House of Commons

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 882

Monday 14 December 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 215 - 297

Witnesses

I: Susan Allen, CEO, Retail and Business Banking, Santander UK; Anne Boden, CEO, Starling Bank; Amanda Murphy, Head of Commercial Banking, UK, HSBC; David Oldfield, Chief Executive, Lloyds Commercial Banking; Paul Thwaite, CEO, Commercial Banking, NatWest Group.

Examination of witnesses

Witnesses: Susan Allen, Anne Boden, Amanda Murphy, David Oldfield and Paul Thwaite.

Q215 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the economic impact of coronavirus. We are going to be focusing particularly on some of our leading banks today. I would like to ask each member of the panel to briefly introduce themselves, giving their name and organisation.

Susan Allen: Good afternoon. My name is Susan Allen. I lead the teams that look after our personal and small business customers at Santander UK.

Anne Boden: I am Anne Boden. I am the founder and CEO of Starling Bank.

Amanda Murphy: I am Amanda Murphy. I look after our commercial and corporate customers at HSBC UK.

Paul Thwaite: Good afternoon. I am Paul Thwaite from NatWest Group. I lead our commercial bank.

David Oldfield: I am David Oldfield. I am the group director and CEO for commercial banking at Lloyds Banking Group.

Q216 **Chair:** Thank you very much indeed and welcome to you all. As I think you may be aware, the questions will generally be directed at one or more of you but, in the event that you are not asked to answer a particular question and you want to get in on that question, just raise your hand and I will attempt to bring you in at that point.

Could I start perhaps by directing my first question to Paul? I just want to look at the loans that the Government have introduced in order to support businesses through this crisis. There are some very large amounts of money going out the door here: £42 billion for the bounce-back loans and £18.5 billion or thereabouts for CBILS, for example. Can you give us some sense, Paul, of the sheer scale of that lending? What is it like compared to normal business lending in what one might call more normal times?

Paul Thwaite: The best way to think about the scale of the lending is it is very significant compared to business-as-usual lending. Here at NatWest, we have lent in the region of £14 billion across the different schemes. That represents one in four or one in five of all loans. It is a really significant increase. The latest Bank of England report highlights that there has been a 25% year-on-year increase in lending to SMEs, which they characterise as businesses with less than £25 million in turnover. That probably gives you a sense of the scale.

To contextualise it for the Committee, in May at the launch of bounce-backs, there were 100,000 loans delivered here at NatWest in the space of five days. Usually in that period it would be in the low thousands. Hopefully, that gives you some context as to the scale of the support, which has been badly needed by businesses and certain sectors.

Q217 **Chair:** What has it meant in terms of your business and the gearing up for this and reconfiguring what you do in order to accommodate that surge in demand? How have you handled that?

Paul Thwaite: We literally had to reorganise and repivot the business in March to take account of the new schemes. We recognised very quickly that this was not a business-as-usual environment. There was a significant number of customers who needed our support. We increased our resources across our contact centres and our lending teams. We equipped our relationship managers to be able to work from home. We really had to orientate the whole organisation or the whole commercial bank around supporting the customers. It was a great collaborative effort between the British Business Bank, the industry and the Treasury to put that support in place, because it was over a period of four or five weeks really where the whole industry had to reorganise itself to provide that level of support.

Q218 **Chair:** I see David's hand has gone up, so I will come to David after Paul. David, you might like to comment on my original question there, but can I just ask Paul a follow-up question? For all those businesses out there who have suddenly come forward and taken on a bounce-back loan, what is your sense of how much that money is needed immediately as opposed to, say, businesses saying, "Actually, I will probably be alright even in the absence of the loan, but I will take the loan because there is no interest on it for the first year. I might as well just have that extra security in my bank account"? Do you have a sense of that balance?

Paul Thwaite: Yes. A significant amount of the lending or the liquidity has been put back on to the NatWest balance sheet. We have shared previously that around half of the lending has, in effect, come back on to the deposits and liabilities side of the balance sheet. That demonstrates what you alluded to, which is that some customers have exercised caution, drawn down on the lending and kept it for future spend. There have been some specific sectors that have been impacted really acutely. The obvious ones are leisure, accommodation and retail. We are seeing some evidence of use of the loan in those sectors but about half of the lending has found its way back on to the liabilities side of the balance sheet.

Chair: That is very interesting, thank you.

David Oldfield: Building on Paul's first response, we have written £11.7 billion in terms of loans in Lloyds Banking Group. £8.9 billion of that is bounce-back loans. The rest of it—£2.8 billion—is CBILS and CLBILS. In terms of what is new and what is not, I would perhaps characterise it slightly differently to the extent that the majority of the bounce-back loans are new and incremental borrowing that we have not seen in the normal course of trading in a prior year. In my mind, most of what has been taken on as CBILS is probably substitutional. For the larger SMEs, if you think about it in those terms, a CBILS loan is typically £200,000 or £250,000. The great majority of that is replacing what would have been business-as-usual lending this year. Most of the smaller business customers who have taken bounce-back loans have never borrowed before. In the face of the pandemic, they have absolutely come forward and made use of the Government loan.

The other thing we should not forget is capital repayment holidays. Although they are not Government schemes, we have done 35,000 capital repayment holidays for businesses in Lloyds, and we have done 1.2 million for personal customers in Lloyds. In some ways, those have proved as vital in terms of creating breathing space during the pandemic as just simple loans.

To your second point, in terms of what is needed, Lloyds's experience is similar to NatWest's. We see about 40% to 50% of all the Government scheme lending still sat with us on deposit accounts.

Amanda Murphy: Our experience at HSBC is very similar to those described. If I put it into context for you, we have lent over £14 billion, the equivalent, in terms of loans processed, of about 17 years' worth of lending, because so many of them were part of the smaller business bounce-back scheme lending. We have had to repivot the business significantly to support businesses in need, with colleagues giving up an extraordinary amount of their free time—their weekends and their evenings—to support British businesses when they needed them the most. Likewise, we have been very heavily requested of capital repayment holidays and have done over 250,000 of those.

One of the interesting things, when you ask about where the bounce-back loan funds are going, is, similar to Paul and David, we are seeing about 50% of them appear on customers' bank accounts, but actually we have fewer customers in financial difficulty now than we did this time last year or indeed pre-Covid. That is telling us that, for many of our SMEs, these loans provided a very important lifeline, enabled them to pay their bills and meet their obligations and prevented them from going into financial difficulty. The importance of that really should not be underestimated here.

Q219 **Chair:** Amanda, this is a very difficult question to answer but let us assume that the vaccine comes along and we broadly track the OBR's central forecast and we are back in 2022 to roughly the pre-Covid level of GDP, et cetera. If that is the scenario, what proportion of those bounce-back loans do you think will ultimately go bad? Do you have a rough ballpark feel for what you think will happen? I would also like Susan to give us her thoughts in a minute.

Amanda Murphy: We think undoubtedly there will be a higher level than normal lending that will go bad. It is very difficult, if not impossible, to predict this accurately as it currently stands because, of course, we have not yet got to the stage where people have started to pay back or have had to pay back. The other thing that the businesses that I talk to each week are trying to do is conserve cash so that they have liquidity and are able to survive this crisis. They are looking for the exit from crisis, which will be the vaccine. As quickly as we can get that rolled out, the impact on business will be huge and will, of course, reduce the potential for impairments there.

Q220 **Chair:** Can I tempt you to put your neck on the block? As a seasoned banker, what is your best guess as to what proportion of those loans will not come in?

Amanda Murphy: It is still too early to say, I am afraid.

Chair: That is fair enough. That is a perfectly reasonable answer.

Susan Allen: Good afternoon. Just to pick up a couple of the points already discussed, in terms of the sense of the scale of bounce-back loans in particular for Santander, we have lent 20 times the size of our book previously. We now have 20 times the number of loans we had previously. We have lent £4 billion to small businesses up and down the country.

The scale of mobilisation for that was pretty extensive. I have many colleagues up and down the country who worked every weekend for seven weekends in a row, because they really felt the urgency of getting money to small businesses. Certainly in the early weeks, people understood that these businesses really needed a lifeline. Bear in mind that when we started the process with CBILS, it was well before the furlough scheme came into play in June. Those businesses were desperate to get funds. Our colleagues and colleagues across the industry worked incredibly hard to get those funds to them.

In terms of the people who have borrowed from us, about 95% of those customers have never borrowed before. These are customers who need our support. Something we are really looking at now is how we make sure we are following up with those customers because they have not historically had much engagement with the bank because they have not needed to have any funds. Now we are looking at how we can support them not just through lending but through guidance, master classes and support in setting up their digital sales. I have seen some great examples of where we have helped small businesses to get online and given them a lifeline to help them to keep continuing to go.

On the point about the level of losses we might expect, as Amanda said, it is very hard to predict because much depends on what happens in the economy and how quickly businesses can get back to operating in some normal way.

The other thing that will really help, however, is the pay-as-you-grow scheme, which the Government announced. For those not familiar with it, there are a few aspects of that, including the ability to extend the term from six years to 10 years. That makes quite a material impact. Just to give you some numbers, if you had a £50,000 loan and you were paying it back over six years, that is £887 a month. Over 10 years, that drops down to £471 a month. Actually, it makes quite a big difference in terms of what businesses will have to cover when they are paying back. The pay-as-you-grow scheme will also help. There have been some estimates from the Department for Business, as well as from the National Audit Office, about potential levels of default, but it really is too early to say. We have to see how we get through the next few challenging months.

Q221 **Chair:** I am going to come to Anne next. I am also just going to ask you for a very short answer about what the one or two things are that the Government should be doing differently right now in respect of these loans. Just think about that one. I want a real rapid fire on that because I have taken up quite a bit of my time. Let me go to Anne and then we will skip through the pack.

Anne Boden: Good afternoon and thank you for inviting me to talk here this afternoon. Starling is not a big bank. Starling is a new digital bank that has done its bit during this crisis. Before I talk about Starling and what Starling has done, can I just say that what has happened here over the past six or nine months is quite remarkable? You have big banks, Government and HMT coming together to launch a scheme and launch it before it was finished. That is a good thing rather than a bad thing. Everybody realised that this had to be done quickly and, in some respects, the Chancellor was very courageous and the banks—I hate to say it—acted very quickly. Normally these processes take years and projects in big banks take years and years. Eventually things get delivered and go live or whatever. Starling is used to doing things quickly. What we have here is a remarkable effort from the Treasury, the Chancellor, UK Finance and the banks getting together to create this scheme and launch it.

In the early days and weeks of this scheme, we did not even have a handbook on how to run the scheme. Everybody was taking a chance. Everybody was taking a chance that we would actually be in a situation where we would be able to, in the end, come together with a handbook and agreement, dot all the "i"s and cross all the "t"s. Starling is different. Starling is a new bank. We are used to acting quickly but I have to take my hat off to the Government and the industry as a whole on getting together to make sure this happened.

Q222 **Chair:** That is brilliant, Anne. That is a very powerful point and appreciated by the Committee. I am just thinking of time, and I am sorry to press you. Can I just ask you for one quick improvement? What should the Government be looking at now in terms of all these billions of pounds that are being loaned and going out the door?

Anne Boden: We have to start thinking about what happens after these schemes finish. The pandemic does not end when these schemes finish.

Although the industry responded very quickly to the last scheme, we really need notice. When it came to extending some of the holiday schemes for various interest rates and whatever, we heard the night before. We had put all our websites live, we had sent all the information out to customers and then suddenly we had to change everything. Please do not leave it until the last moment.

Susan Allen: Engagement would be the one I would also pick, to be fair. There has been a huge amount of learning. When you think about the learnings from CBILS, how they informed bounce-back loans and how that in turn informed top-ups, we accelerated at every point with better controls. We have improved the engagement all the way through and that is what needs to continue.

Amanda Murphy: I would take the attitude of the engagement, building on what Susan has said. We worked together across the industry. We worked together with HMT, with the British Business Bank and with the regulators to bring about the right thing for customers. That is what should always drive all of us.

David Oldfield: I have two things. First, we all have to be creative and open-minded in terms of the period ahead but I have two specifics. First, there is no doubting in my mind that small firms will need continuing scheme support beyond 31 January. It is not yet precisely clear what that might look like. Secondly, we need a very clear and consistent set of Government and industry processes for those who will struggle in the months and years ahead. We will do this in a very joined-up and fair way.

Paul Thwaite: I would encourage the Government to stay flexible. As the economic circumstances have changed, so has the nature of the schemes. I would encourage that to continue because I think we are in an incredibly uncertain time. Looking forward, we definitely need both public and private sector solutions around the levels of corporate indebtedness.

Chair: I thought that would have features more widely; that is an important point.

Q223 **Alison Thewliss:** I have some questions around problems around the accessibility of the bounce-back loan scheme. I would like to start with Amanda Murphy from HSBC. In a June survey carried out by Money Saving Expert of bounce-back loan applicants, HSBC scored quite poorly. That is borne out by my casework as well. I have had more complaints about HSBC than any other bank. Could you explain why this has happened?

Amanda Murphy: Yes. As one of the very few banks that remained open not just to our existing customers but to other banks' customers as well, we were simply inundated with requests throughout the process. At one point, there were over 10,000 requests per day coming in. Despite the huge efforts we made, and that included mobilising many of our colleagues into jobs they had not done before and employing external resources augmentation to help us, the sheer scale simply led to delays. I would never be complacent about that and, at a time when it was so difficult, the frustration of business was evident and was very tough on myself and my team.

In the context—I do have to bring us back to the context—we have lent more than 223,000 bounce-back loans, and the vast majority of those received those loans within 48 hours of returning their signed letter. For those that experienced delays, they typically were the more complex cases or there had been mistakes in the completion of the process and the application, or they were more complex legal entities that meant we had to do a further check to ensure businesses were legitimate. One of the things that is always a balance is the balance between accessibility of funds and the speed and pace at which we make these available but also protecting not just HSBC but the industry and the taxpayers from potential risks down the track.

Q224 **Alison Thewliss:** Have you cleared the backlog yet, because I still have constituents that appear to be waiting?

Amanda Murphy: As of Friday, I had approximately 3,000 companies that were banking with other banks and wanted to open bank accounts with us. We were still working our way through those to provide them access to loans. I have opened over 60,000 accounts for other banks' customers who chose to come to us.

Q225 **Alison Thewliss:** When do you anticipate clearing that backlog by?

Amanda Murphy: That backlog should be cleared this week. Susan eloquently stated earlier on some of the long hours that many of our colleagues have worked and I am really very hopeful that I can allow some of my colleagues to get a Christmas break and spend some time with their families in recognition of the work they have done this year, although I am very cognisant of balancing that with our need to support businesses.

Alison Thewliss: I would very much agree that all staff that have worked all the way through should be entitled to that Christmas holiday.

Amanda Murphy: We are trying hard.

Q226 **Alison Thewliss:** In that survey, one in four applicants reported a delay of over a month. That, again, is borne out by the experience I have had from constituents. I wondered if some of the other representatives might explain a wee bit more about why there were such big delays and what the average waiting time is now for your own loans.

David Oldfield: There is a difference between bounce-back loans and CBILS loans. Certainly for us, we built the process to the extent that pretty much all of the 290,000 bounce-back loans we have done had the money the next day. That has been very much speedy, as intended.

Indeed, on the very first day of opening, we did £1 billion worth of lending. Our process worked at speed, as we tried to do. We found about a 97% accept rate. I am sure we will talk about fraud later but the 3% is broadly where we see fraud.

We did take the difficult decision at the start of the crisis to temporarily stop opening new business accounts from other banks. Amanda referred to that. We have just got into a position now where we have reopened again, just at the back end of last week. We are open now to new business start-ups again. We took the decision to protect service to our existing 750,000 business customers, recognising the unprecedented demand at the time, particularly when we were not at full operational capacity. The loans that do take longer are inevitably the CBILS and CLBILS loans. That is where the bank is still doing its normal credit assessment up front and it is still doing the business viability, so they can still take a couple of weeks or something for the money to be paid.

Susan Allen: Just to add to David's answer, we would see something similar on the larger loans but then we are in constant engagement with those customers. On our bounce-back loans, for business current account customers who had a business current account with us, 83% of those were paid out within 24 hours of receiving the application. For those customers, it was very straightforward.

Where we saw things being a little bit more complicated were particularly where people who had a personal current account with us applied to get funding for a business. In those cases, because those are personal current accounts, we obviously had to do appropriate due diligence to understand that there was actually a business, the nature of that business and that the transactions looked consistent with the business—the normal Know Your Customer activity you would do for any business. That inevitably took time and we also found some small businesses struggled with getting us the information. In fact, of the 45,000 personal current accounts who applied to us for a bounce-back loan, 36,000 of those were cancelled at a point. That was really because, despite several contacts with those customers, they were unable to provide us with the evidence of the actual nature of business or the business they were running. It may be also because they found funding elsewhere but it tended to be the personal current account customers who had longer periods. For the straightforward business current accounts, the processes worked pretty well.

Q227 **Alison Thewliss:** Does that perhaps tell you that your customers are doing more complicated things than you thought they were, if they are running businesses through personal accounts?

Susan Allen: What we have identified is that there were a number of customers who were running small businesses through a personal account. That is not unusual. A lot of people starting up a business will just start buying and selling things through their personal current account. The fact that we could not see the evidence of the business transactions may also have been because they had a business account elsewhere. There are a number of things that would feed into that.

Q228 **Alison Thewliss:** If I could ask Anne Boden, the Money Saving Expert survey reported that you rejected over half of sole trader applications. Could you tell us a bit more about why that was?

Anne Boden: First of all, we have been open for business throughout. We have been opening new accounts throughout the whole time since the pandemic started. We did close for a short time on sole trader accounts. You received evidence from Martin Lewis a couple of days ago, and Martin Lewis has been a big fan of Starling, to be honest. Martin suggested that there is nothing in the bounce-back rules stopping you from using the loan to support your income. We got confirmation in writing from the Treasury that is the case. He then went on to say that Starling would be a fantastic choice because they open new business accounts and tended to do things quickly.

We then had numerous applications from that television programme. Those people applied for loans and a substantial number of them were not real businesses. We have fantastic fraud-checking processes. Starling is a new bank. We have not really had much impact from having to work remotely. We were built for the cloud. We have really good fraud-checking processes. We fraud-checked these applicants and we had a high decline rate from those applications. Over the period, we rejected about 16% of all applicants for bounce-back loans. Of course, Martin Lewis then did a social media survey and those people complained.

Q229 **Alison Thewliss:** What level of checks do you feel are appropriate for these loans?

Anne Boden: We have to do fraud checks. Part of the process that we have agreed with the British Business Bank is that we have to do fraud checks. We have fully automated checks and we carry out those checks. If there is something wrong with that application, we cannot give the customer that loan.

There is a bit of confusion going on. There is a lot of talk about the fact that there are no credit checks on these loans. It is worth explaining to people what checks banks are doing, or what checks Starling is doing. If somebody opens an account, we do credit checks. Not all of our customers go on to do a bounce-back loan. About 19% apply for a bounce-back loan and we do fraud checks. Some of those fraud checks also return certain credit markers. At that particular point in time, we make the decision about whether it is a fraudulent application and decline or accept. Customers then look at their reports and see there was a credit check. That is what we have been doing.

Paul Thwaite: On the subject of approvals, in excess of 90% received the funds within 48 hours at NatWest. We take our requirements under the scheme very seriously. As Anne alluded to, we are required to do normal fraud and financial crime checks. We embedded them into the process from the start. That obviously helps to mitigate fraud. That is what I would say on behalf of NatWest.

Q230 **Mr Baker:** Mr Oldfield, the Competition and Markets Authority deemed that Lloyds had broken the SME banking undertakings by requiring businesses to open a business current account in order to progress their application for a loan under the bounce-back loan scheme. Can you tell us, please, why Lloyds did that?

David Oldfield: We moved at pace, as all the banks did, in terms of putting processes in place for bounce-back loans. As has already been said, we recognised that some of our existing personal current account customers would be trading through those accounts. Early on, we asked them to open a business account in order to have access to the digital journey that we had built that gave them this bounce-back loan the next day. In doing so, we proactively contacted the CMA and said that was the trade-off that we were making in terms of giving these existing PCA sole traders access to the account at speed.

Since that time, we have worked with the CMA to create a separate servicing account that is distinct from a normal business current account. We created that new variant in about September-time. We have said anyone who opened a business current account in that time pre-September can switch at any point to another bank and just leave the loan with us with the servicing account if they chose to. Thirdly, customers can switch to that new servicing account variant at any time if they want to. There is no customer financial commercial detriment here because those business current accounts are fee-free for the first 12 months anyway. In inviting all those customers, if they chose to, to switch across to the new servicing account, the great majority have chosen to stay with the business account that we opened.

We went into this with our eyes open. We told the CMA that it was going to be a technical breach, not because we were not taking it seriously but because it was the trade-off to try to give these 35,000 personal current account customers a chance to have access to the bounce-back loan.

Q231 **Mr Baker:** Thank you very much. That is a very comprehensive answer. Just to check that I have understood correctly, the fundamental feature there was the volume of applications and you needed to streamline your processes, and that is the reason. Have I understood that right?

David Oldfield: On day one, we did not have a non-BCA servicing account on the stocks and ready that was an immediate link from PCA to a bounce-back loan. We had to go from PCA to business current account to the bounce-back loan. That is the digital journey we built. As I said, we have done 290,000 of those, so it is brilliant at scale. That was not ready for that internal PCA switch day one.

Q232 **Mr Baker:** You gave me a very comprehensive answer there, but could you just confirm that that completes all the actions that you agreed you would take with the CMA?

David Oldfield: It does.

Q233 **Mr Baker:** Can I turn to Paul Thwaite, please, for NatWest? The *Guardian,* which is not always my first choice as an authority, has reported that NatWest shut the accounts of some small business customers who applied for bounce-back loans, leaving them distressed, in some cases—one in particular—to the point that they could not afford food and unable to access their cash? Is that *Guardian* report that you closed those accounts true? If so, why did NatWest do it, please?

Paul Thwaite: I do not recognise the article. At NatWest, we were determined to support as many customers as we could. We have demonstrated that by writing in the region of 280,000 bounce-back loans. We are obliged to have our normal fraud and financial crime checks in place. They were embedded, as they are in all normal lending, in bounce-back loans and CBILS loans. During the normal course of business, there are due cause and reasons to exit accounts. That may or may not be to what the article refers but, overall, our objective was very clear: we wanted to support as many customers as we could. We think we demonstrated that by providing nearly one in four or one in five of all loans. Obviously we take any decision to exit any customer very carefully. They have individual oversight and I am sure that was the case in the example you reference.

Q234 **Mr Baker:** I am sorry we have sprung this one on you. In the article, it says, "The bank said the reasons for closing the accounts were valid, but the closures came after customers had been approved for loans and were expecting to receive the money in their accounts".

Paul Thwaite: I would be very happy to take the specifics and provide a response to you. It is obviously difficult to answer without that.

Q235 **Mr Baker:** Of course it is. I wanted to put on the record that that was the reason the bank had given the *Guardian*. What we will do perhaps is just draw the article to your attention and see if you would like to write to the Committee afterwards, if that is okay. Thank you.

Could I ask you all, please, starting with Anne Boden, how you determine the interest rate to be charged on coronavirus business interruption loans, please?

Anne Boden: Each and every loan is individually underwritten. Our average CBILS loan is about 6% or 6.5%. The maximum we charge so far has been about 9.9%. The important thing is that we have to pass on to the customer the benefit of the guarantee. At an average of 6% and a maximum of 9%, that is actually quite good value.

Q236 **Mr Baker:** Greg Taylor, head of financial solutions at the accountancy firm MHA MacIntyre Hudson, said, "This is supposed to be saving businesses rather than putting them under". He also went on, "Are you really helping somebody at 14%?" Have you written any loans at 14% at Starling Bank, Anne?

Anne Boden: The maximum is 9.9%.

Q237 **Mr Baker:** Paul, could I turn to you? Could you tell us how you have reached your interest rate decisions on CBILS?

Paul Thwaite: Yes, of course. Simply, the CBILS average is around 3% and the maximum cap is 5%. That sets the framework. From the outset, we are absolutely determined to pass the benefits of the guarantee and the benefits of the Bank of England funding through to the customer. That is what drove our pricing. Net of the charge for the fee, they are priced to cover the cost of capital. As I say, the maximum is 5% and the average is 3%.

Q238 **Mr Baker:** Susan, how did Santander calculate the interest it would charge, please?

Susan Allen: Like all of the other banks, we looked at our pre-existing pricing but we adjusted that significantly to take account of the 80% Government guarantee so that the companies had a lower funding cost. We have a range of different pricing depending on the credit risk but the pricing was all adjusted to take account of the guarantee.

Q239 **Mr Baker:** What range did you use? What range was applied in practice?

Susan Allen: To be honest, I am not responsible for the part of the business that deals with the CBILS loans. I do not have that information in front of me, I am afraid. If it is helpful, we can of course provide that separately to the Committee post today.

Q240 **Mr Baker:** I would be very interested, please. I used that quote moments ago from MHA MacIntyre Hudson. If people were being loaned money at 14%, we would be very interested to know why people were up at that level. Could I perhaps turn to Amanda? How did HSBC calculate the interest rate and what range did you settle on?

Amanda Murphy: In similarity to the other banks, we looked at our existing book. We looked at the value of a Government guarantee for 80% and had an intent to pass that on. Where we deviated slightly is we thought that, given the nature of the scheme, having transparency of pricing for customers was imperative. We priced all our loans up to three years at the same price—3.49%—and all our loans for three years to six years again at the same price, at 3.99%.

Q241 **Mr Baker:** Were you partly able to do that because of your scale as a bank? Do you have some sympathy with the other banks not being able to go for that approach?

Amanda Murphy: I really cannot opine on the other banks. All of us at the time were trying to do the right thing for our customers. This was the discussion we had in HSBC. We felt the transparency was imperative and that there could be confusion and potential negative media reactions such as the article you have quoted. That is why we took our decision.

Q242 **Mr Baker:** Mr Oldfield, how did you price them at Lloyds?

David Oldfield: We priced at a maximum of 5%. We expected an average of about 3%. In fact, our average is coming in a bit lower than that, closer to 2.5% just now. The thing we took into account in terms of pricing was we said we would break even with our cost of equity plus an allowance for bad debts, with the 80% guarantee. Secondly, we would fully pass through the benefit of the Bank of England TFS funding. That is worth about 50 basis points. Thirdly, we would reflect the reduction in the risk-weighted assets we hold because of the 80% guarantee. All that lot was taken into account and a single price was our view to keep it simple. That gets you to those numbers.

Q243 **Mr Baker:** I am out of time but I just will finally answer this question. Do any of you recognise this phenomenon of people charging upwards of 10%, perhaps as high as 14%, on these loans?

Paul Thwaite: I do not recognise the specific, but it is probably worth sharing with the Committee that there are nearly 100 lenders accredited for CBILS. There is a broad range of providers, and potentially of interest rates.

Q244 **Julie Marson:** I should mention that in a previous life I worked for NatWest Markets and subsequently RBS corporate and institutional banking. I would like to ask everyone about your views for the outlook for the SME sector, please. Perhaps I could start with Susan.

Susan Allen: Good afternoon. Obviously, none of us have a crystal ball, so it is clearly very difficult to think about what the outlook might be. We are all going to be focusing really hard on what we can do to help businesses come through this period in as good a shape as they can. That is why we have launched a programme called Survive and Thrive, really trying to help small businesses come through, become more digital and move more of their business online to try to help them to create new opportunities. Indeed, what we are seeing bounce-back loans doing for some companies and businesses is opening up new channels.

It is hard to say what the outlook will be but one thing I would say is that I have been incredibly impressed, when I have talked to our customers, at just how entrepreneurial and innovative small business owners are across the UK. When I look at those small businesses—I am thinking of the restaurant that is now doing takeaway meals or a shop in Shropshire that used to sell at county fairs that now sells its cashmere online—there is an incredible ability, flexibility and innovation. I am really impressed by the skills we have across our small businesses. People are showing great innovation to succeed.

Q245 **Julie Marson:** I would certainly endorse those comments. I have seen lots of creativity in my constituency. Susan, do you sense that businesses are looking beyond now? Do you think they are looking at vaccines and looking towards a recovery, into another phase rather than just survival?

Susan Allen: It depends somewhat what sector you are in. If you are in the hospitality sector, it is still a pretty gloomy time. Trying to understand when we might be able to get back to some sense of their normality, even with the vaccine, is quite challenging. It depends on the different sectors. I equally think that, just as we have seen in our industry, many small businesses are looking at digital and how it can accelerate their own progress and open up new markets for them. People are starting to look beyond and plan, but it is still a very uncertain environment.

Everybody got very excited, as we all did, with the prospect of a vaccine, but there is a realisation that it is going to be some time before we get back to normal, if we get back to how we used to be. As I say, none of us has a crystal ball. Neither do the businesses we are serving and supporting. The business have generally shown great resilient, creativity and innovation. That will help in the future, going forward.

David Oldfield: I would echo much of what Susan has said. Our business have been remarkably resilient. We need to give credit to the Government in terms of their range of schemes, including furlough. They have absolutely given a whole bunch of businesses breathing space. It is certainly not one size fits all. Those in hospitality, travel, leisure or pubs—the obvious ones—are still finding life very tough.

We all rather dodged the question earlier on from the Chair about what we think in terms of future default rates. TheCityUK came out not long ago and suggested that 35% to 40% of bounce-back loans will be unaffordable, and 15% to 20% in terms of CBILS. Although the pay-as-you-grow initiative from the Government is spot on and absolutely helps, because it smooths the curve from what would have otherwise been a cliff around April next year, there is no doubting there will be many SMEs that find life quite difficult for some time to come.

We have come out today in the media with some of our latest customer research. There is a bit of a bounce of confidence we have seen in Q4, particularly on the back of the vaccine news, compared with what people felt in Q2, but this is going to be a pretty long haul, with choppy times ahead for business customers.

Amanda Murphy: Corporate indebtedness is an area of finance we are very concerned with. It is understandable in the SME space, when we take into consideration the scale of Government-backed lending that we have seen and add to that banks' own deferral payment schemes plus VAT deferrals. SMEs are under a higher debt burden today than they ever have been before. This is at a time when many businesses that I am talking to have run down their resources. They have run down their working capital and they may have extended creditors.

Interestingly, we regularly ask our customers how worried they are about being able to pay back their financing and about their finances. We have seen that concerns, although still higher than we would like and higher than business as usual, have reduced significantly in recent months. I endorse what David is seeing and feeling. We have seen it come down from 29% of all small businesses to about 21%. That is a good step in the right direction. The pay-as-you-grow scheme will be essential for small businesses, as will the flexibility and the agility with which we can roll that out, whether it is extending the loan tenor or reducing monthly repayments or interest on repayments—whatever that looks like for the individual businesses.

We will have to manage the increased leverage very carefully to make sure that we do not choke off the chances for recovery. There is, of course, a balance to be struck with the cost of these Government loans and the moral hazard of not looking for repayments, but you also want to make sure that we can help support as many businesses as possible to survive through these times because that will be the growth of the economy again.

We continue to play our part. Debt financing is one aspect that we, for obvious reasons, have touched heavily upon today but it is not the only response. We have to broaden our conversation. SMEs are telling us they do not actually want to borrow any more, but they may need flexibility. They may need advice. What really will drive that recovery is the increased certainty that comes from the public health emergency and how confidence gets boosted in businesses. The vaccine and the recent announcement of that are critical. As that confidence comes back to our businesses, the recovery will have to be supported further by additional growth finance that goes beyond the banking system, whether that is looking at private sector investment or equity options, but we need to have that conversation now so that we are broadening our options for day two recovery.

Paul Thwaite: I would echo that the outlook obviously remains uncertain. It is a very difficult and stressful time for specific sectors and customers. Our customers find themselves in different positions. Some obviously have stresses in relation to their balance sheet. Some are needing to restructure or repivot the business to focus on more ecommerce offerings. There are other businesses that have actually thrived during the crisis and are looking for investment.

The way NatWest and I think about this is we are determined to support the recovery, whatever situations different businesses find themselves in. We have launched an enterprise fund, which attracts private capital to support some of those growth businesses. We have also launched an SME taskforce, in combination with the Federation of Small Businesses and the British Chambers of Commerce. That is really bringing the industry bodies and the policymakers together to focus on what will make the best and the most difference for different customers. It is a very broad range of measures that is needed to support the recovery. That will vary really significantly depending on both the duration of the crisis but also the sectors which businesses are operating in.

Anne Boden: A couple of months ago we were talking about something like 30% to 60% of businesses not being able to pay back these loans. I think it is going to be the lower end of that now. We see some positive signs but what has really surprised me is the impact on the different sectors. One of the things that we thought when we went into this is the construction industry would be failing. Actually, people are refurbishing their houses and we see lots of activity in the small end of construction. People in the IT industries and people that are independent consultants seem to be working at homes and things are going okay. It is the hospitality and the food industries that we have to consider very carefully.

What I am really concerned about is that, for the limited companies that go under, it will not individually impact those directors, but when you come to sole traders, if those sole traders fail and cannot repay, it scars them for life. We have to think carefully about the different sorts of companies and entities taking the loans and not being able to repay those loans.

Q246 **Siobhain McDonagh:** My questions are to understand the banks' assessment of the risk of fraud arising from the bounce-back loan scheme and what they have done to mitigate the risk. The first question is for a range of views. Brief answers would be gratefully received. The National Audit Office has reported that the proportion of loans issued fraudulently under the bounce-back loan scheme is anticipated to be greater than the usual range of 0.5% to 5% for similar Government-backed schemes. What is your own assessment of the scale of fraud under the schemes and, specifically, what has your bank been doing to mitigate the risk of fraud?

David Oldfield: We take fraud very seriously. We have gone to great lengths to try to spot and stop fraud, particularly on the bounce-back loans. We would all recognise the design of that scheme was a trade-off between the speed of getting the money in the account more often than not the next day versus the checks that we, as banks, were doing. We do screen every single bounce-back loan on application. We see about 3% of fraud up front, which is why we have a 97% acceptance rate. Once the money has actually been lent, we then identify about 2% of those loans that then have suspicious elements to them. Because we screen every single account every single day, it is either based on what we see or, indeed, what we get from the industry in terms of Cifas, for example.

Of that 2% we then see, we manage to freeze about two-thirds of that, so net-net we get to a fraud rate on bounce-back loans of less than 1%. Less than 1% is still a large number—I do not say that without consideration—but, as a percentage, that is probably about five times higher than we would see in normal BAU lending. That would be nearer

0.2%. We are seeing broadly 1% when all is said and done in terms of bounce-back loans.

With CBILS you see less than that, because clearly we have the time up front to do proper viability assessments and proper affordability. They are businesses that have typically banked with us and borrowed before so we know much more in terms of their track record and their individual circumstances. For bounce-back loan customers where they have in most cases never borrowed before, we clearly know much less.

Susan Allen: Over 150,000 bounce-back loans that have been provided to our small business customers. At the moment, we have about 1,500 cases either under investigation or confirmed fraud, so about 1% of the book. Obviously, some of these were duplicate checks. One of the things you will be aware of is that, when we started the bounce-back loan scheme, there had to be, again, a trade-off against speed and some of the checks that could be put in place. We started bounce-back loans. We did not have a system between the banks to identify any potential duplicate applications. Some were genuine duplicates where customers had accounts with various different banks, were worrying about the need to get money desperately and put in more than one application. The scheme rules, of course, are that you can only have one loan.

Since the beginning of June, the industry has worked together to have a system in place where we can now identify duplicates. As we have had that data, we have found some duplicates in our book and we are working through. In some cases, we have actually recovered the funds from the duplicates, where we were the second loan. In other cases, we are working through a repayment profile with those customers to get those funds back that should not have been properly drawn. We are seeing a level of fraud, as David has flagged. We have our normal fraud checks, which have been in place all the way through, and we are now picking up some of those other cases as we do more analytics on the accounts and then follow those through on a one-by-one basis.

Amanda Murphy: We have seen criminals this year repurpose their infrastructure and amend how they interact with us, looking at how to exploit the fears that have come around pandemics, particularly around the supply of PPE. We have seen some and we have captured some fraud in that area. Thankfully, our internal policies have stood up well to those. We have needed to make some adjustments because of the speed of some of the Government schemes.

If I look specifically at the Government schemes, we would always do our AML and KYC checks. They remain in accordance with UK money-laundering regulations. We have our standard onboarding requirements. Prior to drawdown, we look at a variety of risk indicators and check there are no inhibits, et cetera. We do our fraud checks using Cifas before the drawdown of the bounce-back loan. Any potential hits there will go through our fraud operations team to ascertain whether it is indeed a true match. Similar to many of the other banks, we also do the checks to make sure that customers have not taken bounce-back loans from other banks. We have introduced and are in the process of continuing to introduce additional fraud technology around ThreatMetrix and BioCatch, which really is a much more sophisticated way of understanding cyber-fraud.

Q247 **Siobhain McDonagh:** Thank you, Amanda, for your very full answer. Amanda and David, no one would dispute the importance of banks doing all they can to prevent fraud, but that should not mean denying legitimate businesses from the support that many so desperately need. Recent reports suggested that your banks had pulled down the shutters to legitimate businesses because of the potential for fraud. How could you justify excluding a business from the support that it is entitled to? The chairman of the Fraud Advisory Panel charity described this as a business decision by the banks, noting that fraud checks can be done in 15 minutes. Given the support banks were given during the banking crisis, is it not your job now to help the difficult applications and put the time in?

Amanda Murphy: It is absolutely our job to help our customers. It is absolutely our job to help society as it rebuilds. That is what has really driven us for the last nine months. As I said early, we are one of the very few banks to have remained open for non-HSBC customers throughout this period. That gave us an incredibly backlog. With the pending closure of the scheme, what I was most worried about is that we would have a business that is in that queue to open an account to get a bounce-back loan and we would not have the physical time to get to them. We took a very difficult decision to stop accepting new non-bank customers into that queue so we would be able to process them all down in adherence with the scheme guidelines. It was a very difficult decision. It was nothing to do with fraud. It was simply to do with our ability to process those applications that were in the queue. It is our intention to reopen as quickly as we can to non-bank customers again.

David Oldfield: I will give you a brief answer. I agree: it is absolutely our obligation to use all of our data and information, both within the bank and within the industry, to spot and identify genuine fraud. For us, we have done 290,000 bounce-back loans. It is about one in five across all of those provided and we have a 97% accept rate. We are doing our bit in Lloyds in terms of managing the trade-off between proper checks and balances on a day-to-day basis while at the same time recognising that many of these customers desperately need support in these difficult times.

Q248 **Rushanara Ali:** Good afternoon. I just wanted to start off with a question around the reimbursement code. There was a story in the *Times* on 6 December that had the slightly alarming headline, “Banks plan to kill off fraud refunds”. Obviously in the middle of a pandemic, with the concerns for vulnerable customers remaining an issue, I just wanted to hear from each of you about whether you have plans to do that. I wanted to hear whether you think, if the current arrangements or any watered-down arrangements damaged those customers who are vulnerable and put them at further risks of scams, that Government should be looking at making that code mandatory.

David Oldfield: We very much support the contingent reimbursement code. It has just been extended, as you will know, by six months, until the middle of next year. We are very supportive of that. We would support making the code mandatory because we think that would provide more consistency, even through legislation if required.

Where we all need to get better—this is not just the banks; this is industries as a whole, working with telcos and such like—is recognising that most APP fraud comes from fake websites; it is purchase scams or it is spoof SMS emails. We talk a lot about reimbursement and that is a right and proper focus for all of us, but we all need to get better at stopping fraud at source.

Anne Boden: Starling did not have to join the contingent reimbursement model—the CRM—but we felt it was so important. We have a very horrible situation at the moment. More and more business is going digital. More of the economy is moving to places where people are buying things online or communicating online. In that environment, more and more fraudsters are attacking it. At the moment, not everybody has to join CRM. What we need to focus on is actually stopping the fraud rather than the reimbursement scheme itself. We need to do both.

Q249 **Rushanara Ali:** Do you think it should be made mandatory?

Anne Boden: What we need to start figuring out is, as an industry as a whole and not just the banks—

Q250 **Rushanara Ali:** That was not my question. I hear what you are saying and it is a point well made. Should it be made mandatory?

Anne Boden: Yes.

Susan Allen: I was going to support the points that Anne and David have made. When we look at the impact that these frauds have on individuals, even if they get reimbursed, the impact on individuals is just awful. I have seen people who have been taken in, particularly in things like romance scams and investment scams. Even when they get the money back from the bank, that does not solve it for them. They feel as if they have been stupid when, in fact, they have been socially engineered. It is very traumatic. All of us are united in feeling we need to focus on getting after the scammers and fraudsters who are serious criminals who are taking this money.

Q251 **Rushanara Ali:** Do you recognise this story, because a number of banks were involved in this discussion about watering it down? Are there any plans? Can anyone confirm whether there is a plan to water down the current code?

Susan Allen: The commentary may have been taken from the response to a consultation and, from what I understand, may have been taken slightly out of context. There was a point made by the UK Finance return about trying to make sure that there is real focus on those life-changing situations and potentially some different treatment of payment scams. I am just reading that from what I have read.

Q252 **Rushanara Ali:** The story suggests that Lloyds, Santander, NatWest, TSB and Nationwide were part of that discussion and, if the proposal does go ahead, consumers would lose about £67 million if this code is watered down. Can each of you confirm that your banks are not supportive of such a change, which is basically going to deny consumers £67 million? Could we just have that reassurance from you that you are not party to wanting to water it down?

Amanda Murphy: I can confirm from HSBC's perspective that we are not party to wanting to water it down. We are supportive of it being put on a statutory foothold because we think that will ensure fair and consistent outcomes for customers. To Susan's point, the victims here also are often our most vulnerable customers and we need to take steps to protect them. At the risk of sounding repetitive, this has to be a whole-system approach to tackling fraud.

Q253 **Rushanara Ali:** It is a point well made and I certainly support that. Can others just address this particular point about whether they recognise this point and whether they are part of a discussion to water it down or not—yes or no?

Paul Thwaite: I do not recognise the article you quote. NatWest was one of the founder signatories of the voluntary code. We remain supportive of the contingent reimbursement model. We do, like my colleagues, think that the whole approach needs to be a broader one where we really attack the fraudsters and the scammers, but I know you have accepted that point.

David Oldfield: I do not get the watering-down point. I do not understand that. Along with Paul, we were one of the signatories up front. We remain very supportive of the code.

Susan Allen: Similarly for Santander, we were in from the beginning and want to see a good solution for our customers.

Q254 **Rushanara Ali:** That is wonderful. I know that will be reassuring to many of our constituents. Thank you very much. Just on the issue around overdraft charges, obviously you will all be familiar about concerns, including from the FCA. The charges by NatWest, HSBC, Santander and Lloyds are exactly the same for overdrafts. Barclays is 35%. Starling is 15%, 25% or 35%, depending on credit scores. Apart from Starling Bank, others are charging the same rate. Can you just explain what is behind the exact same rates and how you have all arrived at the same rate? It looks like a cartel.

Susan Allen: First of all, it absolutely is not a cartel. I can be categoric about the fact that there was absolutely no discussion or engagement across the banks on this rate. All of us took our own decisions and we certainly took our decisions through our executive committee and through the board, setting out a range of different options around overdraft pricing.

Where we see overdraft pricing is we have to look at a spectrum, with things like secured lending, which is something like a mortgage, through an unsecured lend or a credit card. Bear in mind that overdrafts are meant for infrequent use. I know that the rate does sound quite high but bear in mind that the rate is meant to be for infrequent use. Where we see customers who are struggling and who have to make regular use of their overdraft, we encourage them to have a conversation with us. We do have alternatives we can offer to customers who are finding that they are struggling with their debt and they need some support. We absolutely take that responsibility to help our customers very seriously.

Q255 **Rushanara Ali:** You will all appreciate 40% is a pretty scary rate. I know that there have been deferrals at the moment because of coronavirus, but we know from the evidence sessions we have had that debt is increasing, especially for those on low incomes. This is very concerning. To others, if you could respond to this point in relation to your banks, is this not anti-competitive behaviour? It is not effective competition, is it, if so many banks have exactly the same rate?

David Oldfield: This is not my part of the business, but I was part of the executive committee decision where we considered all the alternatives. I can absolutely tell you that we decided, based on what we thought the pros and cons were, to get to the rate that we got to.

I would echo what Susan says: that overdrafts are very useful for customers who want to borrow some money for very short periods of time. They are not intended for long-term borrowing. We were the first bank, back in 2017, to remove fees and charges for unarranged overdrafts. We have now, as most banks have, moved to a risk-based pricing model. Although the majority will pay, in our case, 39.9%, there are other groups of customers—those who have a Club Lloyds account, for example—who will pay 29.9%. There is a range of prices in there but, to echo the point that Susan made, if we see evidence that someone is using their overdraft for more than just fleeting moments of need, we will be very proactive in having a conversation about different ways of meeting their requirements.

Paul Thwaite: Similar to David, this is not my area of the business but I know that it was a carefully considered decision that we took independently. At the danger of repetition, we are very alive to the fact that overdrafts should be for very short-term borrowing. There are a range of options available to customers. We reach out proactively to customers to provide different types of support or advice depending upon their borrowing requirements, be that secured or unsecured. That is how we approach it and we would always encourage customers to have the right type of borrowing reflective of their specific circumstances. Linking your two points, we also have very specific procedures for vulnerable customers, to ensure they have the right advice and the right approach.

Q256 **Rushanara Ali:** I am just going to bring in Amanda, because there is just a wider issue now, especially given what has happened with coronavirus. People are going to be more indebted and are using overdrafts in a very different way now because people are in distress. Do you thing that there is a need for the Government to look at this more holistically? I understand why banks are doing what they are doing, but is there a case for intervention and support from the Government to help people to avoid getting trapped in these very high-interest-rate overdraft schemes, over and above what you already do?

Amanda Murphy: There is a need for more education around this. That is a very fair call. When we look at what we have done, again echoing my colleagues here, there was certainly no cartel. It was at the request of regulators to make it more transparent and fair for customers. In advance of introducing the fee, every customer who was a regular or frequent user of overdrafts was contacted to see if there were better ways to achieve their financing. For 70% of those customers, it was no impact or indeed cheaper than their previous fees. We have provided a buffer of £25 to make sure that, if you just go slightly overdrawn, you do not have an impact. That was increased to £500 during the crisis.

More importantly than that, banks are now looking to communicate better with their customers around this. For example, at HSBC we send millions of texts to our customers to say, "You are getting close to your limit. You have 24 hours or 48 hours to bring yourself back into order before fees", et cetera. There is that piece around that communication and encouraging customers to talk to their bankers about other ways to finance themselves. Susan mentioned some other products. Some of them are much more suitable when there is a prevailing need.

Rushanara Ali: Can I just say thank you, on other fronts, for the work you have done during the pandemic for our constituents?

Q257 **Harriett Baldwin:** I would echo what Rushanara said but also say how pleasant it is to have a panel of senior bankers that is majority female. It is a great thing.

I just want to go back to what the Chair started to ask questions about at the beginning, which was around the bounce-back loans. I appreciate you all said that it was far too early to tell how many bounce-back loans are going to go sour, but we can all agree that there will be some. I want to ask each of you how you are planning to go about recovering the debts in terms of the bounce-back loans. What are you hoping will happen? Obviously a lot of it is being guaranteed by the Government. Are you going to give them longer or are you going to get debt collectors in quickly? What are going to be your criteria for going after people? Specifically to NatWest, what have you learnt from your past experience in the last recession, when you had those issues with GRG?

Susan Allen: On this particular point of recoveries, there are a couple of relevant points to make. The first is that the guarantee from the BBB and the Government only applies if we follow our normal recoveries processes. There is absolutely no suggestion that we would either accelerate or change the recoveries process. The requirement of the guarantee is that we follow our normal recoveries processes.

What that means in practice—I am sure that others will say the same—is we work really hard with every customer who is struggling to find the right solution for them. It is very much a case-by-case basis, really working with them to try to see if there is a way that we can provide additional support over a period to help them get back on their feet. Calling in the debt would be very much the last stage that we would go to. It is not something we rush to. We will follow our normal processes that involve engaging with that customer on a one-to-one basis, looking for other solutions and trying to find a way to help them through. If, unfortunately, they are unable to pay in the end, yes, that would be a situation where it goes into recoveries and we would be calling on the Government guarantee. We will take every step possible to try to help customers through that very difficult time.

Anne Boden: Everybody is very worried about what happens when people start to show distress and we have to start the recoveries process. What has been happening is that all the banks have been working quite closely with HMT and the British Business Bank to come up with a set of processes. These processes actually document what happens. The great thing is that the Chancellor has announced the pay-as-you-grow scheme where customers can ask for extensions and four holidays, one that is capital and interest, of six months, and three that are just for repayment. That will ease things and customers can choose to avail themselves of those measures and extend the loan to 10 years. That is a really good step and it is pretty automated; the customer can choose what they want to do on their app or web service. That is really good.

Additionally, there are standard processes. Everybody is going to follow the same processes for the recoveries. Additionally, as an organisation, Starling is looking at how we deal with sole traders. It is fine when you get a business. A business can be pursued for debt and they can wind the business up. It is hard when you have a sole trader and it is an individual. We all need to do something special around these individuals who have perhaps taken loans for the first time and cannot repay. There is a lot of industry activity trying to get this right at present.

Paul Thwaite: I would agree with Anne. The industry protocols around recoveries and collections are a really important and impressive step. The whole objective of those protocols is to get consistent and fair outcomes for the borrowers and also to make sure there is a consistent approach for the lenders to follow. The protocols involving very careful communication well in advance and opportunities for customers who believe they are entering difficulty to access the options through pay-as-you-grow will prove a very important step.

On the direct question of learnings from the past, if I may address that directly, what I would say is that NatWest restructuring is fundamentally different from the GRG of old. We apologise as a bank for some of the shortcomings. There has been an extensive programme over many years to learn those lessons and to put those shortcomings right. The approach that we will follow as we go into this crisis is aligned to the highest regulatory standards. It is absolutely focused on making sure that all customers get a fair and consistent outcome. I am determined and I know the executive committee is determined that there will be no repeat of past mistakes at NatWest.

Q258 **Harriett Baldwin:** Thank you for putting that on the record. David, is there anything you want to add to what your competitors have said?

David Oldfield: I do not have much to add. Consistency of treatment for what could be several hundred thousand small firms here that experience difficulty is crucial. That is the importance of working with Government, across the industry, with the regulators. You will know, as the media has covered recently, that some of us are twin-tracking the alternatives of either a single industry utility where we all work together or doing our own things I remain open-minded in terms of which one of those gives customers better outcomes in a consistent way.

There is a difference here, as we think about customers who say they cannot pay, between those who cannot pay and will not pay. There will be some customers who have gone into a bounce-back loan with no intention of having it repaid in the first place. We clearly need a different treatment strategy for those versus those businesses that have genuinely suffered in difficult trading. We need a sophistication of approach here.

Q259 **Harriett Baldwin:** Amanda, is there anything different at HSBC that you want to add to that?

Amanda Murphy: I would just add that we have already, as you would imagine, started training our staff. Many of our staff will have never seen a financial crisis. The level of training has been really increased so they can interact sensitively and constructively with customers. We have launched a customers-in-financial-difficulty hub to help signpost customers towards how to help themselves as well, including some signposts towards really good external, independent resources like National Debtline or Business Debtline. We have doubled the number of staff that we have working in this area, including a team for the very smallest businesses out there. When we start to see the first signs of distress, they will be proactively talking to them, contacting them and trying to help.

Q260 **Harriett Baldwin:** I am assuming some of you are seeing individuals who are literally using the proceeds of the bounce-back loan to live on and you are seeing some of that early sign of distress at this point in time. In the interests of time, I just wondered if I might get a quick "yes" or "no" from each of you in terms of whether your firms are increasing the use of personal guarantees on your non-Government loan schemes at the moment. Is that something you are seeing a measurable change in?

Amanda Murphy: No.

David Oldfield: No.

Paul Thwaite: There is no measurable change.

Anne Boden: We are not taking personal guarantees.

Susan Allen: No. We only ever took them at the larger end, but no.

Q261 **Harriett Baldwin:** My final question is about when the recovery gets going. It is obviously going to be vital that small businesses and start-up businesses have access to finance. I would be interested in very quick thoughts from each of you on what you think needs to happen to ensure that these bounce-back loan portfolios do not crowd out access to new businesses and really fast-growing and expanding businesses.

Susan Allen: One of the challenges right now is capacity, so that is a fair point to raise. As we have already touched on, many of us have really had to pivot to help our existing customers. That has created some challenges for new businesses. However, as we are seeing the demand for bounce-back loans decline now, we are starting to pivot back our business relationship managers to help other customers more. We are open for business and to support those companies.

Q262 **Harriett Baldwin:** It is not the balance sheet constraint; it is a people constraint.

Susan Allen: It is absolutely a people constraint, because we really wanted our teams to really focus on those customers who are in desperate need of funding—the existing businesses that were struggling. It has been a resource capacity. Like Amanda, we have been training up more people to help our small businesses, but that has been the constraint.

Anne Boden: I actually have a slightly different view. I think we are going to have an issue when bounce-back loans finish. The banks are providing Government-backed, 100%-guaranteed loans at 2.5% and, all of a sudden, that stops. There will probably be a replacement scheme for CBILS, of something like 80% or whatever, but businesses will still expect very low-cost borrowing and will have difficulty going back to the old rates. We have now re-benchmarked and recalibrated lending at 2.5% with 100% guaranteed. There is going to be a gap. Traditionally in the market the non-bank lenders that offered loans to some of these very small companies at higher rates have really had a hard pandemic and they will not be positioned to take up the slack. We have a bit of an issue here: what really happens to lending to these very small businesses when these schemes end?

Q263 **Harriett Baldwin:** Some of them may well be able to succeed at these low rates but will not be able to succeed at higher rates. Paul, what are your thoughts?

Paul Thwaite: Looking at the wider context, these banks are obviously very well capitalised, which is very different from the financial crisis. Banks are a lot more resilient to shocks and able to lend and support the economy. I do not think there is a constraint from that perspective. To build on Anne's point, the successor to the enterprise finance guarantee scheme, which I think we will see the details of early in next year, will be very important.

I also touched on earlier that there are growth companies that will need access to capital to fulfil their growth aspirations. Debt is one part of that, but there is an equity capital gap and a number of suggestions through various reports, be it via TheCityUK or the ScaleUp Institute, have highlighted the need to bring private capital in to support those growth companies. The launch of our UK Enterprise Fund is one example of that trying to support high-growth business. The answer is multidimensional. It is the successor of the scheme, it is debt and it is also equity solutions as well.

David Oldfield: I do not worry about transitioning to banks being permitted to lend without Government schemes. We, as Lloyds, committed back at the start of this year to lend £18 billion to small and medium-sized businesses. That was in advance of the Government schemes. We are a well-capitalised bank and I would expect us, as we have done over the years, to continue to support the growth of SMEs that need bank support.

Amanda Murphy: The only think I would add is we may have a very positive unintended consequence of these Government schemes because, for the first time, hundreds of thousands of businesses have sought financing. In the past, they have perhaps been a bit nervous to come in and seek debt. Now they have done it for the first time, and all of the banks have adapted to bring scale into the business as well. If we manage it properly and safely, that could have a really positive impact going forward.

Q264 **Anthony Browne:** I should declare I used to be chief executive of the British Bankers' Association and many of the witnesses were my members and, indeed, board members.

I want to follow up the painful issue of recovery. It is very easy to be popular when you give away £40 billion or £60 billion. It is more difficult to get it back. The default rates are across a range. If it was 25% for bounce-back loans, that is about £10 billion that you would end up needing to get from the Government. It is a non-trivial amount of money here. Before I follow up Harriet's questions about exactly how you do that, I first have some questions on recapitalisation. We mentioned the Government pay-as-you-grow scheme but the industry—

Chair: We have lost Anthony. We will endeavour to retrieve Anthony from wherever he has gone. In the meantime, I wonder if Felicity would step in.

Q265 **Felicity Buchan:** My questions are on the Bank of England and its effectiveness in supporting you. Why do I not go to Paul first? The Bank has reduced its countercyclical capital buffer to 0%. Has that enabled you to increase your lending?

Paul Thwaite: You are absolutely right to say that the countercyclical buffers were encouraged across the industry for use. NatWest has a very high capital level for a number of reasons. It was not directly dependent on the use of the buffers to continue our support for the economy. It sent a very strong message to the market that the buffers were there to be used and that the banks were there to support the economy. In NatWest's specific example, we did not need to use the buffers, capital-wise.

Q266 **Felicity Buchan:** Let me just bring in David on the same question. Is your experience similar?

David Oldfield: It is very similar. Lloyds is well above the regulatory minimum in terms of core tier 1 capital but, as Paul has suggested, reducing the countercyclical sends a very strong and supportive message about the capital robustness of the bank. Overall, it was helpful, albeit for us we were perfectly well capitalised to continue lending in any event.

Q267 **Felicity Buchan:** Susan, how important was the Bank's term funding scheme in enabling you to lend to SMEs?

Susan Allen: The term funding scheme—the TFS—has been helpful in giving us the confidence in terms of funding going forward. At the start of the pandemic, when there was a lot of uncertainty, it helped to give us a bit more confidence in the lending. As the other banks have said, we have a strong balance sheet. We were ready to lend to small businesses but that was just extra confidence for us at that point.

Q268 **Felicity Buchan:** Anne, do you believe that non-bank lenders should have access to the term funding scheme?

Anne Boden: No. Being a bank requires a significant amount of regulation and process. Despite the fact that non-bank lenders wanted to be given access to the scheme, it would be very difficult for the Bank of England to do so.

Q269 **Felicity Buchan:** Does anyone disagree with that point of view? I guess it is not in your interest to disagree. Let me move on to the subject of negative interest rates. Amanda, I understand that the Bank has written to you asking whether you are operationally set up to deal with negative interest rates. Can I ask what your response was to that inquiry?

Amanda Murphy: Our response was that we have a programme underway to get ourselves ready. We are not ready today to be able to deal with negative interest rates. We have a programme underway. There is considerable cost associated with that, which we have put into the system to enable us to do that. I am not an economist, by any stretch, but I think the Monetary Policy Committee has to carefully consider whether negative interest rates have the desired outcomes. When we see places where they have already been introduced—the eurozone, Japan, Switzerland—we have not seen inflation rise and the growth has not come back as strongly as one might have hoped. Negative interest rates must be considered in the round.

Q270 **Felicity Buchan:** You mention that there is a cost involved in negative interest rates. Is that from a processing and systems perspective?

Amanda Murphy: Yes, that is exactly right. There is a cost involved in preparing our systems to be able to deal with them, and an opportunity cost because I then have to divert resources from some of our other important work underway as well.

David Oldfield: We have undertaken our operational readiness. It is not a trivial matter when you look at a large bank with the complexity of systems. We are still working through the final details of that. I would just characterise this as a tool in the Bank of England's toolbox. It is not clear at this stage quite how they are going to deploy this range of tools over time and, indeed, it is too early to say how we would think about it were they to deploy in terms of what it would translate to in terms of products, offers or pricing.

Anne Boden: Negative interest rates will not have the impact that people expect but Starling is ready for negative interest rates. When I founded Starling in 2014, it was billed as being the very best in technology. We already charge negative interest rates on our euro accounts for sums above €50,000. Our systems are ready and we are ready, with no work to be done, if we have to go into negative interest rates.

Q271 **Felicity Buchan:** This is quite interesting, so maybe I will bring the whole panel in on this. Susan, are you ready for negative interest rates?

Susan Allen: We are ready in many of the parts of the bank, but there are some systems that are more legacy systems. Building on Anne's point, we have some legacy systems that were never built for negative interest rates. We have identified which those systems are and the work that would be required to adapt them so that the system can actually accept a negative, do the appropriate calculations and make sure customers are given the right information. That programme to adapt those systems would realistically be expected to take somewhere in the region of 12 to 18 months to deliver on some of those systems. In some cases, we have workarounds that we could deploy. In other cases, we really need to make the changes to the systems.

Paul Thwaite: We have experience of charging negative interest rates in our Irish business and also in our European business. Our response is that we have a programme to be operationally ready but not just on the deposits side. It is often interpreted purely as a deposits issue. It is also a lending issue depending upon the legal contracts we have in place. We have a programme of work that is in situ, and we would be operationally ready.

Amanda Murphy: I just would like to bring to the Committee's attention the customer behaviour impact of this. Customers have accepted effectively zero deposit rates on many deposits at the moment, but actually taking an active erosion of deposits may be a very different matter for companies and individuals across the country. We may see some very peculiar behaviours or unwanted behaviours such as people hoarding cash or keeping large sums of cash in their homes. There are, as you would imagine, a number of potential consequences here that we should be aware of.

Q272 **Felicity Buchan:** My final question is on quantitative easing. What effect has that had, if any, on your bank lending policy?

Susan Allen: To be honest, it is hard to explicitly point to the impact of this on our lending but it obviously will have impacted the curve in terms of interest rates, and that will have impacted on the borrowing rates given to consumers and, indeed, businesses. There is some impact in terms of the borrowing rate for consumers and personal individuals.

Paul Thwaite: It is very similar for us. The significant programme of quantitative easing again gives confidence to the markets and to elements of the credit market. That is reflected to some extent in consumer confidence. It definitely flows through to borrowing rates as well. I see it as more of an indirect consequence of the significant wider fiscal and monetary stimulus that we have seen.

Chair: Felicity, thank you for stepping in at short notice. Anthony is now back with us.

Q273 **Anthony Browne:** Sorry about that. I was just saying that I am going to ask about recapitalisation first and then some follow-up on recovery from Harriet's question. On recapitalisation first, the Government have, as we have mentioned variously earlier, launched the pay-as-you-grow scheme but the industry had been taking about various recapitalisation schemes such as contingent repayments. There is a whole scheme of work through TheCityUK on that, where companies only need to repay capital or, indeed, interest if they are profitable, because clearly there are a lot of companies that are normally economically viable but are just heavily indebted now and may not be able to afford the interest payments or the capital repayments. My question is whether more needs to be done on recapitalisation, or is the pay-as-you-grow scheme enough to sort out that problem?

David Oldfield: If I remember the chronology of this, the TheCityUK work predated the Chancellor's decisions and announcement. In my mind, the TheCityUK proposals were interesting and certainly were worth thinking about. The pay-as-you-grow concessions have materially pushed the curve out. We have all worried about the first peak of repayments due spring next year. Pay-as-you-grow now pushes that out for a number of years.

The TheCityUK proposals are still very interesting and elements in there like equity and the role of a business growth fund are still well worth consideration. We have a private equity company as a bank. The role of our own private equity company is still very interesting, but we now have proper breathing space to think about that longer-term recapitalisation than was the case three months ago.

Q274 **Anthony Browne:** Does anybody else think there needs to be more work on recapitalisation?

Susan Allen: I would really echo what David said. Again, we think the TheCityUK work was very interesting. We need some innovation in this space and it was very thought-provoking, but I also agree that pay-as-you-grow, particularly for the large volume of smaller businesses, provides a very reasonable solution and is something that will be very workable for the banks and, hopefully, very useful for those companies in helping them to get through a few tricky years.

Q275 **Anthony Browne:** Does anybody else disagree on recapitalisation?

Paul Thwaite: Mr Browne, the point I would make is that I agree that pay-as-you-grow removes the cliff edge that potentially a large proportion of loans were facing next year. However, ultimately there is still a growth capital challenge in the UK economy. I would welcome and support proposals that continue to explore both public and private solutions to that growth capital equity shortage, which has been highlighted in reports over many years, not just since the onset of the pandemic.

Anthony Browne: That has been an issue for decades. I did a lot on that when I was at the British Bankers' Association.

Amanda Murphy: Just to agree with Paul, particularly for some of the faster-growing industries in new-style industries that do not have track records and do not have traditional understanding in the markets, to have more options for them is really important as we built back stronger in the economy.

Q276 **Anthony Browne:** We all agree on that. I want to come on to the recovery point. As an industry, you have paid out over £60 billion in loans and need to recover it. You mentioned earlier that the default rates on the bounce-back loans could be as high as 25%, or perhaps even higher. That would be about £10 billion that you would be trying to get back from the taxpayer. It is a non-trivial amount of money. I know we have all got used to these vast sums now. You have to just follow your normal criteria for recovery. How will you show to the Government that you are following the right criteria? There are huge amounts of money dependent on this. If it is a case of fraud, I know everyone estimates it is about 1% but then you are liable rather than the Government. If it is not fraud, the Government are liable and not you, so you presumably have to provide some sort of evidence for that.

David Oldfield: It is back to what I said earlier on in terms of the difference between cannot pay and will not pay. It is really too early to say in terms of what proportion will struggle to repay and what proportion just decide to ignore the banks when we start our normal processes. In any event, it will be, I am sure, a significant number of firms that we have to work with over a period of time. Pay-as-you-grow, again, makes that a much more doable job than might otherwise have been the case with the huge cliff edge in April next year. The reason I am open-minded in terms of how we might do that is because of scale and consistency. Were we to be able to progress the idea of an industry utility, that is interesting.

Q277 **Anthony Browne:** How would an industry utility work exactly? What would be the benefits, from a consumer point of view as opposed to the industry point of view, of lumping it all together?

David Oldfield: The main benefit is consistency of outcomes. That is good for the industry in terms of conduct and regulatory requirements. It is also good for the consumer in terms of knowing how they will be treated across the 28 bounce-back loan providers. We need to consider that and the complexity of doing that versus each of the bounce-back loan providers doing their own thing. In either eventuality, we need to be really clear and very much agreed with Government and the regulators in terms of what those collections and recovery protocols might look like. That is back to my core consistency point. What we cannot have is a difference outcome depending on which bounce-back loan provider you happened to go to in the first place.

Anne Boden: Can I just explain our obligations under the scheme? The banks have to follow the process, carry out the fraud-checking that they said they were going to do and show evidence that they have done so. If that loan is not paid back because the customer cannot pay or it turns out to be a fraudulent loan, both cases mean a claim on the guarantee.

Q278 **Anthony Browne:** My understanding is if it is a fraudulent loan then actually it is on you rather than on the taxpayer. The agreement between you and the Government is that you could not reclaim in that circumstance.

Anne Boden: No. It is important for everybody to understand this, and that is why Starling is really focused on fraud. The definition in the scheme is that the banks have carried out their fraud processing. If the bank has carried out its fraud processing and it is then subsequently found out that the customer was a fraudster, that is still a default and is still a claim on the scheme. That is why Starling is so absolutely rigorous in using all its systems to make sure that we do the best we can to protect taxpayers' money. Back in May, I blogged, and I basically said that every single pound that goes to a fraudster is one fewer for the NHS. That is why we have to be so careful that we do not regret this move in a couple of years' time.

Q279 **Anthony Browne:** Can I just clear with the others, because it certainly has not been my understanding, that if your AML, Know Your Customer and Know Your Business checks do not work and you end up issuing a bounce-back loan to somebody who turns out to be a fraudster, you would then still claim it back from the Government? Paul, is that what NatWest would do?

Paul Thwaite: My understanding is that there are very detailed requirements laid down for each loan scheme, be that CBILS or BBLS, and the obligations are for the banks—NatWest, in my example—to ensure they have undertaken certain fraud and financial crime checks and then to prove that those checks were in place. That then creates the platform for a valid claim on the guarantee.

Q280 **Anthony Browne:** Clearly if you had concerns under AML then you would not actually issue the loan, so presumably the 1% that you cited before are cases where you subsequently had suspicion of fraudulent activity even though you did the checks. In those cases, would you still try to claim?

Paul Thwaite: I understand the distinction you are making, which is that if the fraud checks and controls failed then that would negate the claim on the guarantee. My understanding is that that would be the case if, in effect, the fraud checks had not taken place. I would have to check specifically around whether the fraud checks were in place and what position that created. One of my peers may be able to clarify the details.

Amanda Murphy: Just for the interest of transparency, for example, if we all do our checks and the customer decides not to pay us back because they have taken the loan for the wrong purposes, the banks can then claim from the Government for that. In the early stages when we discussed the scheme, we highlighted that there would be a high level or a level of fraud. When we look at bounce-back loans, this is the first time we have ever had a self-certified scheme. There were no checks done around eligibility. To build for that is quite a different scenario. This was discussed with HMT, the British Business Bank and UKF back at the inception of the scheme. To Anne's point earlier, this is why all banks have been very vigilant and have had to trade-off speed and pace of execution, because of the need to make sure that we have done what we have to do to protect, ultimately, the wider society.

Q281 **Anthony Browne:** David, you had your hand up. I am going to ask a specific question. If you had suspicions of fraud, you would not have issued the loan. In the cases where the Know Your Customer, Know Your Business and AML checks failed and you have issued a loan that turns out to be fraudulent, would you still claim it against the Government?

David Oldfield: Anne has made the point that the scheme was absolutely designed for speed. The banks will use all of their same checks and balances on a bounce-back loan to the same extent they would under any other loan. What is fraud? If there is a fraud that is an existing bankrupt, a dormant account or a Cifas, those are very clear. If someone has exaggerated their turnover within the original application, given the implicit and inherent design of the scheme, the banks would never know. If they said, "My turnover is £250,000", instead of £200,000, the scheme was designed for speed and therefore the banks made no checks in terms of that. You would still say that is fraud. We would all say that is fraud.

Anthony Browne: It depends on the type of fraud, effectively.

David Oldfield: It depends on the type of fraud.

Anne Boden: This comes back to the position that all the banks and the BBB made to HMT back in May. The Government, Treasury and the Chancellor wanted to do the right thing and get money into the hands of businesses that were failing quickly, and, as a consequence of doing that, were going to give a guarantee to banks that, if people did not pay that money back or if people self-certified and got it wrong, the Government would stand by that guarantee.

Yes, fraudsters will get through the system. That is why Starling are so keen on doing everything we can to stop that happening. If a fraudster gets through, they self-certify something and they lie, that will be a claim against the taxpayer. That is the consequence of this scheme. We all did it with our eyes open. That is the challenge that the British Business Bank and the banks made to HMT and the Chancellor, and it was decided to go ahead. It was the right decision. It was the right decision to get money out there quickly. This is the consequence.

Susan Allen: I absolutely endorse everything Anne has said. There were some trade-offs in this scheme, and this was certainly one of them. The other point I would like to make is that the banks did all of our checks at the beginning very rigorously, to make sure that we were lending in as strong a position as we could to people with no fraud or KYC markers. Subsequent to the drawdown, however, we have been analysing and looking at behaviour through the current accounts. If we see something that looks inconsistent with the application, we will pick that up through our normal monitoring and do some contact with the customer to try to understand the situation.

If something looks unusual post drawdown, we will follow that through. We are not just going to sit there, because, clearly, this is taxpayers' money. We want to make sure that money is being used, as best as we can, in the way it was intended and we will follow up. It is not just that we will leave it and think the Government is going to provide a guarantee. We are absolutely committed to following through and rooting out anything that looks like fraudulent activity, even post the drawdown.

Q282 **Anthony Browne:** Despite the 100% Government guarantee, have you set aside any money for defaults you cannot reclaim from the Government, like under some of the forms of fraud that do not fit in with the ones that you can reclaim? I am going to ask David on this. It is huge amounts of money for you. If you cannot reclaim 100% of it, you would have to set it aside in your accounts eventually.

David Oldfield: I am not sure I know the precise answer. Within our very broad impairments provisioning—you will have seen that all the banks came out at midyear with some very significant step-ups—there will be allowance in the calculation there for the elements that we regard as non-recoverable. I am afraid I do not know the precise answer in terms of bounce-back loans specifically.

Q283 **Anthony Browne:** Have any of the other banks set aside any money for non-recovery of bounce-back loans, despite the Government guarantee?

Amanda Murphy: Yes, we have also, similar to David

Q284 **Ms Eagle:** I want to ask each witness whether they will be maintaining current accounts for UK citizens living in the European Union after 1 January.

Amanda Murphy: We will be maintaining those. As you would expect, we are working in conjunction with regulators in Europe to ensure that we can do that in accordance with the rules. Where we do not have passporting issues, they will be maintained.

Q285 **Ms Eagle:** "Where we do not have passporting issues" seems to be quite a big qualification.

Amanda Murphy: I do not mean it as that. I just mean that that is where we are at the moment. We have looked at any companies that have been impacted and have had conversations with them. Some have chosen to look at banking with us in other places as well as the UK to ensure that they can continue their businesses. As always, our ambition here is to continue to support these companies in the best way we can. We are fortunate in that we have a footprint in Europe but in some countries some of the regulations are still being finalised. Therefore, until we get to that position, it is impossible to say definitively.

Q286 **Ms Eagle:** You are having to work with 27 regulators in the EU countries to check that you can operate legally.

Amanda Murphy: We would always work with all the regulators in the countries we operate in, yes.

Q287 **Ms Eagle:** Susan Allen, what about Santander?

Susan Allen: We have already been clear that at this point in time we are planning to continue to provide our accounts to those customers who already have opened accounts with us and who are non-UK-resident. We rely on passive servicing. Because in many of those countries we will not have the authority to lend, we will not be increasing lending by overdraft or credit card or mortgage, but, for all of our existing customers, we have taken a decision to support our customers who are impacted through no fault of their own, and to continue to provide current account savings and mortgages for those customers who are currently with us. What we are not doing is opening accounts for non-customers or non-UK residents going forward, but we are continuing to support our existing customers.

Q288 **Ms Eagle:** Paul Thwaite, what about NatWest?

Paul Thwaite: It is the same situation. We recognise potentially how uncertain the situation could be for some of our non-UK personal customers. We maintain, as Susan referenced, that we will continue to service them post 1 January on a passive reverse-solicitation basis, so it is exactly the same situation.

Q289 **Ms Eagle:** David, Lloyds have certainly told some of your customers you are closing their accounts.

David Oldfield: We have. We have a range of outcomes. We have been working with the EEA regulators for the last 18 months. There are a number where, based on local regulation and the type of product, we are again comfortable that passive servicing is admissible. We have written now to 13,000 customers. The great majority are personal current account or credit card customers in a small number of jurisdictions where we do not have regulatory permissions and the regulator is very clear we cannot continue with those products. We have given them all the appropriate notice in line with their terms and conditions; more often than not it is three months. The experience so far is the majority have been able to make alternative provision because many, of course, have alternative providers today in addition to us.

Q290 **Ms Eagle:** What sort of accounts have you been closing?

David Oldfield: We have given notice to close, normally three months' notice to close. These are mostly personal current accounts. Business customers are relatively few in my world of commercial banking. We have less than 300, if I remember, larger SMEs. It is a very small number. These are, in the main, personal current account customers and a small number of cards customers, if I remember, in a small number of particular jurisdictions.

Q291 **Ms Eagle:** It is an issue with the peculiarities of particular jurisdictions rather than a more general issue.

David Oldfield: Yes. I would think all of the banks will have a very big spreadsheet, which is every single jurisdiction cut across by every single product. There are some where you end up with a disallowed product in a certain jurisdiction where, depending on each individual bank's own legal permissions and operating model, you can or cannot continue to provide services. The ones we have written to are those products in those jurisdictions where we have no regulatory or legal permissions to continue. Every bank will have different flavour of that.

Q292 **Ms Eagle:** How much time and effort has it taken to have to trawl through all of these?

David Oldfield: We have broadly been working with the regulators for the last 18 months.

Q293 **Ms Eagle:** It is the financial services equivalent of 7,000 lorries queuing at Dover.

David Oldfield: It has been a very detailed piece of work on a product-by-product, customer-by-customer, jurisdiction-by-jurisdiction basis.

Q294 **Ms Eagle:** Amanda, has it been the same for HSBC? Have you had to spend a great deal of time and effort going through all of this?

Amanda Murphy: Yes, we have. As you would imagine, given the nature of our bank, we have a high proportion of international trading clients as well.

Q295 **Ms Eagle:** Anne Boden, what about Starling?

Anne Boden: We do not have any customers who are non-resident.

Ms Eagle: That is a simple way of doing it.

Anne Boden: Yes.

Q296 **Ms Eagle:** None of us knows how we are going to end up on 1 January but, if there were to be some kind of agreement on passporting that was to come into effect in the future, would you like to go back to where you were before? Would you prefer there to be an agreement of this kind?

David Oldfield: I would split this into two. We are a UK-focused retail and commercial bank. What I have described is, out of our 25 million customers, a very small proportion of customers, with a single product in a very small number of jurisdictions. We have been spending time equally, over the last two or three years, working with our SME and corporate customers. Some 80% of our SMEs have no trading outside of the UK but we have been working very closely with those that do. They are still facing uncertainty today, not being entirely clear about what their trading arrangements post 1 January might look like. We have loads of tools to help them. The Government have lots of advice that we have pointed them towards, but the reality is we will not really know for another week or two quite what 1 January will mean for any one of these individual firms. That is where clarity would be good.

Q297 **Ms Eagle:** Susan, what about Santander? That has an obvious footprint in Europe.

Susan Allen: Yes. In the UK bank, we do not tend to have a footprint but we have Santander in Spain, Portugal, Poland and elsewhere in Europe. Like David, we are working very hard to make sure that we are helping UK businesses, particularly smaller businesses, start to trade internationally. Like many of the other banks, we have been working for the last two years to help small businesses get prepared, providing guidance and information. There is clearly still a lot of uncertainty out there and we will be working with those small businesses to do everything we can to simplify, to help them, to provide that insight and to make connections where we can in other jurisdictions as well, to help those businesses to trade.

We undertake a number of trade missions every year. We have some really great success stories of taking small businesses in the UK and helping them to create trading partnerships overseas. We see that as a very important part of being an international bank. We will continue to do that work but obviously, once we have more clarity, it will help us to support those businesses.

Chair: That brings us to the end of this session. Can I thank our witnesses very much indeed for appearing before us today? Inevitably, today has been a very useful recap on where we are with all of these various Government-backed schemes, particularly as the pay-as-you-grow arrangements have been brought in. Of course, we covered a great deal in that respect in terms of pricing, affordability and access to these loans.

There was a very interesting conversation around fraud and when it is the case that you are able to draw on the Government's guarantee or otherwise. We have looked at recovery and recapitalisation challenges of these companies, and we have even looked at the effects of changes in the capital buffer arrangements that you work to through the Bank of England.

It is fair to say that overall, while banks are never going to be deemed, by this Committee or anybody else, probably, to be perfect, we recognise the extraordinary amount of work and effort that you are putting in to support businesses at what is an extremely difficult time. Members of this Committee have spoken of companies from their own constituencies that have benefited from this and it has certainly also been the case in Central Devon. Thank you for that.

I will just echo one thing that Harriett said earlier, which is that it is very pleasing indeed to see three senior, very experienced women appear before us on a panel of five. We have benefited greatly from your insights and your experience in this session. Thank you very much indeed to all of our panellists for joining us today.