

OFFICIAL SENSITIVE - COMMERCIAL

Date: 11/06/2020

Director General: Jo Shanmugalingam

Director: Gemma Peck (BEIS); Name Redacted (BBB)

Lead Official: Laurence Pawley (BEIS); Name Redacted (BBB)

Lead Official Telephone: Irrelevant & Sensitive

Recipient	To Note / Comment	To Approve / Decide
Secretary of State		X
Paul Scully	X	
Nadhim Zahawi	X	
Permanent Secretary	X	
Special Advisers	X	

BOUNCE BACK LOAN SCHEME: UPDATE ON FRAUD PREVENTION

Summary

1. The Bounce Back Loan Scheme (BBLs) was assessed as having a “very high” fraud risk against the Cabinet Office fraud toolkit.
2. Since the Scheme’s announcement, BBB has been proactively engaging stakeholders to understand the scale and nature of fraud risk and develop potential mitigating actions. Although some mitigating actions have been put in place, further actions are recommended, which require your approval (paragraphs 14 to 16). While the design of the scheme means considerable residual risk will remain, these measures would provide additional mitigation.

Timing

3. A response by 15 June would enable implementation of these changes by 29 June, although Action 3 relies on lenders altering their existing processes.

Recommendations

4. That you note ongoing fraud mitigating activity (paragraph 9), the provisional increase in BBB’s assessment of credit and fraud risk and **agree to implement the actions set out in paragraphs 15 to 17.**

Advice

5. Prior to the launch of BBLs, PwC prepared an anti-fraud report highlighting the fraud risks related to the Scheme. Based on the Cabinet Office Fraud Kit, PwC rated the BBLs fraud risk as very high. The risks highlighted by PwC can be consolidated in to six main themes, set out in Annex A.
6. Based on this report, BBB estimated potential losses under the Scheme due to fraud and credit risk could be between 30% and 50%¹, which has subsequently been revised upwards to between 40% and 60% based on

¹ This was based on estimates from the seven larger Banks and BBBs experience of credit losses with the Start-Up Loans programme.

OFFICIAL SENSITIVE - COMMERCIAL

being declined following review⁴. Lenders have also put in place specific measures over and above these minimum standards, which, suggest a further 2% to 3% of applications are being declined⁵.

12. The additional Cifas solution put in place to identify multiple applications across all lenders has also shown that, before the solution went live, up to 2.3% of applications already drawn down were duplicates.
13. There is also anecdotal evidence from lenders of online scams targeting customers and individuals/businesses misusing funds after drawdown; and credible evidence, based on investigations by some lenders and the Cabinet Office, that the scheme is being targeted by organised crime.
14. Despite current processes picking up some fraudulent activity, risks still remain; and there are three non-mutually exclusive actions (outlined below) that could be implemented to further strengthen fraud prevention.

15. Action 1: Mandate use of Cifas solution

Lenders report that up to 10% of applications within their organisation are multiples. However, prior to the creation of the Cifas multiple application solution, lenders were unable to check whether applications were multiples across different organisations.

The launch of this solution, which creates a database of applications across lenders, identified that up to 2.3% of total applications under the Scheme were duplicates. BBB have advised lenders to follow their usual procedures regarding these flagged accounts, but that the guarantee is not at risk because of the identified duplication. Going forwards, the solution should prevent such applications from being approved.

Currently this solution is voluntary, and all scheme-accredited lenders have signed up voluntarily (although not all are operationally live) – making it mandatory maximises its effectiveness by ensuring the database remains complete as new lenders come onstream.

16. Action 2: Empower lenders to take up to 48 hours for fraud checks across high-risk groups, as long as they continue to process the majority of applicants within 24 hours.

A key feature of BBL is pace, with the majority of applicants receiving funds within 24 hours. Now the scheme is working efficiently (as 7 June 2020, around 65% of the original estimated addressable market gap have had loans approved), we recommend providing greater flexibility to lenders by

⁴ This is in line with industry norms. The figures do not include fraud flags for duplicate applications under the new CIFAS solution.

⁵ This is based on data from [] I&S only and may not be representative of other lenders.

OFFICIAL SENSITIVE - COMMERCIAL

allowing them an additional 24 hours to undertake fraud checks for high-risk applications; whilst still ensuring the majority are processed within 24 hours.

We are unable to quantify the number of applications that may be affected by this additional flexibility, however, as these additional checks would be agreed with BBB, we would ensure they have a material impact on fraud prevention, striking a balance between preventing fraud and delivering financial support to businesses quickly

Allowing lenders further time to process applications may enable them to flag more applications as fraudulent. For example, lenders have proposed to undertake more checks against data variables, such as address, telephone number etc. and to carry out more detailed checks on business turnover.

If this change were adopted, we would make it clear in our communications that the majority of applications would still be processed in 24 hours, but that in limited circumstances a short delay could occur.

17. Action 3: Allow lenders to decline applications with three or more material County Court Judgments (CCJs).

Currently, lenders are not declining applications from individuals flagged as having material CCJs, whereas in normal circumstances they would do so, as these applications are expected to be more high risk.

Data from I&S shows that, of the applications accepted, around 2% had at least one material CCJ⁶; and around 0.5% had three or more. Allowing lenders to decline those applications linked to three or more material CCJs will reduce levels of high-risk lending⁷. This requires changes to lenders' processes, which we believe would take 1-2 weeks to implement.

18. We recommend all three actions, outlined above, are taken forward. Together, they represent a package that gives lenders more flexibility to assess and act on the fraud risk of applicants, without materially affecting the wider objectives of the Scheme. Do you agree with this proposal?

Handling

19. BEIS press office will work with HMT, BBB and communications counterparts in the financial sector to ensure clear and robust reactive messaging on this issue. We do not recommend proactive media engagement, due to the risk of provoking criticisms of this high-profile and important Scheme. It should be noted that the 24-hour turnaround for lending decisions for businesses has been a prominent element of public communications to date, we will need to be more cautious about this messaging going forward.

⁶ Based on a minimum of £1,000, to exclude issues like unpaid car parking or utility bill disputes.

⁷ Choosing to decline applications of less than three CCJs is more likely to be considered a credit-based decision, whereas declining applications with three CCJs or more can be justified on the basis of fraud risk.