%	55.3%	62.2%	68.3%	62.8%	65.0%
<b>No. of Appeal Overturns Reported by Banks</b>	860	1298	1116	991	844	983	6092
<b>No. of Appeal Overturns for which Review Sheets Received (Data Captured)</b>	426	816	733	664	643	660	3942
<b>No of Appeal Overturns Reported/Review Sheets Received (Data Captured)</b>	49.5%	62.9%	65.7%	67.0%	76.2%	67.1%	64.7%
<b>No. of Appeal Overturn Case Files Reviewed (Audited)</b>	426	646	611	602	561	451	3297
<b>No of Appeal Overturns Review Sheets Received (Data Captured)/(Audited)</b>	100.0%	79.2%	83.4%	90.7%	87.2%	68.3%	83.6%

As is stated in the Audit Section of this report, I am still satisfied that we are seeing enough cases to make the data set we use credible and robust. As we move to Business as Usual this will be made even more sustainable and robust as 100% of all the cases will have full data sheets provided on them.

**Chart 2: Appeals Table Years 4 + 5 + 6 by Quarter (April 2014 – March 2017)**

Comparison By Quarter	Q1			Q2			Q3			Q4		
	Apr 2014 - Jun 2014	Apr 2015 - Jun 2015	Apr 2016 - Jun 2016	Jul 2014 - Sep 2014	Jul 2015 - Sep 2015	Jul 2016 - Sep 2016	Oct 2014 - Dec 2014	Oct 2015 - Dec 2015	Oct 2016 - Dec 2016	Jan 2015 - Mar 2015	Jan 2016 - Mar 2016	Jan 2017 - Mar 2017
Total No. of Appeals Received (ALL BANKS)	967	858	803	983	866	800	861	701	818	941	804	1005
Total No. of Appeals Overturned (ALL BANKS)	254	196	226	284	225	221	231	209	247	222	214	289
Overturn rate (based on Appeals Received - ALL BANKS)	26.3%	22.8%	28.1%	28.9%	26.0%	27.6%	26.8%	29.8%	30.2%	23.6%	26.6%	28.8%
Total Value of Appeals Overturned = £ millions	£4.7	£1.5	£2.3	£1.8	£2.1	£1.0	£2.2	£2.9	£2.5	£1.4	£1.8	£1.1

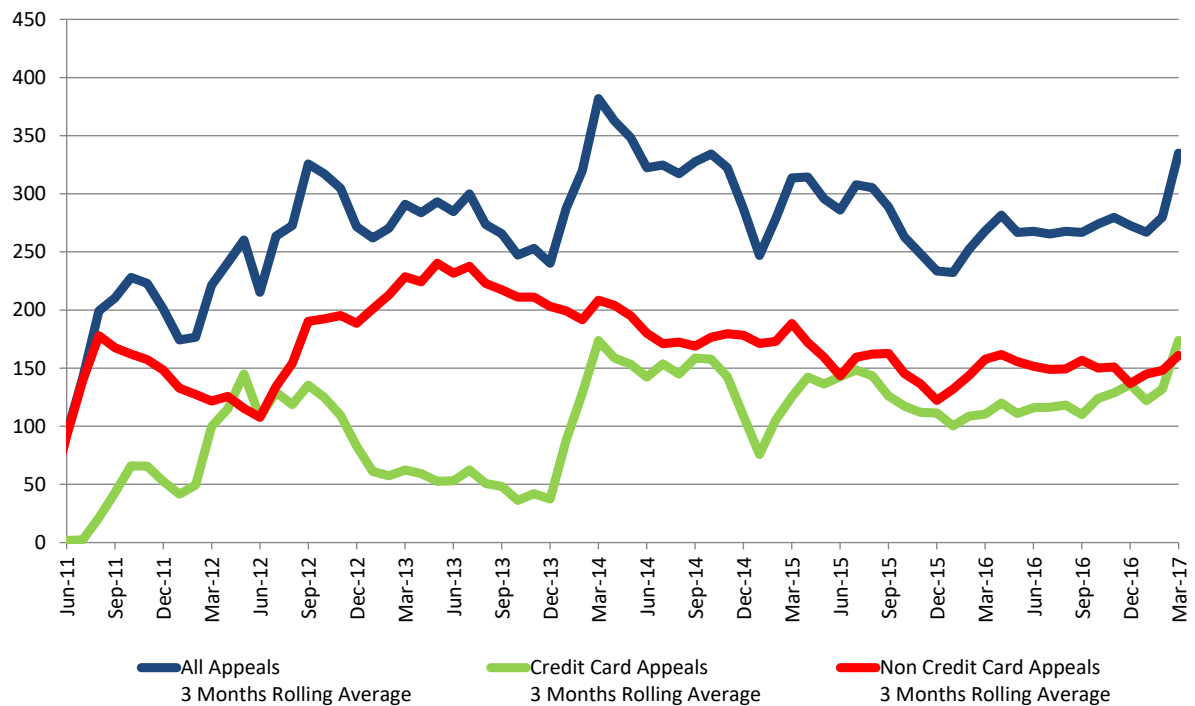
Total No. of Appeals Received (Excluding Credit Cards)	540	430	455	507	488	470	535	367	410	565	473	483
Total No. of Appeals Overturned (Excluding Credit Cards)	127	71	83	86	90	88	109	85	78	99	90	103
Overturn rate (based on Appeals Received - Excluding Credit Cards)	23.5%	16.5%	18.2%	17.0%	18.4%	18.7%	20.4%	23.2%	19.0%	17.5%	19.0%	21.3%
Total Value of Appeals Overturned (Excl. Credit Cards) - £ millions	£4.4	£1.3	£1.9	£1.6	£1.8	£0.6	£2.1	£2.7	£2.1	£1.2	£1.6	£0.8

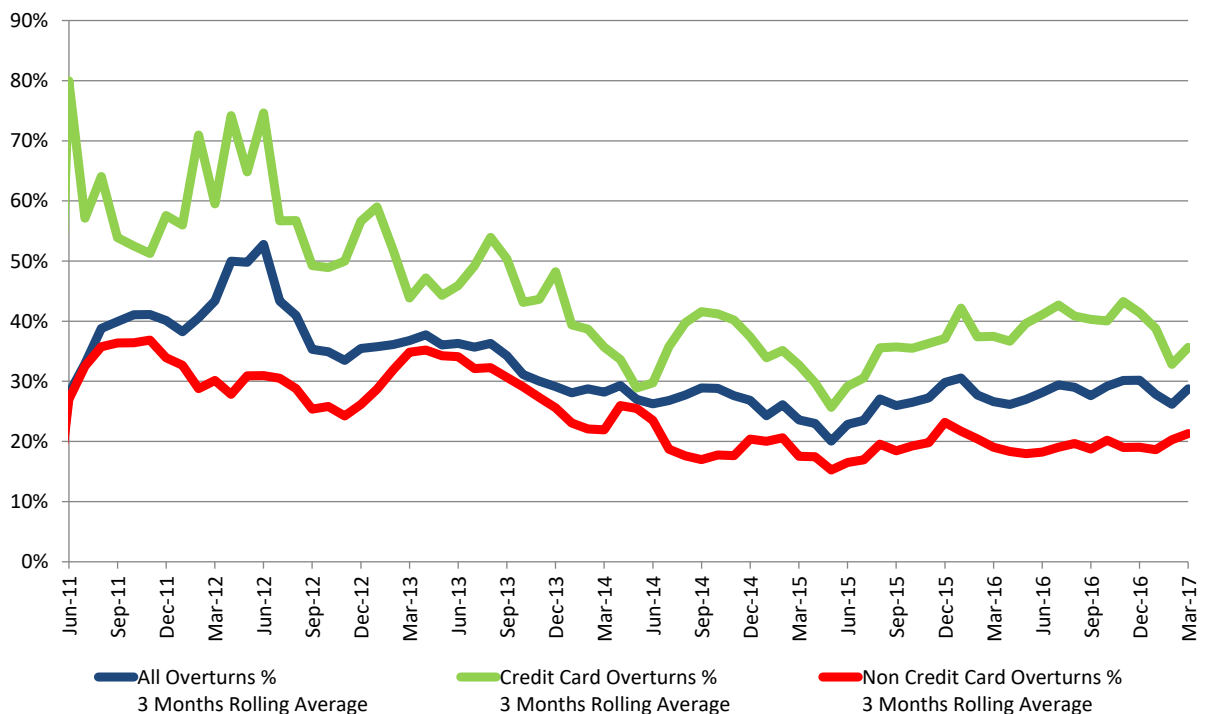
Total No. of Cases Reviewed	422	439	418	425	421	392	465	401	401	460	410	400
Total No. of Cases Reviewed/Total No. of Appeals (as %)	43.6%	51.2%	52.1%	43.2%	48.6%	49.0%	54.0%	57.2%	49.0%	48.9%	51.0%	39.8%
Total No. of Overturn Cases Reviewed/Total No. of Overturn Cases (as %)	70.1%	78.6%	76.1%	53.5%	74.7%	76.0%	74.5%	74.6%	62.8%	73.0%	77.1%	57.1%

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

**Chart 3: Total Appeals – 3 Months Rolling Average**

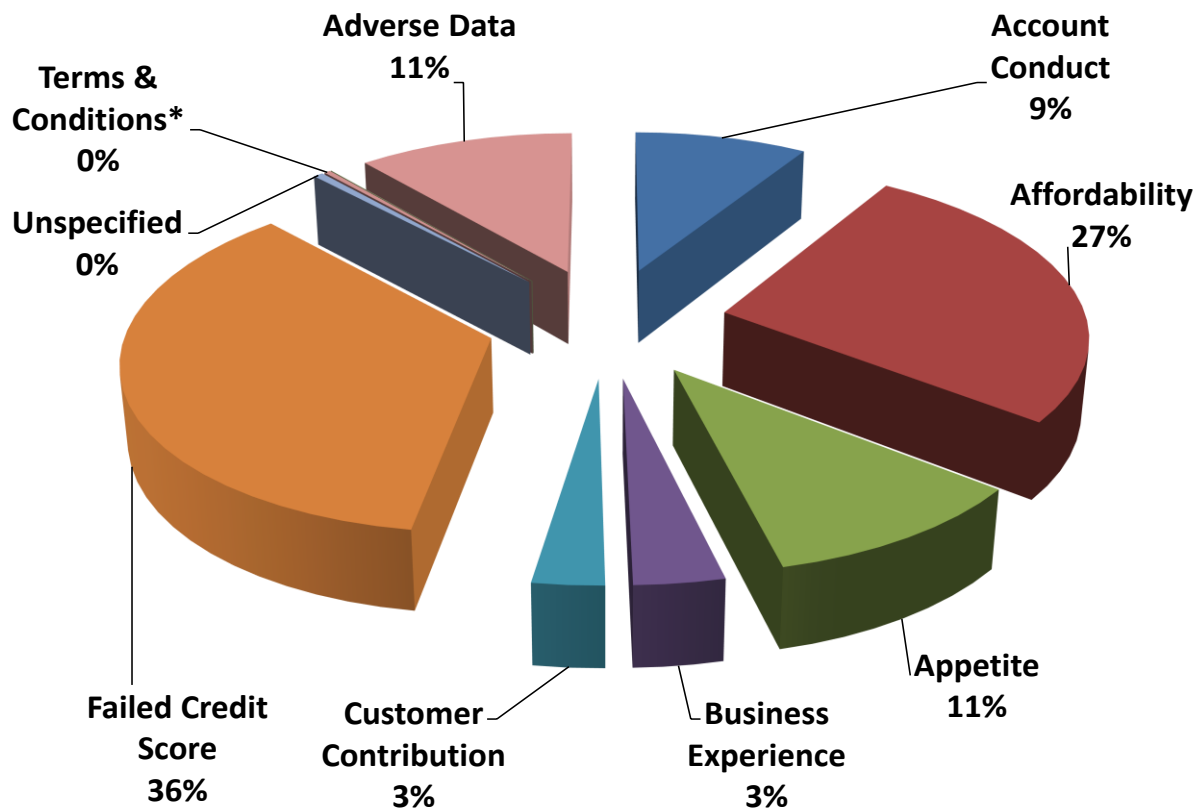


**Chart 4: Overturned % - 3 Months Rolling Average**

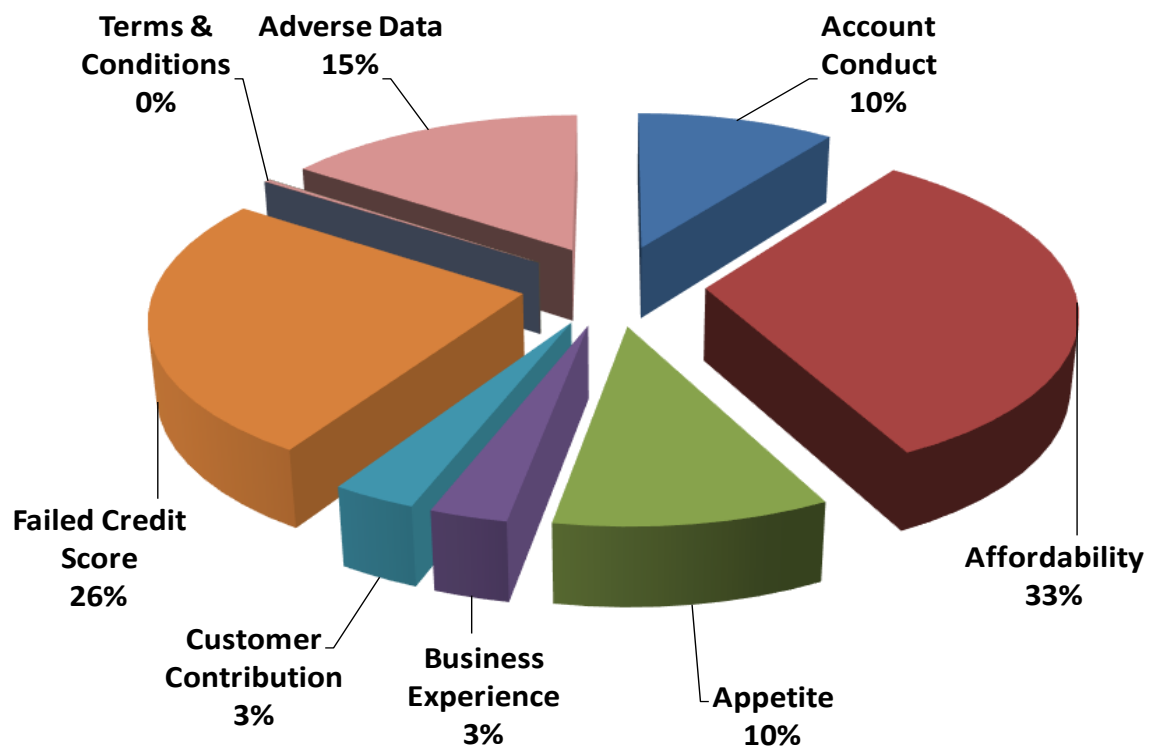




**Chart 5a: Decline Reasons for all Lending: Years 1 - 6 (April 2011 – March 2017)**



**Chart 5b: Decline Reasons for all Lending: Year 6 only (April 2016– March 2017)**

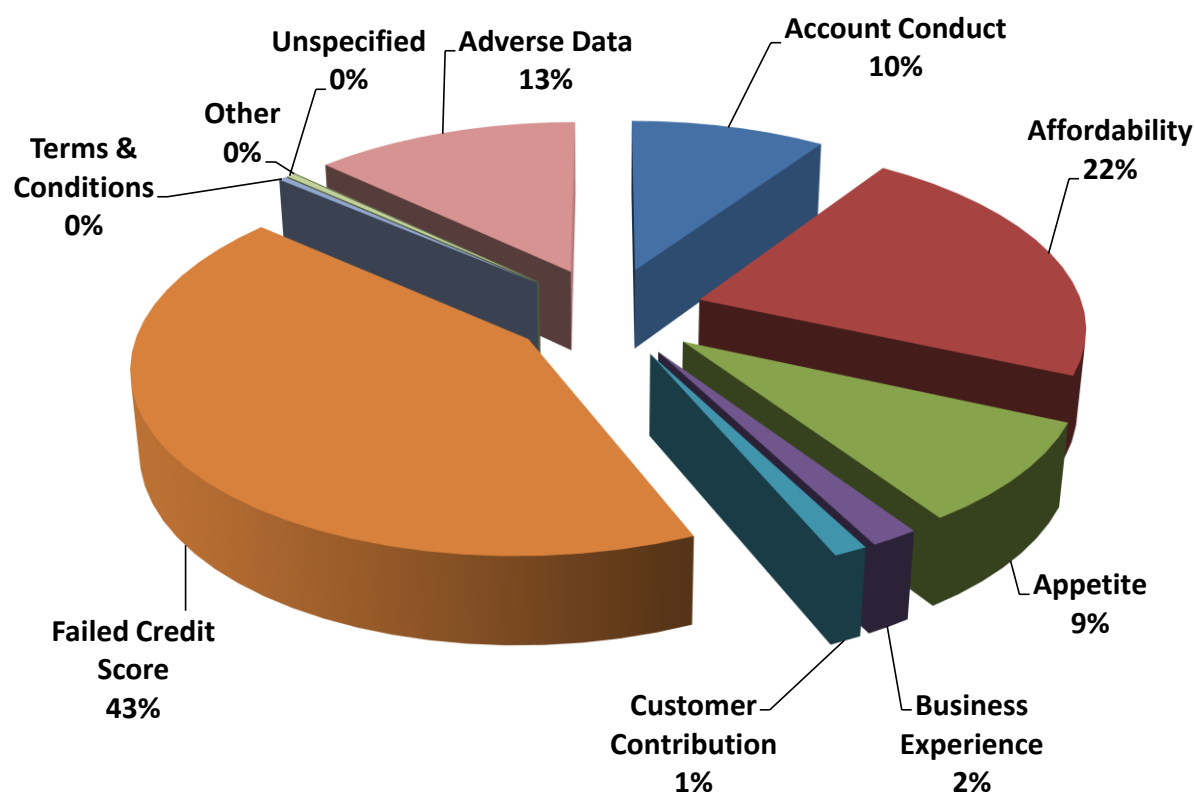


\*Terms & Conditions appeals do not involve new money

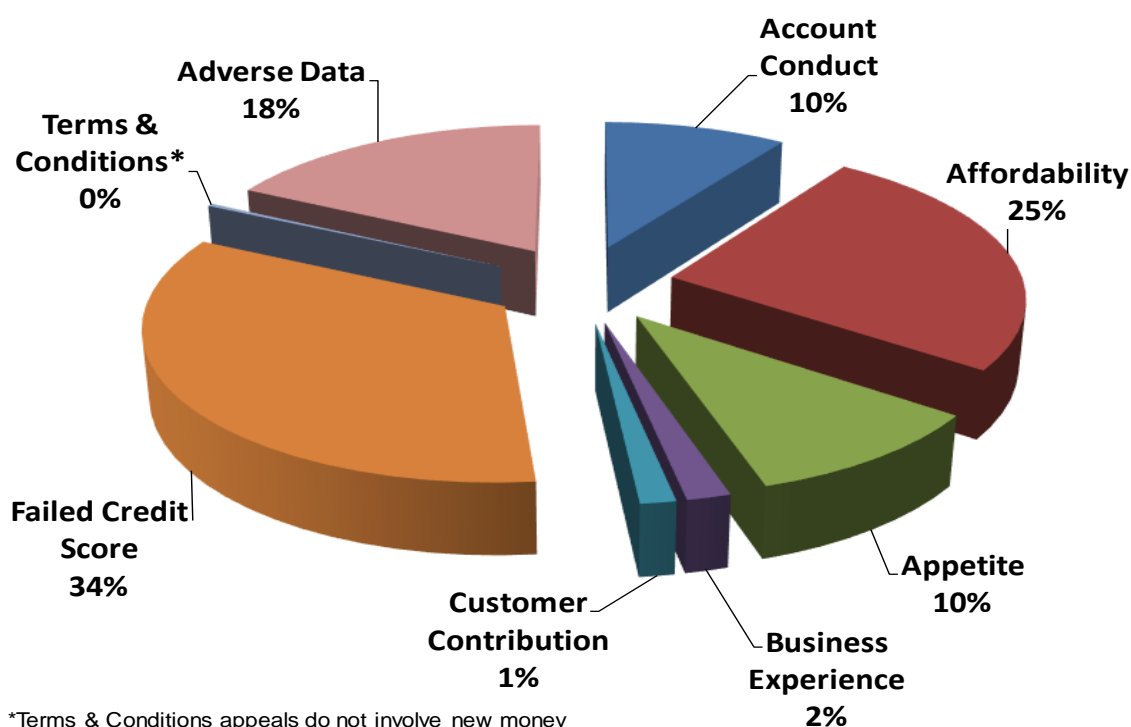
<b>Decline Reasons for All Lending</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 6</b>
Failed Credit Score/ Adverse Data	39%	51%	41%
Affordability	26%	25%	32%
Appetite	9%	11%	10%
Account Conduct	16%	9%	10%

While I have amalgamated Failed Credit Score and Adverse Data in the summary table above, that is only because it was not until the Appeals Process was well established that the data could be split as the size and content of the data base around the Appeals Process grew. I am pleased though that in recent years while Failed Credit Score continues to remain the main reason for declining SME lending it is reducing and Affordability is now close behind it. This, I believe, shows the better conversations and reasons that banks share with their SME customers, as well as the fact that many banks are now looking behind the failed credit score more to see what the specific issue is and whether they can deal with it.

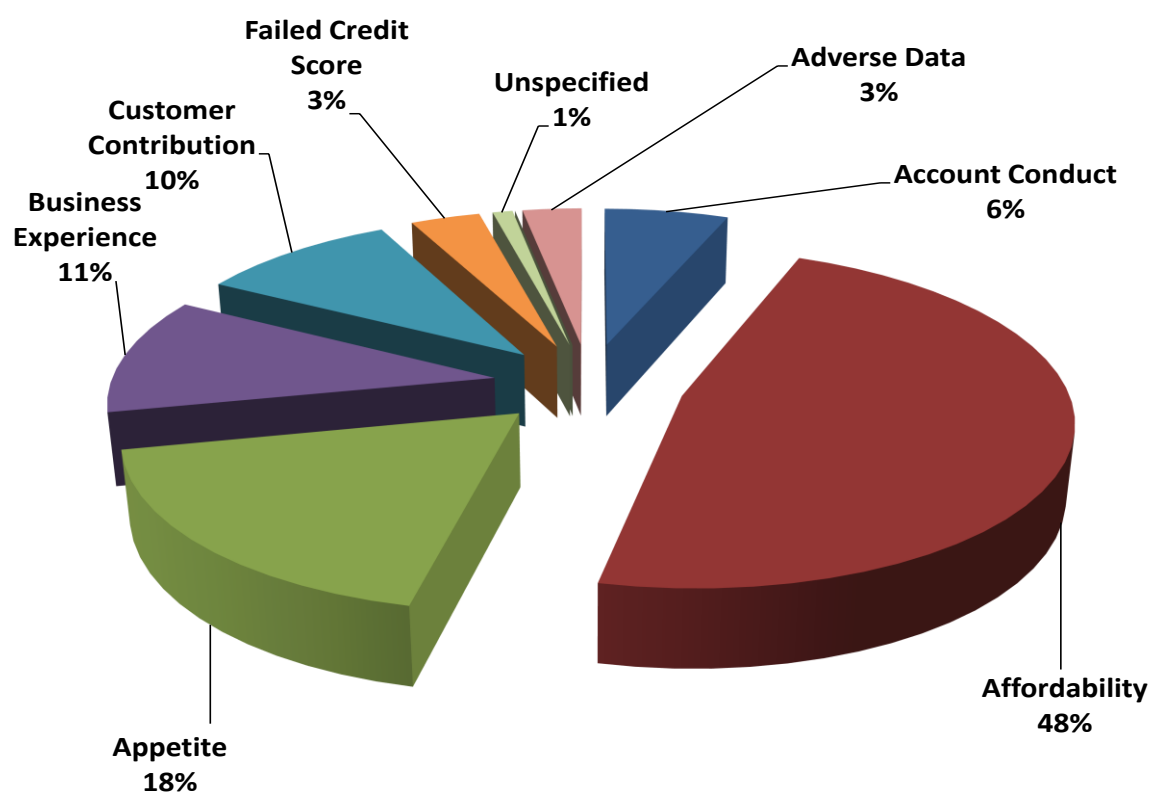
**Chart 6a: Decline Reasons for Lending up to £25K: Years 1 - 6 (April 2011 – March 2017)**



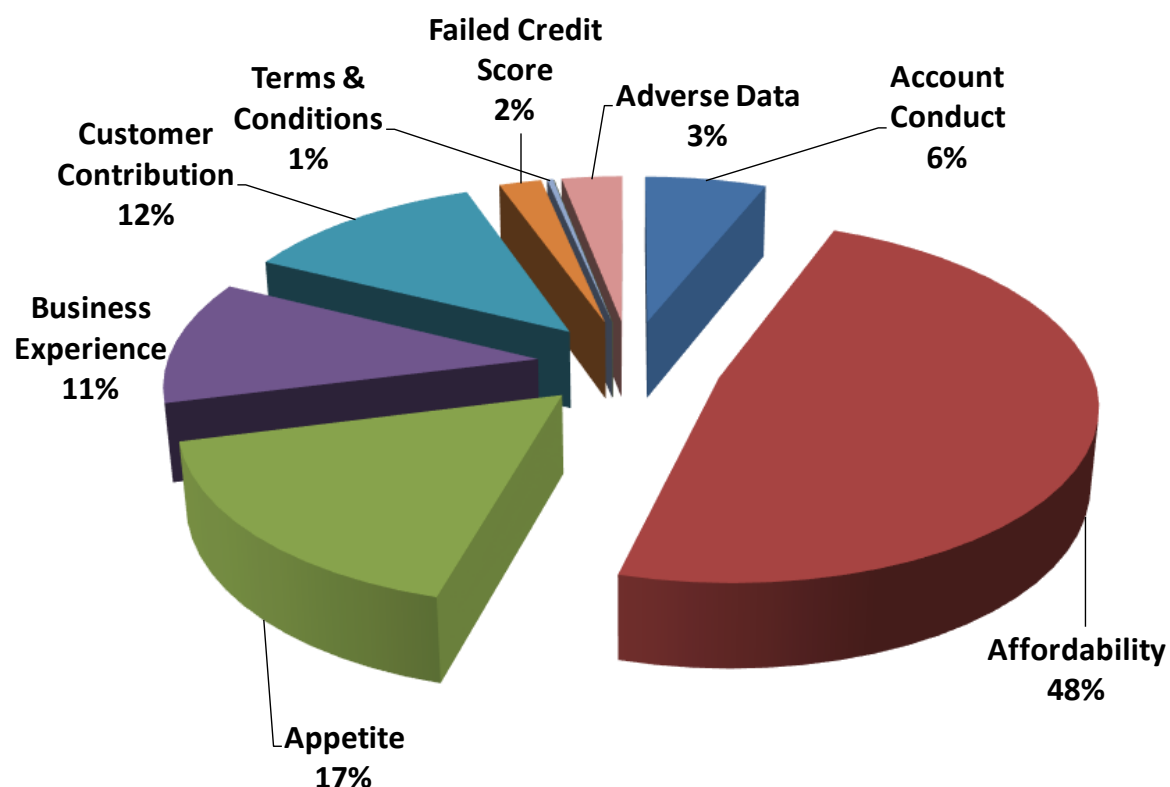
**Chart 6b: Decline Reasons all Banks for Lending up to £25K: Year 6 only (April 2016 – March 2017)**



**Chart 7a: Decline Reasons for Lending above £25K: Years 1 - 6 (April 2011 – March 2017)**



**Chart 7b: Decline Reasons all Banks for Lending above £25K: Year 6 only (April 2016– March 2017)**

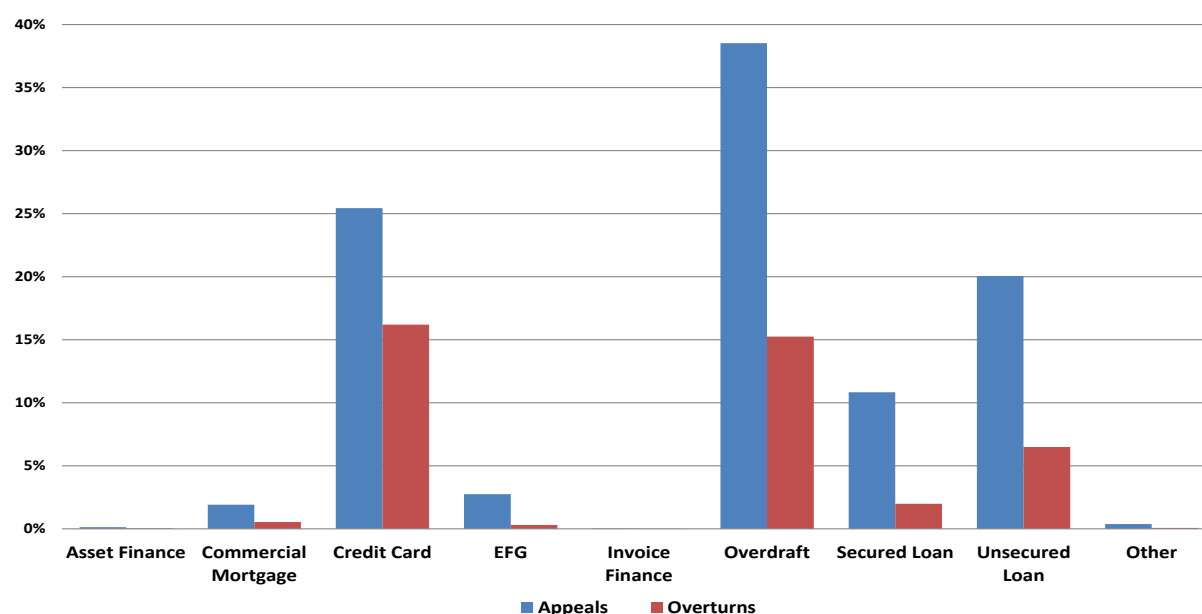


\*Terms & Conditions appeals do not involve new money

Main Decline Reasons (Year 6)	Under £25k	Over £25k
Failed Credit Score	30%	2%
Affordability	29%	48%
Adverse Data	18%	3%
Account Conduct	11%	6%
Appetite	9%	17%
Business Experience	1%	11%
Customer Contribution	2%	12%

The reason for the big difference in decline reasons between over and under £25k lending is due to under £25k lending being mainly unsecured and dealt with through a scorecard based system, whereas over £25K lending can require security plus tends to be with larger SMEs who are more sophisticated and also have their own RMs or direct contact with the bank and the ability to repay the debt becomes the prime driver for the bank. It is interesting how customer contribution also plays much more of a factor in over £25k lending which highlights the bank's desire in many of these cases to share the risk with customer.

**Chart 8a: Appeals by Lending Product: Years 1 - 6 (April 2011 – March 2017)**

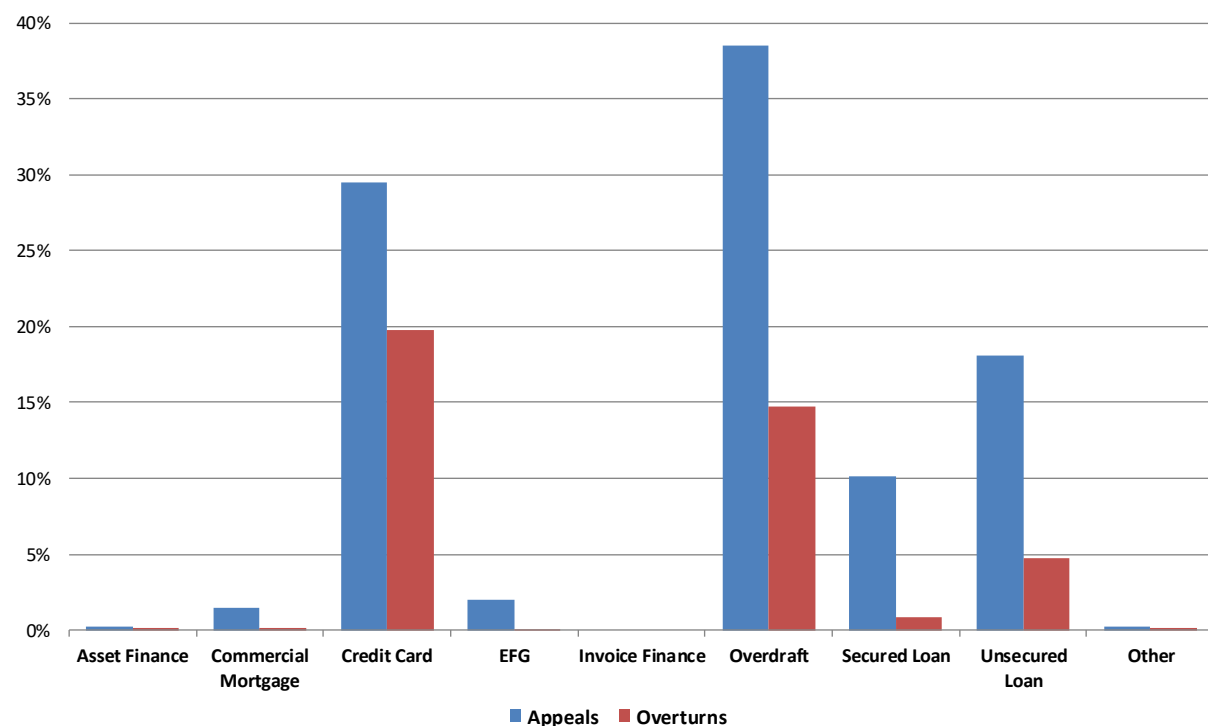


*Note: This chart includes cases where customers have applied for up to two products and therefore actual number will be greater than the number of cases captured*

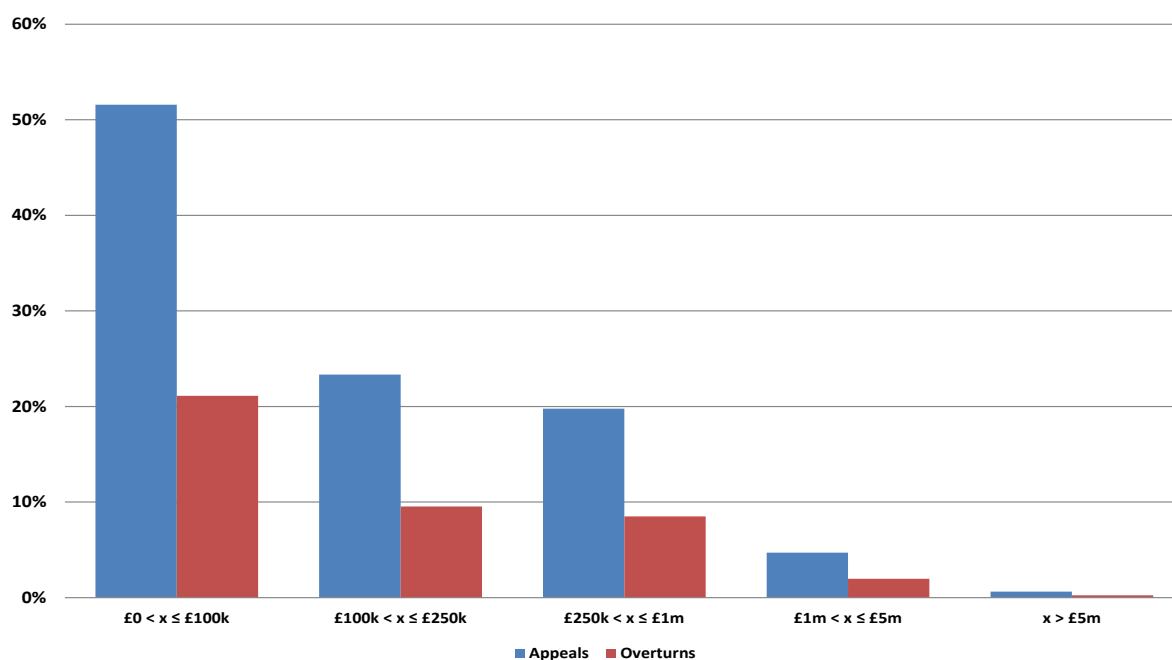
Appeals by Lending Product	Year1	Year2	Year6
Overdraft	47%	38%	39%
Unsecured Loan	13%	20%	18%
Secured Loan	15%	12%	10%
Credit Card	17%	24%	29%

There has been little change in the products SMEs apply for over the six years which in my opinion is disappointing. As those who have read my previous reports know, I think SMEs could derive benefit from good invoice discounting rather than an overdraft in many cases and especially for businesses in sectors where customers tend to be slow to pay. It provides a lot of security to a lot of businesses that use it. A lot of the myth and bad reputation that still hangs over it today, surprisingly even from accountants and lawyers, is unfounded. Invoice discounting can add real value to a business. Also, I still believe that for many micro businesses, managing your business through a corporate or business credit card rather than an overdraft can give both sides of this equation a better result and reduce time spent on many issues.

**Chart 8b: Appeals by Lending Product: Year 6 only (April 2016 – March 2017)**



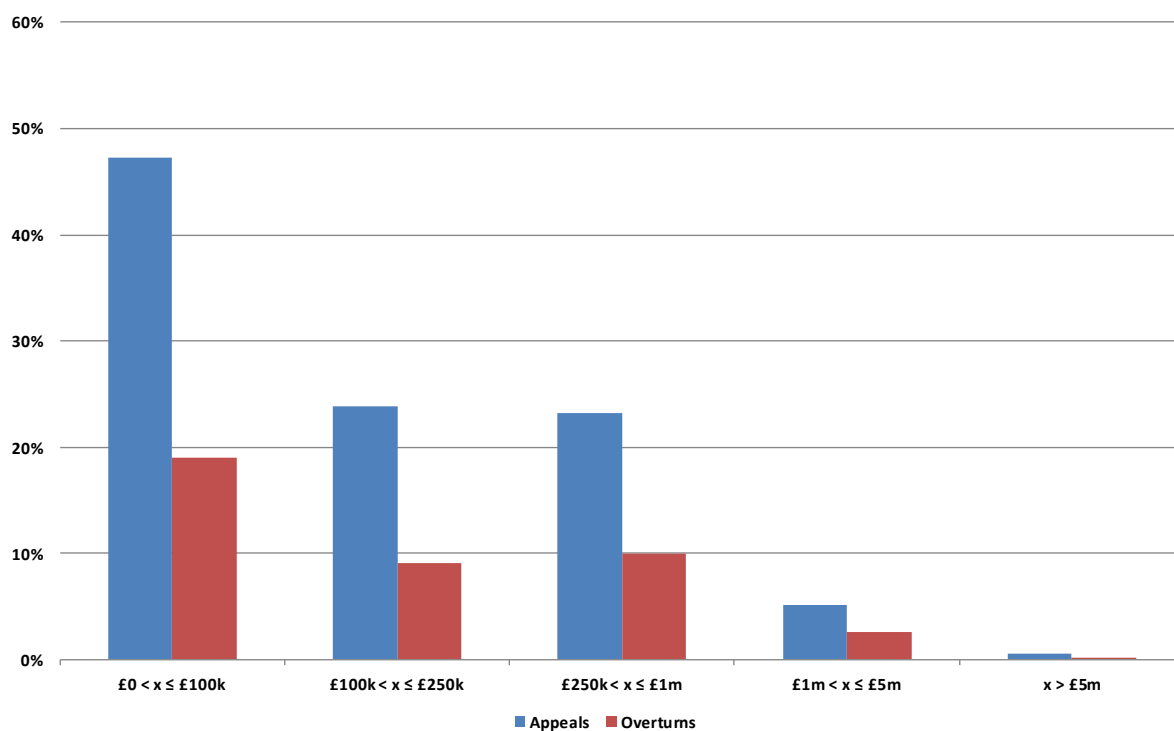
**Chart 9a: Appeals by Size of Customer Turnover - Years 1 - 6 (April 2011 – March 2017)**



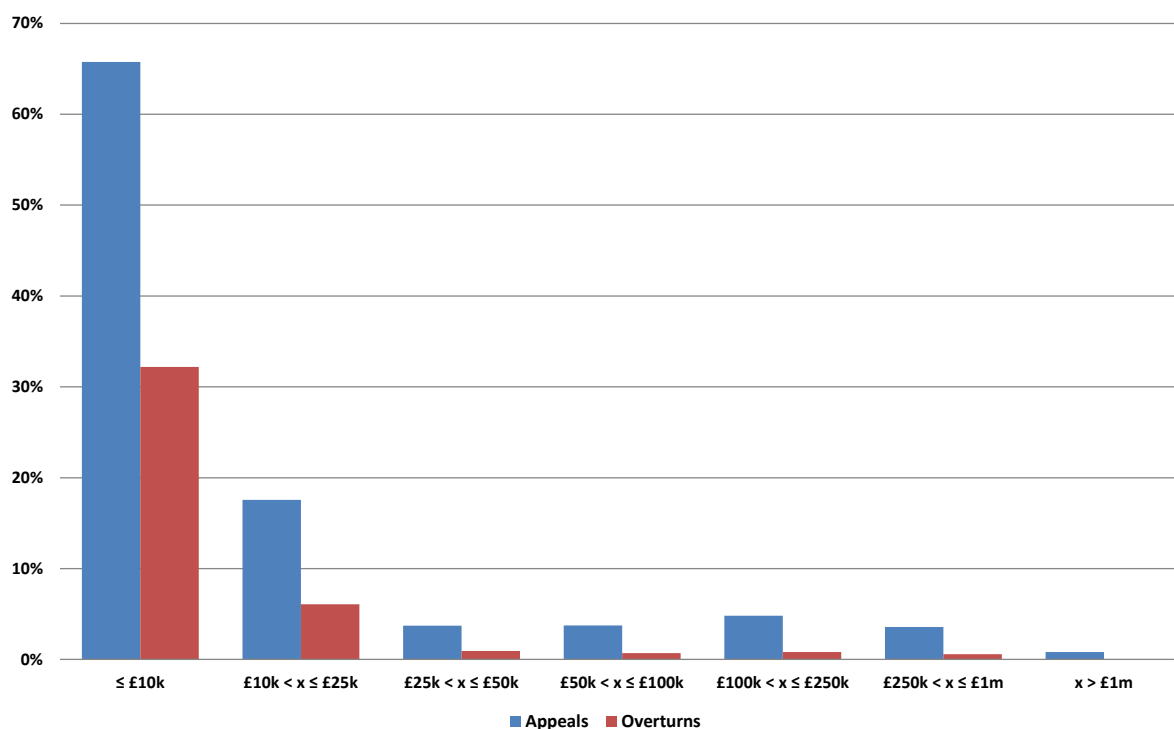
Appeals by Turnover	Year1	Year2	Year6
0-£100k	54%	51%	47%
£100-£250k	21%	24%	24%
£250k-£1 million	19%	20%	23%
£1 million-£5 million	5%	5%	5%
£5 million and over	1%	1%	1%

There have only been small shifts in the size of company that has appealed over the 6 years and while under £100k turnover has reduced slightly, it is still by far the biggest. However, there has been a steady increase in appeals from those SMEs with a turnover of between £250k and £1 million, which probably reflects a general increase in those applying for credit in that turnover band.

**Chart 9b: Appeals by Size of Customer Turnover - Years 6 only (April 2016 – March 2017)**



**Chart 10a: Appeals by Size of Lending Request - Years 1 - 6 (April 2011 – March 2017)**

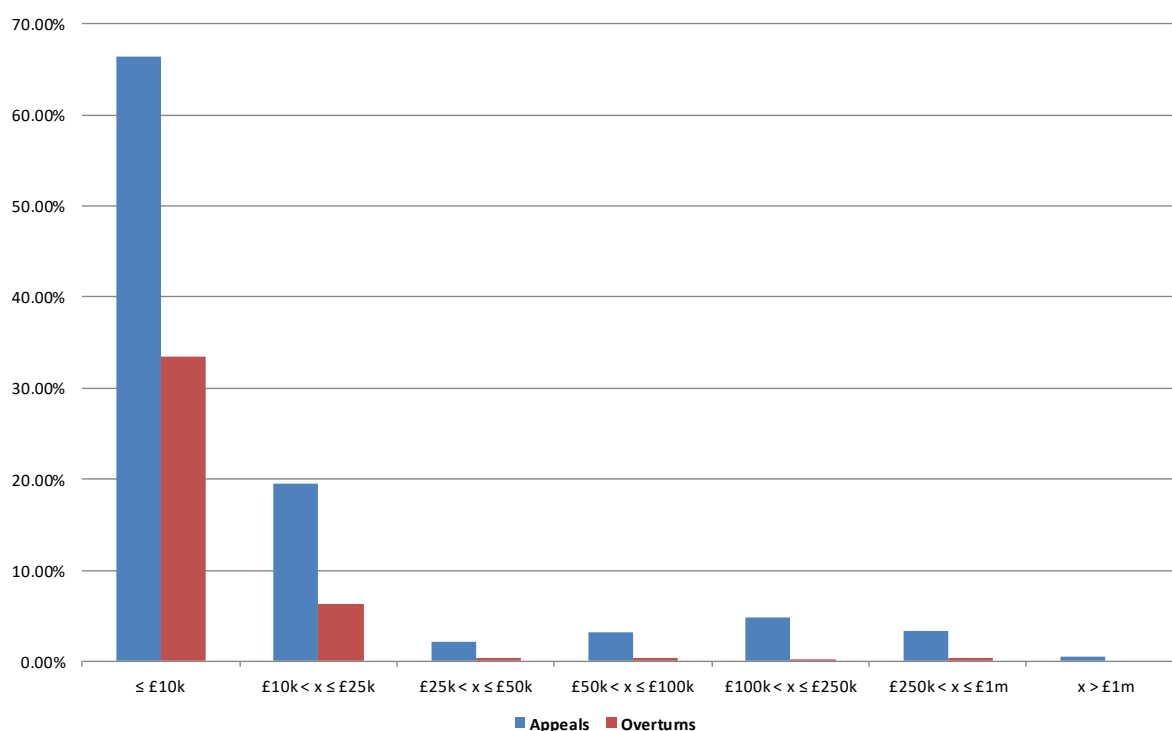




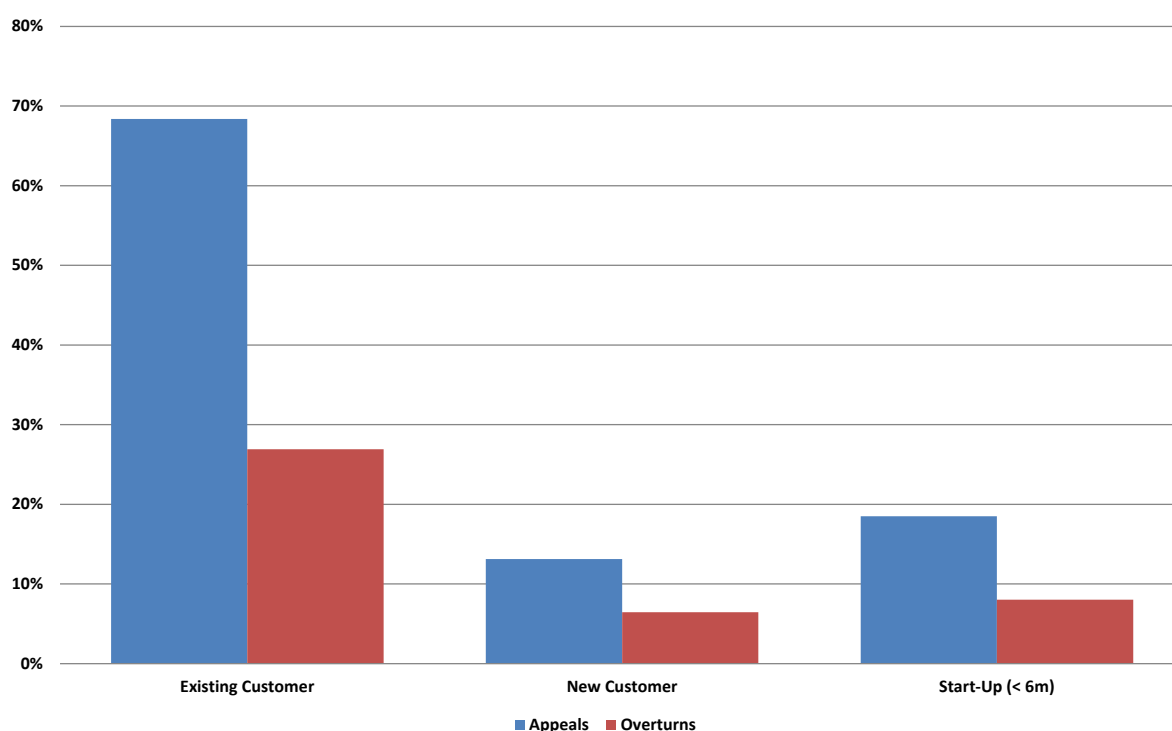
Appeals by Size of Lending	Year 1	Year 2	Year 6
Under £10k	61%	63%	66%
£10k-£25k	16%	17%	19%
£25k-£50k	6%	4%	2%
£50k-£100k	6%	4%	3%
£100-£250k	7%	6%	5%
£250k-£1 million	4%	4%	3%
Over £1 million	1%	1%	1%

While the Appeals by Turnover Chart showed a decrease in the very small SMEs making appeals when looked at in terms of size of lending requested, there has been an increase in the very small amounts, especially under £25k generally. Whether that is because more SMEs are applying for unsecured lending or just being more cautious in terms of how much they borrow is unclear; it may also reflect the uncertainty generally in the economy.

**Chart 10b: Appeals by Size of Lending Request - Year 6 only (April 2016 – March 2017)**



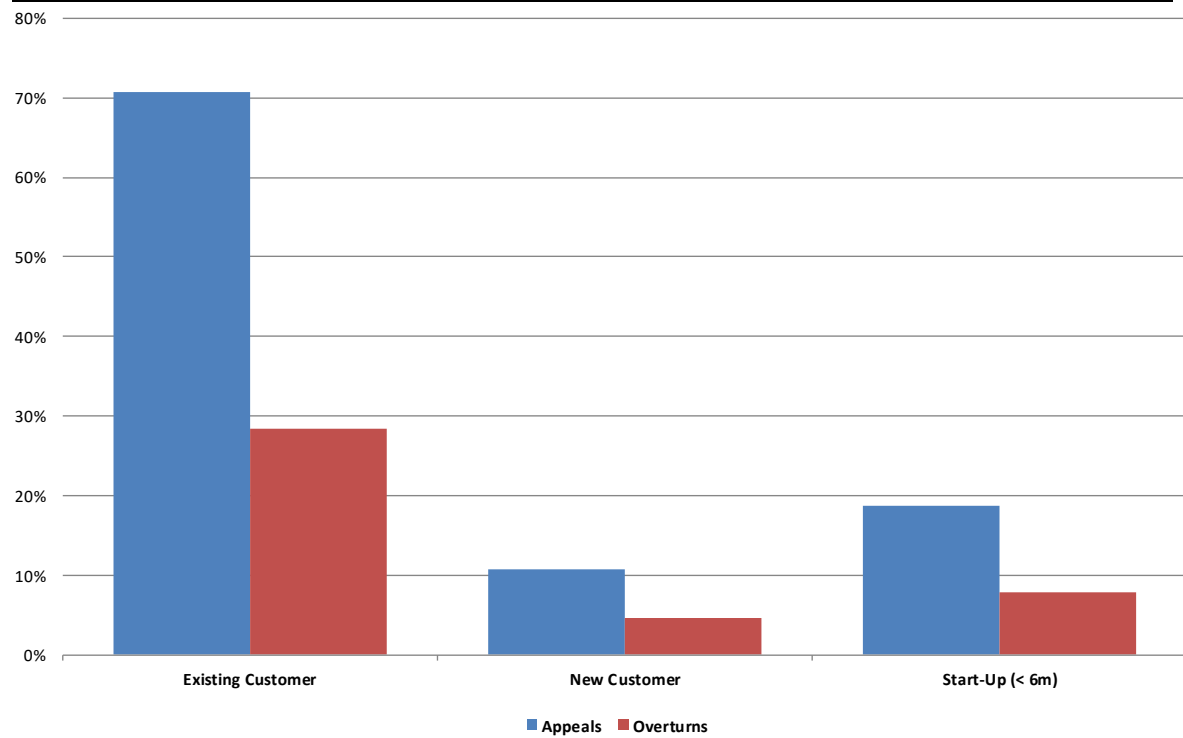
**Chart 11a: Appeals by Type of Customer - Years 1 - 6 (April 2011 – March 2017)**



Appeals by Type of Customer	Year 1	Year 2	Year 6
Existing	62%	67%	71%
New to bank	18%	16%	11%
Start up	20%	17%	19%

While there has been a lot of encouragement to get SME and other business customers to look around for who they could borrow from, and the research done by Funding Circle earlier in this report highlights that more are thinking about it; the above chart would appear not to show that, given that appeals by existing customers have increased and those of new-to-bank ones, decreased. However, like all numbers, that may not be the case and could also highlight that those dissatisfied, or not achieving the lending they require from their own bank, could be looking to new lenders rather than another bank to satisfy that need. It will be interesting to see next year when the banks must share data on their customers more easily and simply between them whether it makes a difference to how SMEs borrow and who they do it from.

**Chart 11b: Appeals by Type of Customer - Year 6 only (April 2016 – March 2017)**



Annexe F contains the charts which show other key information in terms of sectors and geography which again have shown little change from previous years.

## 7. Compliance

Last year in this section, I highlighted the banks need to comply with new regulation to examine whether they needed to split their bank into ring-fenced and non-ring-fenced. All the banks that I deal with have now completed that task and there is some clarity now on how the split is to be implemented. My reason for raising this last year, is the same as I highlight it again this year namely, that some banks have split at business customers with a turnover of £6.5 million. Where that has happened – and it is not universal – those businesses with a turnover below £6.5 million are in the ring-fenced bank (the mainly retail bank) and those businesses with a turnover more than £6.5 million are in the non-ring-fenced bank. It has caused a lot of reorganisation within many banks and I hope now that all these regulatory changes are now complete allowing the banks to refocus on customers and lending.

The other issue I raised in my last couple of Annual Reports was the introduction of the new Mandatory Referral Scheme; this was introduced in the Small Business, Enterprise and Employment Act 2015 and was implemented in November 2016.

In April this year, I was asked to review how the banks involved in this scheme had approached it and how it was operating. My review stated that the banks had put a lot of good and positive effort into ensuring that each had in place processes that ensured that SME customers that were declined were being referred properly and in terms of where they were, I stated that it was at the same stage that the Appeals Process was 6 months after its launch in 2011. Therefore, I feel the Mandatory Referral Scheme is progressing well. I should also state that I do not think it is having any effect on those who are appealing as the banks have done well in making each offer of a referral and appeal distinctly separate and I see no sign of one effecting the other in either direction.

However, what it did highlight to me was that because of various initiatives implemented by Government, the banks themselves as a group, and the individual banks; the SME customer now has many more choices than they did have six years ago when the Appeals Process began namely:

- a. Accept a mandatory refer to the Government Referral platforms which the bank does for them.
- b. Choose to self-refer to the Referral platforms at a later date.
- c. Choose at the point of decline or within the prescribed period to appeal against the decline decision or terms of the offer.
- d. Be referred to one of the other organisations with which a bank may have a formal relationship through the process that is in place. That can also differ regionally.
- e. Be informally referred to another funder by (usually) their Relationship Manager at the time of decline or even before it.
- f. Have a discussion with the bank about what it can do to get over

the reasons for the decline decision and choose to go away and work on getting those corrected and then coming back to the bank with a new lending request at a later date.

- g. Do nothing and revert to where they were.

This means that the banks and their SME customers are now having much more productive conversations than they used to, which can only be good. Also, most banks now have their own internal referral processes which mean that before making a decline, if in doubt, the person dealing with the SME customer will discuss the lending application with another colleague internally before making the final decision. This has reduced the number of declines and appeals in many banks.

## **8. Key Priorities for Year 7**

As I and the banks move towards Business as Usual in terms of the Appeals Process, I will work with each bank on their Integration Plan and agree with each bank a date when they can move to doing this themselves. The timing will not be the same for each bank as they are all at different positions currently in terms of readiness so it will take longer for some than others.

As I do this, I will work with the Lending Standards Board to ensure that they are prepared and I am satisfied that they have in place processes to monitor each bank as each bank is likely to do their own internal monitoring in a different way and that will have to be built into any monitoring executed by the Lending Standards Board.

It is my understanding that the Financial Conduct Authority may make some recommendations on issues with SME lending, so I hope to take all the learning that has been gained from the last 6 years into those discussions to try to ensure that whatever happens it will be done sensibly and proportionately.

Additionally, with some of the CMA remedies coming into force at the end of this year, it will be interesting to see whether they affect lending behaviour at all.

Finally, as I state in Section 6 of the report, I will be working with each bank to ensure that Relationship Managers' and other customer facing staff who have 'pending' or not concluded discussions with customer, put in place a process to ensure that each is managed and controlled in a way that brings them into both the Appeals and Referrals Process where appropriate.

## 9. Appendices

### Annexe A – List of Banks & Bank Commitments to Standards of Lending Practice

#### List of Banks:

Barclays Bank  
Barclaycard  
HSBC  
Lloyds Banking Group  
Royal Bank of Scotland  
Santander  
Bank of Ireland  
Danske Bank  
First Trust Bank  
Ulster Bank  
Clydesdale  
TSB

## The Standards of Lending Practice

### Business Customers

5

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<sup>5</sup> <https://www.lendingstandardsboard.org.uk/the-slp/>

## Introduction

The *Standards of Lending Practice for business customers*, which replace the micro enterprise provisions of the Lending Code, are composed of nine main areas. These set out standards of good practice in relation to lending to business customers, across the lifecycle from the product design phase to the initial offering of the product through to dealing with customers who find themselves in financial difficulty.

The *Principles for Lending* outline the overarching areas of focus for Registered Firms and underpinning these are the more detailed *Standards of Lending Practice* which are broken down into the following topics:

- Product information
- Product sale
- Declined applications <sup>1</sup>
- Product execution
- Credit monitoring
- Financial difficulty
- Portfolio management
- Vulnerability

There is also a separate section on Governance and Oversight, which sets out the framework Registered Firms should have in place to ensure that the Standards are implemented and operate effectively.

The Standards represent a move away from its predecessor, which was focused more on compliance with provisions than customer outcomes. This acknowledges that there may be several ways to achieve the right customer outcome and that the best solution in a specific situation may differ depending on the customer's individual circumstances. This avoids Firms having to rigidly follow a set of rules which may not always be appropriate and allow for flexibility. The LSB's oversight regime will recognise this and will focus on how Firms are demonstrating that they are meeting the outcomes.

Each section contains both a 'customer outcome' and an overall statement of how a Firm will achieve this; both are supported by a more detailed set of standards to enable Firms to demonstrate how they achieve the desired outcome.

## Application

The protections of the *Standards of Lending Practice* apply to businesses/organisations, which at the point of lending:

- have an annual turnover of no more than £6.5 million in its last financial year (exclusive of VAT and other turnover related taxes), and;
- which does not have a complex ownership structure (for example, businesses with overseas, multiple, or layered ownership structures).

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<sup>1</sup> Also referred to as 'unsuccessful applications' under the Small Business, Enterprise and Employment Act 2015.



Firms which agree to adhere to the *Standards* should ensure that any third party acting on their behalf adheres to these in relation to any products or services which are covered by the *Standards of Lending Practice*. However, where a customer is referred to a third party because the Firm has declined a customer's application, the extent of a Firm's liability for ensuring the customer receives the protections provided by the *Standards* is limited to the point at which the customer is transferred/handed off to the third party.

#### **Products covered under the Standards of Lending Practice**

For the purposes of release one, the *Standards* apply to products offered for business lending purposes covered under the Lending Code: overdraft, loan, credit card and chargecard products. The *Standards* do not apply to trade loans or invoice financing.

Asset based, asset backed, peer-to-peer lending and other forms of lending offered to business customers are under consideration for future releases.

#### **Alignment with statutory regulation**

Registered Firms offering products to sole traders or partnerships may be regulated by the Financial Conduct Authority (FCA) for this type of customer and, depending on the type and value of the borrowing may already be required to adhere to the Consumer Credit Sourcebook (CONC). For completeness, the *Standards of Lending Practice* may include where relevant, references to other legislation or statutory rules such as the Data Protection Act 1998 (DPA). The Governance and Oversight section acknowledges that the FCA's Senior Management Arrangements, Systems and Controls (SYSC) requires Firms to have adequate governance arrangements in place.

The intention is that the *Standards of Lending Practice for business customers* provide an overview of the entire lending process but adherence to any legislative or statutory requirement referenced is outside of the LSB's oversight regime. In the event that legislation or statutory rules which replicate or conflict with the wording of the *Standards* comes into force, the relevant legislation or statutory rules will supersede its content.

#### **Terminology**

Any references in the *Standards of Lending Practice* to *customer or customers* applies to a business or businesses from the point at which it enters into discussions with a Registered Firm regarding a relevant lending product.

#### **Statement of Lender and Borrower Responsibilities**

A separate one-page customer facing document has been developed to sit alongside the *Standards of Lending Practice* and is available on Registered Firms' websites, customers may wish to read the *Standards* alongside this document.

## Principles for lending

### Application

Below are the overarching principles that Registered Firms which lend, and/or undertake associated debt collection activities, to business customers should use to govern their relationship with them.

The Principles for Lending and *Standards of Lending Practice* apply to:

- Overdraft, loan (excluding trade loans), credit card and chargecard products.
- Registered Firms and any third parties that retail and service the lending products listed above on behalf of a Registered Firm.

### Registered Firms will ensure that their business customers:

- a. Are told about the products the Firm has to offer and provided with clear information to enable them to choose a product that meets their needs.
- b. Are provided with information about how to apply for the different products a Firm offers; what the application process entails and any other requirements a Firm may have.
- c. Are aware of the high level basis on which the Firm will make its decision to lend to them. If the customer's application is declined the primary reason for this will be provided.
- d. Are aware that they have the right to appeal a Firm's decision to decline their application and, where appropriate, have the option to be referred to alternative sources of finance.
- e. Will be provided with clear and understandable documentation which sets out their obligations under their agreement with the Firm.
- f. Are aware of the options open to them if they anticipate, or a Firm becomes aware, that they will have or are experiencing difficulty in repaying their borrowing.
- g. Will know what happens when they have repaid their borrowing or no longer require it.

## Annexe B – ‘On Boarding’ presentation

### Taskforce Banks Transparent Appeals Process

#### Introductory Presentation (On-Boarding)

Professor Russel Griggs, OBE – Independent External Reviewer

#### Overview

1. Summary & Key Developments
2. Detail about the Appeals Process
3. Minimum Standards & Scope of the Appeals Process
4. Substantive Testing
  - ❖ Bank's Appeals Process
  - ❖ Processing of declined applications
  - ❖ Receipt of an Appeal
  - ❖ Consideration of an Appeal
  - ❖ Monitoring of Appeals
5. Themes arising from testing the Appeals Process over the last 6 years
6. Appendix / Further Resources

2

#### Summary of the Appeals Process after 6 years

- Almost 20,000 appeals made to participating banks since April 2011.
- **£67** million of additional lending to SMEs who have successfully appealed.
- Overturn rate on appeal currently around **29%** (19% excluding credit cards).
- Banks, BBA, Government (HMT & BIS) and TSC all value the work of the Appeals Process and have added to and expanded the original scope as the process has progressed.
- Independence of the Process and Russel Griggs in particular is clearly understood by Government. Any changes suggested to the process, even those made, e.g. by HMT, require Russel Griggs' approval.
- Findings and recommendations from Appeals Process work has led to process improvements at several banks and improved conversations between RMs and their customers. This is now seen as a key outcome of the Appeals Process in helping drive systemic change where necessary.

3

#### Key developments and changes from Appeals Process work

- We have detailed data (including from our file reviews) on some 50% of all appeals made.
- We have used this invaluable knowledge to recommend and facilitate process improvements e.g. changing the point at which decisions are made to reduce the need for appeal.
- We have worked with CRAs and the banks to improve awareness to SME customers of the importance of credit scoring in lending decisions.
- We have engaged in dialogue with the FCA on the impact of the CCA on business lending caught by the Act and in conjunction with participating banks have provided views and ideas on changes.
- HMT asked us to review a sample of decline cases which did not appeal. This has produced interesting new information, including about the ability of banks to communicate the decline reason to the customer. This is also an area that is leading to process changes.

4

#### Appeals Process: What is involved

- Monthly submission of Appeal numbers e.g. appeals received, appeals completed/overturned and completion of Appeal Review sheets.
- Regular visits by the review team, sometimes accompanied by Professor Russel Griggs, to carry out substantive testing of case files.
- Written feedback (please see appendix) provided after each visit.
- Professor Russel Griggs holds discussions with a selection of RMs and also customers. In terms of RMs the number meetings will be structured around how the particular banks structures itself.

5

## Appeals Process: What is involved

- Action Plans agreed with each bank which will be reviewed at quarterly meetings with senior key stakeholders in each bank to review action plan progress and to discuss issues. The bank will appoint an Appeals Champion and/or a senior person who will have overall responsibility for the Appeals Process.
- There is a cost for the services of Professor Russel Griggs and his review team which can vary depending on the level of appeals activity.

6

## Minimum Standards and Scope of the Appeals Process

1.	The Appeals Process is available to all SME customers with a Group Turnover up to £25million
2.	<b>"In Scope"</b> <ul style="list-style-type: none"><li>• All types of lending products, funded and non-funded, required by bank customers to support them in the performance of their business activities</li><li>• Applies to all "lending applications" including lending requests to the Bank where the customer has provided "New" information which then results in a negative view e.g. "Declined at Source"</li><li>• Applies to applications which are declined where no offer has been made or where the customer does not agree with the Bank's Conditions for lending (excluding standard terms, fees and pricing)</li></ul>
3.	<b>"Out of Scope" (ineligible)</b> <ul style="list-style-type: none"><li>• Customers within Bank's support or recovery units where lending is usually more structured</li><li>• Where bank is precluded from lending to a customer because of market regulations, including AML or sanctions</li></ul>
4.	Bank to communicate the reason(s) for the lending decline in writing and preferably verbally also. It is important that the bank keeps a written record of the decline conversation with the customer
5.	The verbal conversation with the customer and the lending decline letter must include information on how to appeal e.g. signposting to the Appeals Process. As discussed above, a written record should also be kept of the decline conversation with the customer

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## Minimum Standards and Scope of the Appeals Process– continued

6.	Decline letters should be written in plain English and include signposting to Alternative Sources of Finance, CDFI and business mentoring
7.	Appeal Reviewers will be “Experienced Lenders” who have not previously been involved in the decline of the original lending application
8.	Appeal Reviews to be undertaken on the basis of ensuring completeness of the original lending application. This will take into consideration any new or additional information which has been provided by the customer with their appeal or requested by the Appeal Reviewer subsequent to the receipt of an appeal
9.	Customers are required to submit appeals within 30 calendar days of their receipt of the written decline communication. To provide for normal posting time we would regard this as 35 days from the date of the decline letter
10.	<p>The Bank is required to inform the customer of the outcome of the appeal within 30 calendar days of their receipt of the appeal. Appeal decisions to be communicated to the customer in writing:-</p> <ul style="list-style-type: none"> <li>Where the original decline decision is upheld confirming the original decline decision stands an explanation of the decline reason(s) must be given</li> <li>Where the original decline decision is overturned, in favour of the customer, it is considered prudent to confirm the amount that has been agreed, especially in the instance where the amount is less than originally requested by the customer</li> </ul>

8

## I. Substantive Testing – The Appeals Process

### Bank's Appeals Process

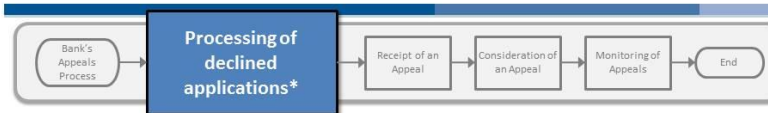


Key Elements	Bank Response
Have the requirements been adapted for different access routes (RM, online, telephony)?	
Management oversight across business segments within SME Banking, Micro → Large corporates and brands.	
Staff properly trained on process?	
Clear documentation and process map for appeals and their handling?	

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## Processing of declined applications

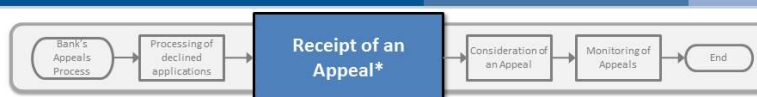


Process Test	Evidence
How is the Customer informed of a decline decision?	This can be communicated to the customer orally and then confirmed in writing. <i>Review team will look to evidence a copy of decline letters when reviewing Appeal case files.</i>
Is the Customer informed of the reason(s) for the decline?	When reviewing Appeal cases, the review team will check the reasons for the decline, as detailed in the decline letter, against those documented in the Appeal case file.
How is the Customer signposted to alternative sources of finance?	The Decline letter must include signposting to 'Alternative Sources of Finance'.
Is the Customer informed of their right to Appeal?	The decline letter should inform the Customer of their right to Appeal within 30 days of being notified of their declined lending application and that the Bank will respond with the outcome of the Appeal review within 30 days.
Are communications understandable and in plain language?	It will be important this is achieved in the decline letters. <i>When reviewing Appeal case files, the review team will check this.</i>

\* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

11

## Receipt of an Appeal

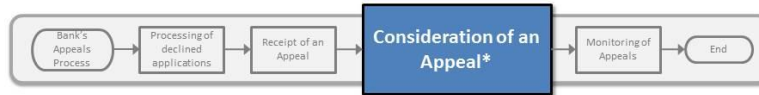


Process Test	Evidence
How accessible is the Appeal Process to the Customer?	The review team will look to evidence what access routes are available for customers to Appeal, where to write to or what online avenues exist.
What is the system for receiving and recording Appeals?	When reviewing Appeal case files, the review team will look to evidence how Appeals are tracked.
Does the Reviewer have all relevant information from the original application?	The review team will look to evidence the original lending application as part of the Appeal case review and that the Appeal is reviewed by an experienced Lender who had not been involved in the original declined lending application.
Is the receipt of Appeal acknowledged?	Some banks notify the customer that their Appeal has been received and is under consideration. This is not mandatory but is considered good practice.
Determine the suitability of the Reviewer	Appeal reviews should be conducted by an experienced Lender who has not previously been involved in the original declined lending application.

\* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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## Consideration of an Appeal

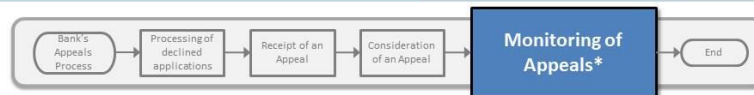


Process Test	Evidence
If necessary, how does the Reviewer obtain additional information?	When reviewing Appeal case files, the review team will note where additional information has been provided and how this has impacted the appeal outcome.
Methodology in reviewing the Appeal	This will involve a judgemental review of the original lending application taking account of any additional information provided by the customer in support of the appeal. This will include information which has been requested by the Appeal Reviewer. Terms and Conditions can now be appealed (structure only and not interest rate, standard terms or fees), this can be both before signing the contract and after drawdown.
How is the Appeal outcome communicated to the Customer?	When reviewing Appeal case files, the review team will look to evidence how and when the Customer has been informed of the appeal outcome. Overturn letters should confirm the amount of lending agreed.

\* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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## Substantive testing - Monitoring of Appeals



Process Test	Evidence
The use of MI to monitor the process internally	All appeals will be tracked by the Appeals team. <i>This is usually verified through Site Visits.</i>
Is there an internal QA process?	Whilst Banks are developing their own internal QA processes, it is evident that the feedback provided by the review team in Site Visit feedback to the major UK banks has been well received leading to process changes and the adoption of various recommendations.

\* This is limited to and based upon the processing of declined applications which have subsequently been Appealed and those cases reviewed by the review team

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### Some common themes arising from testing of Appeals Process over the last 6 Years

- **Internal Communication of the Appeals Process / Staff Training** - Have details of the Appeals Process reached everyone involved in Bank's various lending channels? It is important for banks to have plans for staff training, for testing front line awareness of the new process and for periodic monitoring thereafter.
- **Customer Awareness of the Appeals Process** - Banks have found that not all customers are aware of the Appeals Process and have considered raising awareness by communicating to all customers, even those whom have not sought to borrow. It would be good if the bank did some testing of its own of awareness on its customers.
- **Saying 'No' to Customers** - If the Customer fully understands the rationale for the Bank declining their lending application, the need to appeal the decision maybe lessened. Where Decline Letters are designed to only provide high level, standardised reason(s) for decline, consideration should be given to the quality of any oral communication with the Customer to reinforce their understanding. Oral conversations should have a record of the main points.
- **Decline Letters** - When using high level template Decline Letters, take care to ensure the correct version of the letter is selected that reflects the decline reason documented on file e.g. If the reason was lack of affordability, the Decline Letter should not state that it was due to, say, adverse Credit Reference Agency data. Also notification of the Appeals Process should be highlighted up front and plain English in the letters.
- **Front Line Training** – The Appeals Process has highlighted training and competency issues at Branch and RM level. Examples are set out on the next slide.
- **Appeal Numbers** - If volumes are low, consider what the drivers might be behind this and what can be discerned?

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### Some common themes arising from testing of Appeals Process over the last 6 Years

#### Front Line Training :

- **Switchers** - as they have little / no account history, switchers are frequently declined lending by their new bank. On appeal, the Customer is asked for copies of their previous bank statements which, if they show good account conduct, might lead to the original decline being overturned.
- **"Joining up the Dots"** - long-standing Customers, with personal accounts, mortgages, credit cards with a Bank who chose to open a business account with the same Bank, are declined lending due to little / no account history. It is only on appeal that the Reviewer 'joins up the dots' and can see that the bigger picture, personal account conduct, mortgage repayment history etc.
- **Sole Traders to Limited Companies** - Customers who have operated their bank account as a Sole Trader, with good account conduct, are turned down for lending where the company structure has recently changed to a Limited Company. Quite often the Customer is treated as a 'start up' company and their Sole Trader history is not taken into account until appealed.
- **Bank 'Rules' / Risk Appetite** - front line staff are not always fully aware of the Bank's rules and risk appetite e.g. sector, location, account conduct, adverse Credit Reference Agency data etc. Customers operating a business for which the Bank has little appetite, or in a location that scores poorly by the automated credit score are subjected to loan applications that have little chance of success and the fruitless application has further damaged their Credit Score. Far better for front line staff to hold quality conversations with the Customer and source additional information that might support their application.

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## II. Appendix

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### Further Resources

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- I. Appeals Process – accumulative results
- II. Professor Russel Griggs' Year 5 report
- III. Action Plan
- IV. Decline Sampling
- V. Site Visit Requirements for Appeals Files
- VI. Appeal Review Sheet
- VII. Site Visit Feedback
- VIII. Standard Industrial Classification (SIC) Code List 2007
- IX. Government Regions Map

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## Annexe C – Appeals Case Review Form

### Appeal Review Sheet

<b>OUR REF:</b>	<b>PRIVATE AND CONFIDENTIAL FOR PROFESSOR RUSSEL GRIGGS, BANK and UK FINANCE ONLY</b>		
Bank Name		Office Location	
Bank Appeal Reference Number		Month of Review	
<b>SECTION ONE</b>	<b>CASE SNAPSHOT</b>		
Company Name			
Company Structure		Company / Group Turnover	
Nature of Business			
Business Category			
Business Location (City or County)	Please select City or County	Business Location (gov't Region) Auto Completes	Auto Completes
Business Start Date (MMM-YYYY)		Date Bank Account Opened (MMM-YYYY)	
Customer Type		Total Amount of Facilities Requested "New Monies" - Please Complete if more than one Product requested	
<b>Product One</b>		<b>Product Two</b>	
Type of Facility Requested		Type of Facility Requested	
Lending Product One		Lending Product Two	
Amount of Facility Requested "New Monies" (Product One Only)		Amount of Facility Requested "New Monies" (Product Two Only)	
Details of any other facilities requested in this application			
Purpose of Facility / Facilities? Are there any existing facilities for this customer? Please give details.			
<b>SECTION TWO</b>	<b>APPEAL SNAPSHOT</b>		
How was Application received		Application / Credit Process	
Date the Application was Submitted (DD-MMM-YYYY)		Date of the Decline Letter (DD-MMM-YYYY)	
Date the Customer Appeal was Received by the Bank (DD-MMM-YYYY)		Date of the Appeal Receipt Letter or Email (if applicable) (DD-MMM-YYYY)	
Date of the Appeal Outcome Letter (or Email to Customer) (DD-MMM-YYYY)		Are copies of these Letters on file? [Yes / No]	
<b>SECTION THREE</b>	<b>ORIGINAL DECLINE DETAIL</b>		
Was the Customer declined all lending in this application? [Yes / No]		How was Customer informed of the decline decision?	
Bank's reason(s) for declining this lending application		Please indicate other decline reason (if applicable)	
Was the Customer given reasons for the decline decision in the written communication and does this fully convey the decline reason(s) on file? [Yes / No]			
Decline Letter signposts to the Appeals Process? [Yes / No]		Decline Letter signposts to Alternative Sources of Financing? [Yes / No]	

SECTION FOUR		CUSTOMER APPEAL	
Method of Customer appeal		Appeal Type	
Reason(s) given for the appeal			
SECTION FIVE		BANK REVIEW OF APPEAL	
Who reviewed this Appeal			
Was additional information received from the customer in support of this Appeal? [Yes / No]		Please give details of any additional information received in support of this appeal	
<p><b>Review Methodology</b></p> <p>Please indicate action steps taken when reviewing this appeal. The Rationale for the Appeal outcome decision, including how the original decline reason(s) have been addressed or mitigated.</p> <p>Please also include comment with regard to the review of any additional information received (as applicable).</p>			
Appeal Outcome		If Overturn, total amount of "New Monies" Lending approved	
Where Overturn provides for more than one Lending Product please give details e.g. Product One / Product Two			
How was the customer advised of the appeal outcome		Does the Customer communication fully explain the appeal outcome? [Yes / No]	
Please use this space for any additional comments relating to review of this appeal, including where the Appeals Process has not been followed correctly and/or where frontline feedback has been given.			
Version date 01JUL2017			

## Annexe D – Appeals Process Site Visit Requirements for Appeals Files

### Requirements

- Prior to the visit, we need to have a reasonable idea of the numbers of completed and in-scope appeals to be reviewed, and the number overturned by the Appeals Process. This is important for resource management purposes at Promontory, and reduces the need for repeat visits to the same site. Your help in communicating likely volumes for a visit is appreciated.
- For each visit, we need the files to be complete and in date order. Clearly labelled and organised files help us review files quickly and enable us to confirm compliance without undue additional work. Banks should also make sure, apart from the specifics listed below, that they include all other relevant documentation relating to the transaction.
- For individual files, the following information should be included where available:
  - Original application, including documentation that enabled the case to be decided, such as financial statements, account history, business plan, cash flow forecast, credit score outcome, accounts, etc. A summary containing the key data from these may be sufficient
  - Details (inc dates/amounts where relevant) of the customer, location, new business, new to bank, length of relationship, existence of other facilities, turnover/size of business
  - Clear details of what product(s) is being asked for and for how much. Details of existing facilities and terms where topping-up and a clear purpose of what the credit is being asked for.
  - Details of any internal “4 eyes” process prior to the original decision being given to the customer including notes and dates
  - Names of original decision-maker, including those involved in any “4 eyes” process
  - Details of any referral to “Credit” and any views given by them, also to include dates
  - Copy of the decline letter and any notes of conversations with the customer as part of that process (it is known that more clarity around reasons is often provided in this way)
  - Appeal letter/email/note of call from customer including details of any reason for appeal including “don’t agree/not fair”
  - Acknowledgement letter when sent and where part of the process
  - Details of any information submitted with the appeal
  - Name of person who dealt with the appeal
  - Details of the appeal reviewer’s assessment/conclusions of the case, including whether any further information was sought from the customer and, if not, reasons why.
  - Details of information given to branch/local RM by the appeal reviewer where appeal outcomes are conveyed locally
  - Appeal outcome letter sent to customer
  - Details of any other conversations with the customer relating to the appeal outcome
  - Where Minimum Standards documentation is missing or the process was not adhered to, there should be an explanation of why it is not available and what is being done to ensure that it will be in future

## Annexe E – Appeals Process Site Visit Feedback

### Visit Feedback

*Bank Offices:*

*Date:*

*Attending:*

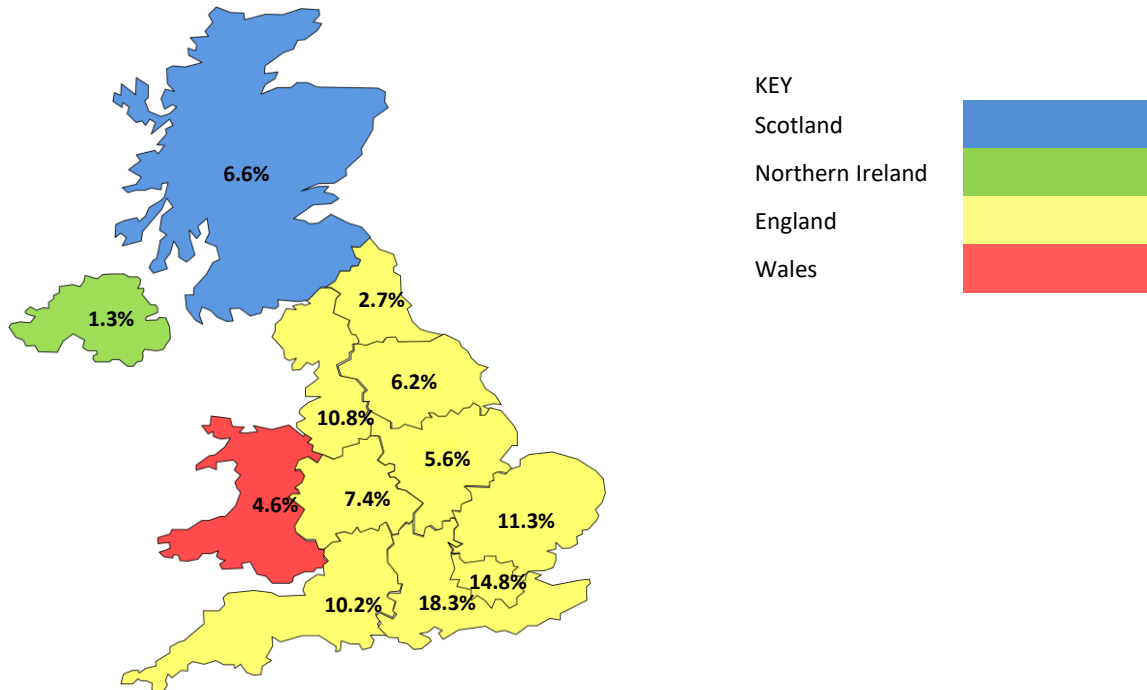
Appeals Reported by Bank to Date				Site Visit Reviews	
Appeals Year	Appeals Received	Appeals Overturned	% Overturns	Total Cases Reviewed	Cases Reviewed This Visit
Yr.1. Apr 2011-Mar 2012					
Yr.2. Apr 2012-Mar 2013					
Yr.3. Apr 2013-Mar 2014					
Yr.4. Apr 2014-Mar 2015					
Yr.5. Apr 2015-Mar 2016					
Yr.6. Apr 2016-Mar 2017					
<i>Please see appendix which provides a breakdown of Appeals and Overturns by Quarter</i>					
<b>Visit Summary / Matters for Consideration</b>					
<ul style="list-style-type: none"> <li></li> </ul>					
<b>Matters Outstanding from Previous Discussions</b>					
<ul style="list-style-type: none"> <li></li> </ul>					
<b>Case Reviews and Observations</b>					
<ul style="list-style-type: none"> <li></li> </ul>					

## Appendix

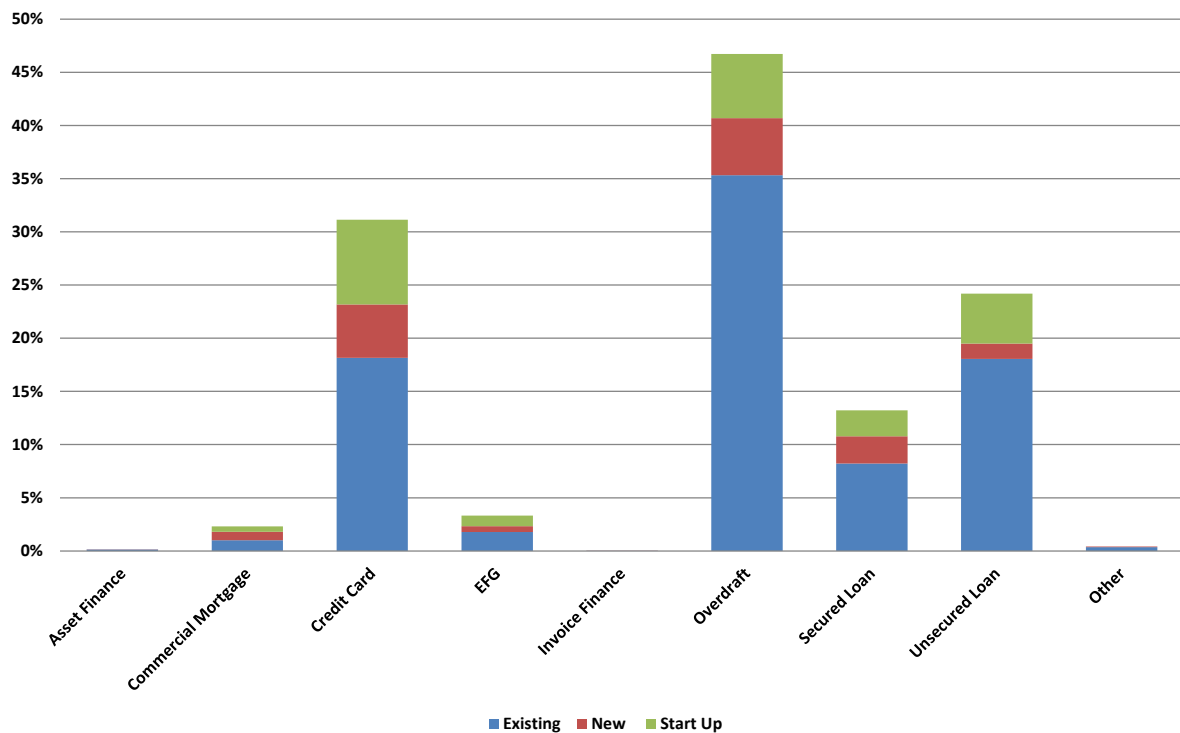
Appeals Received / Completed / Overturned by Quarter					
By Quarter	Appeals Received	Appeals Overturned (in favour of the Customer)	% Overturned (based on Appeals Received)	Appeals Completed	% Overturned (based on Appeals Completed)
Yr.1. Apr 2011-Jun 2011					
Yr.1. Jul 2011-Sep 2011					
Yr.1. Oct 2011-Dec 2011					
Yr.1. Jan 2012-Mar 2012					
Yr.2. Apr 2012-Jun 2012					
Yr.2. Jul 2012-Sep 2012					
Yr.2. Oct 2012-Dec 2012					
Yr.2. Jan 2013-Mar 2013					
Yr.3. Apr 2013-Jun 2013					
Yr.3. Jul 2013-Sep 2013					
Yr.3. Oct 2013-Dec 2013					
Yr.3. Jan 2014-Mar 2014					
Yr.4. Apr 2014-Jun 2014					
Yr.4. Jul 2014-Sep 2014					
Yr.4. Oct 2014-Dec 2014					
Yr.4. Jan 2015-Mar 2015					
Yr.5. Apr 2015-Jun 2015					
Yr.5. Jul 2015-Sep 2015					
Yr.5. Oct 2015-Dec 2015					
Yr.5. Jan 2016-Mar 2016					
Yr.6. Apr 2016-Jun 2016					
Yr.6. Jul 2016-Sep 2016					
Yr.6. Oct 2016-Dec 2016					
Yr.6. Jan 2017-Mar 2017					

## Annexe F – General Tables

### Appeals by Government Office Region – Years 1 - 6 (April 2011 – March 2017)

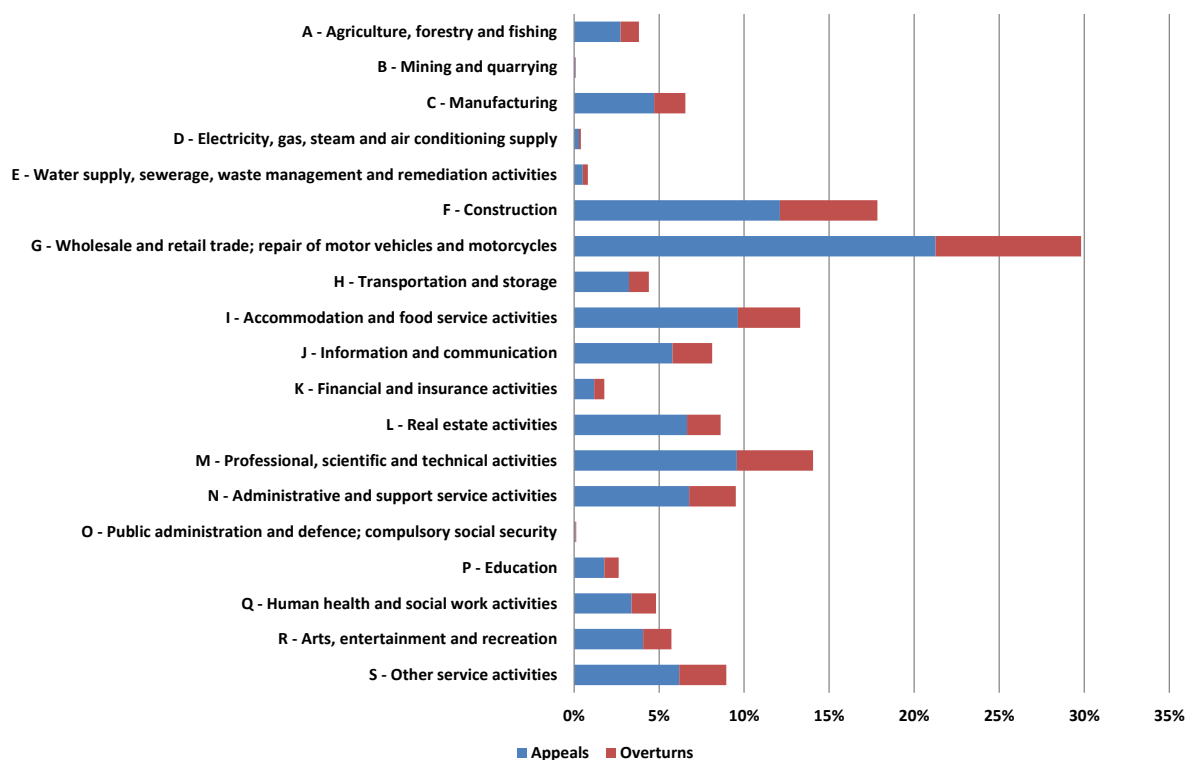


### Appeals by Lending Product/Type of Customer: Years 1 - 6 (April 2011 – March 2017)





### Appeals by Industry Sector: Years 1 - 6 (April 2011 – March 2017)



### Appeals by Size of Lending Request: Years 1 - 6 (April 2011 – March 2017)

Size of Lending Requested (New Monies)	Year 1 to Year 6 (combined)	
	Appeals	Overturns
≤ £10k*	65.8%	32.2%
£10k < x ≤ £25k	17.6%	6.1%
£25k < x ≤ £50k	3.7%	0.9%
£50k < x ≤ £100k	3.7%	0.7%
£100k < x ≤ £250k	4.8%	0.8%
£250k < x ≤ £1m	3.6%	0.6%
x > £1m	0.8%	0.1%
<b>All Lending</b>	<b>100.0%</b>	<b>41.3%</b>

\*Segment includes request to review/renew facilities where no New Monies (additional lending) was requested

**Appeals by Size of Customer Turnover: Years 1 - 6 (April 2011 – March 2017)**

Customer Turnover	Year 1 to Year 6 (combined)	
	Appeals	Overturns
£0 < x ≤ £100k	51.6%	21.1%
£100k < x ≤ £250k	23.3%	9.5%
£250k < x ≤ £1m	19.8%	8.5%
£1m < x ≤ £5m	4.7%	2.0%
x > £5m	0.6%	0.2%
All Lending	100.0%	41.3%