

Witness Name: David Postings

Statement No: 1

Exhibits: DP/01-DP/25a

Dated: 27 October 2025

UK COVID-19 INQUIRY

WITNESS STATEMENT OF DAVID POSTINGS

In relation to the issues raised by the Rule 9 request dated 9 June 2024 in connection with Module 9, I, David Postings, Chief Executive Officer of UK Finance Limited (**UK Finance**), 5th Floor, 1 Angel Court, London EC2R 7HJ, will say as follows: -

PART A: Introduction

- 1 Before addressing the issues raised in the Rule 9 Request, there are five preliminary points which I consider important to the context and understanding of the matters at hand. These points will be addressed in detail in the relevant sections later in the statement:
 - (a) First, as a trade body, UK Finance acts as a representative voice for its members, acting on behalf of its members in dealing with UK Government, regulators, and other stakeholders. UK Finance seeks to influence outcomes that affect the financial sector in a positive way. In this regard, UK Finance operates in an advisory and advocacy capacity, providing expert insight, facilitating dialogue, lobbying and contributing to consultations. However, UK Finance recognises that public policy is ultimately for the Government and for Parliament to set.
 - (b) It is essential to acknowledge that the actions and decisions described in this statement were taken against the backdrop of the extraordinary and wholly unprecedented circumstances created by the COVID-19 pandemic. The environment in which UK Finance operated was characterised by an exceptional degree of urgency and pressure, with all parties required to respond to rapidly evolving challenges at a pace and intensity never before encountered within the industry. The imperative to act immediately in order to safeguard the economic

interests of businesses and the wider public necessitated the suspension or adaptation of certain routine disciplines and standard procedures, which, under normal conditions, would have been strictly observed. This was a practical necessity dictated by the unique and exigent demands of the crisis. It is within this context of unparalleled operational pressure and need for immediate action that the subsequent decisions and actions should be understood.

- (c) The constructive engagement between UK Finance, UK Government, and regulators was central to the work undertaken during the relevant period. All parties adopted a collaborative approach in response to the prevailing crisis. This cooperation enabled the deployment of an unprecedented volume of funds, delivered with a speed and efficiency that would not have been achievable under ordinary circumstances. The collective efforts and shared commitment of those involved were instrumental in meeting the urgent needs presented by the situation.
 - (d) Against this background, the role of UK Finance was to work on behalf of members collaboratively with UK Government and regulators, providing support in relation to key financial interventions. This included: facilitating the rapid provision of funds to businesses to help ensure their continued operation; assisting in the mitigation of associated fraud risk; keeping the continued flow of cash and payments throughout the economy; encouraging members to support consumers in vulnerable circumstances; and assisting members in managing regulatory change projects.
 - (e) It is inherently challenging to anticipate which mechanisms or approaches would be most suitable in responding to any future crisis, whether similar to COVID-19 or of a different nature altogether, whether global or national in scale. Each crisis presents its own unique circumstances, complexities, and demands, making it difficult to prescribe a one-size-fits-all solution in advance. As set out in paragraph 1(a) above, ultimately, decisions regarding the most appropriate mechanisms for addressing future crises rest with UK Government and other public authorities, who are responsible for weighing a broad range of social, economic, and political considerations.
- 2 During the period in question and reflecting the pace at which the industry and UK Finance were operating as described at paragraph 1(b) above, it was not always logistically feasible to maintain consistently routine organisational processes such as comprehensive agendas or formal agreed minutes or notes for all meetings and

discussions. Consequently, not all calls and meetings referenced have accompanying formal notes or agreed minutes, and summaries of calls and meetings in this witness statement and accompanying chronology have been prepared based on contemporaneous documents (where available) including brief outline agendas or calendar meeting planners indicating calls and, in some cases, the recollections of UK Finance personnel.

Personal Background

- 3 I have worked in financial services since 1978 in a variety of roles. I became a Non-Executive Director of UK Finance in September 2018 and I then became Chief Executive on 1 January 2021.
- 4 I am a Non-Executive Director at TheCityUK and the International Banking Federation. I am a member of the Executive Committee of the European Banking Federation (a company director role). I also represent UK Finance at the Joint Fraud Taskforce.
- 5 As regards the leadership of UK Finance as it relates to the relevant period of the inquiry:
 - (a) Stephen Jones held the position of Chief Executive Officer until June 2020;
 - (b) Robert Wigley held the position of Executive Chair from June 2020 until December 2020. Before, and subsequent to, this period he held the position of non-Executive Chair;
 - (c) I started my role as Chief Executive Officer in January 2021.
- 6 As I was not employed by UK Finance during the first twelve months of the relevant period, I have very limited personal knowledge of certain of the matters below. I have sought to provide an explanation of the matters being considered by the Inquiry on the basis of contemporaneous documents and the recollection of UK Finance employees who were in role during the relevant period rather than my own knowledge.
- 7 I do have some limited personal knowledge of matters covered in this witness statement as a result of my involvement with UK Finance in 2020 in my role as Chief Executive of Bibby Financial Services, an invoice finance provider.

Overview of UK Finance

- 8 UK Finance is a trade association which represents over 300 financial services firms and acts as a collective voice for the banking and finance industry. UK Finance was

established on 1 July 2017 from combining the British Bankers' Association, Payments UK, the Council of Mortgage Lenders, Financial Fraud Action UK, the UK Cards Association and the Asset Based Finance Association. The objects of UK Finance are to make representations to the Government in respect of its members' interests and to carry on activities to support its members, members' interests and the sector in which they operate. This includes promoting and supporting the development of the sector in which UK Finance's members operate.

- 9 UK Finance's members encompass a wide range of financial services firms (retail, commercial and wholesale banks, global and other payments service providers, specialist non-bank lenders, financial technology and market infrastructure firms), which provide various financial and advisory products and services to their customers. Members subscribe to one or more of the nine Product and Service Streams offered by UK Finance: Capital Markets and Wholesale, Cards, Commercial, Economic Crime, Invoice Finance and Asset Based Lending, Mortgages, Payments, Personal Banking, and Digital, Technology and Cyber.
- 10 UK Finance works for and on behalf of its members with the aim of promoting safety, transparency and innovation in the banking and financial services sector. It aims to provide its members with expert advocacy, policy expertise, thought leadership and insightful market data.
- 11 Additionally, UK Finance operates to provide for its members a single voice for a diverse and competitive industry, for example by proactively engaging with stakeholders with a view to achieving policy and regulatory outcomes that benefit its members and their customers.
- 12 UK Finance's Board is made up of senior representatives from the broad range of UK Finance's members. It leads on key strategic, industry-wide issues that impact the financial services sector, responsible for setting its strategy, objectives, and budget. It has a responsibility to ensure that all members have their interests fairly and properly represented. The UK Finance Board is supported by four Board Committees who have responsibility for providing additional oversight on Audit & Risk, Nominations and Remuneration, Membership, and Appeals (relating to membership).
- 13 The UK Finance Executive Committee is the most senior management committee to whom the UK Finance Board has delegated the day-to-day management of UK Finance. It is comprised of the Chief Executive Officer and the Managing Directors. The Executive

Committee is supported by four sub-committees who have responsibility for matters relating to Operations, Projects and Project Risks, Business Continuity and Policy.

- 14 The Executive Committee is responsible for implementing the UK Finance strategy as set by the UK Finance Board. The strategy includes activities to support UK Finance members and their interests.
- 15 UK Finance operates nine Product and Service Boards which coordinate the activities of each of the Product and Service Streams. Alongside the Product and Service Boards, UK Finance operates several cross-cutting Strategic Policy Committees which address thematic issues that span multiple Product and Service Streams. These include the External Affairs Committee, the Prudential, Reporting and Taxation Committee (previously the Financial and Risk Policy Committee), the International Affairs Committee and the Sustainability Committee. On an annual basis the Product and Service Boards and Strategic Policy Committees determine their strategic priorities and report them to the UK Finance Board for inclusion in the UK Finance strategy.
- 16 Underlying the Product and Service Boards and Strategic Policy Committees are a further set of committees and working groups which meet regularly to progress specific initiatives. These committees are usually made up of senior representatives of members and report into a Product and Service Board or a Strategic Policy Committee. They may include one or more working groups which are sub-groups of a committee, typically with a short lifespan to deliver specific objectives. An example of one of the working groups that was set up as part of UK Finance's COVID-19 pandemic response is the Bank Fraud Collaboration Working Group, which was collectively formed with the British Business Bank in May 2020 and focused on tackling fraud connected to the Bounce Back Loan Scheme.
- 17 As part of its Economic Crime (Fraud) Stream membership offering, UK Finance operates an Information and Intelligence Unit which is a central information sharing hub for UK Finance Economic Crime (Fraud) Stream members. In collaboration with law enforcement and the Government, the Information and Intelligence Unit aims to support UK Finance Fraud Stream members to detect and prevent fraud and financial crime and enhance members' understanding of threats. To this effect, the Information and Intelligence Unit hosts centralised industry-wide systems and services to enable members to share financial fraud intelligence across the membership. It also distributes intelligence alerts sourced from a range of partners in the public sector, law enforcement and financial sector.

PART B: UK Finance's role during the pandemic

- 18 As set out above, UK Finance maintains a number of formal groups in various areas covering the financial services industry. Members can choose to subscribe to one or more of these groups depending on the nature of their business.
- 19 As well as the formal groups that relate to business areas, UK Finance maintains other groups that were especially relevant in relation to the response to the COVID-19 pandemic. In particular, UK Finance maintains a Business and Operational Continuity Committee which is UK Finance's primary forum for discussing operational continuity developments relevant to members and the wider financial services sector. The Business and Operational Continuity Committee's main function is to share information with members which involves tracking systemic issues, keeping members up to date with developing incidents, sharing policies, procedures and practices that assist firms in preparing for, and responding to, incidents and the normalisation of operations following operational incidents. The Business and Operational Continuity Committee was the primary channel for discussing issues and receiving/sharing updates with firms on macro issues and business continuity responses arising out of the pandemic, following its evolution closely.
- 20 The Incident Communications Group was the main channel for sharing information on media engagement on certain issues, customer-facing communications and engagement with UK Government and regulators.
- 21 The Business and Operational Continuity Committee and Incident Communications Group were open to all UK Finance members. The Business and Operational Continuity Committee and Incident Communications Group were kept aware of all developments and updates in respect of UK Finance's work in relation to the COVID-19 pandemic.
- 22 There were also regular calls with various ad hoc groups of members with the aim of obtaining information and views from UK Finance's members and sharing with them information obtained from UK Government and regulators.
- 23 Internally UK Finance utilised its established internal procedures to coordinate activities relating to the pandemic, including activating its Incident Management Group, which is convened in response to major incidents.

Relationship between UK Finance and UK Government

- 24 UK Finance has regular engagement with the UK Government and regulators on a range of matters. To the extent that UK Government or regulators are seeking the views of the financial services industry, they will often engage with UK Finance. Conversely, where UK Finance or its members consider that it would be appropriate to share views with the UK Government or regulators, UK Finance will proactively contact the UK Government or regulators as appropriate to provide these views.
- 25 Contact with the UK Government and regulators happens at different levels within UK Finance. Significant issues are typically raised by way of letter from the Chief Executive Officer or other senior management at UK Finance. At a day-to-day operational level there is regular contact between UK Finance staff and UK Government and regulators. Engagement with UK Government and regulators is typically both formal and informal, bilateral or multilateral involving members.
- 26 During the COVID-19 pandemic, UK Finance's method of engagement with the UK Government and regulators did not fundamentally change. UK Finance's member groups continued to provide an effective mechanism for conveying information between UK Government and regulators and UK Finance's members. UK Finance continued to engage with UK Government and regulators at all levels, across all the various sectors covered by UK Finance's work, as explained in more detail below. UK Finance's core incident team engaged with senior UK Government individuals on emerging issues, supported by regular and consistent operational-level engagement between UK Finance and the UK Government.
- 27 In light of the significant changes that needed to be made to support businesses and consumers during the COVID-19 pandemic, the level of contact between UK Finance, members, the UK Government and regulators significantly increased in the period between March 2020 and June 2020.
- 28 Letters and emails were also sent by senior management at UK Finance to senior officials in UK Government and regulators, covering significant issues relating to the industry's response to the pandemic. Such issues included:
- (a) managing the operational impact on critical functions within firms e.g. staffing shortages, regulator deferral of non-critical policy implementation and amended reporting requirements (see exhibit DP/01 [INQ000549158]);

- (b) the definition of “key workers” in financial services, in particular as it related to bank branches, call centres and processes such as online banking, payments, bereavement helplines and business banking (see exhibit DP/02 [INQ000548806]);
- (c) scope and prudential impact of emergency forbearance measures in relation to the viability of mid-tier and non-bank lenders (see exhibit DP/03 [INQ000549160]);
- (d) Financial Conduct Authority recognition of how relevant employees discharge their duties under the Senior Managers and Certification Regime, in light of the amendments to the Lending Standards Board’s Standards of Lending Practice taking into account the requirements of the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme (see exhibit DP/04 [INQ000549159]);
- (e) proposing customer focused initiatives to HM Treasury to address the supply side disruption to the economy, maintaining banking sector resilience, and operational relief such as deferring regulator project deadlines (see exhibit DP/05 [INQ000548769]);
- (f) proposing to the regulators some key areas where regulatory intervention might be helpful including, for example, providing temporary relaxation or additional flexibility of certain Financial Conduct Authority requirements on firms to enable greater customer forbearance, and the relaxation of Prudential Regulation Authority reporting requirements and extension of deadline for regulatory change or remediation projects (see exhibits DP/06 [INQ000548768], DP/05 [INQ000548769], DP/08 [INQ000548770]); and
- (g) funding challenges for the non-bank specialist lending sector (see exhibit DP/07 [INQ000549162]).

29 Relationships between UK Finance, the UK Government and regulators were generally very good at the outset and throughout the COVID-19 pandemic. UK Government and regulators worked cooperatively with UK Finance and its members to deliver key initiatives to support businesses and consumers, and in particular the various COVID-19 loan schemes and payment deferrals in relation to mortgages and consumer credit products. UK Finance’s engagement with the Department for Business, Energy, and Industrial Strategy (which was replaced by the Department for Business and Trade, the Department for Energy Security and Net Zero and the Department for Science,

Innovation and Technology in February 2023), the British Business Bank and HM Treasury in particular focused on the design of the loan schemes.

- 30 To achieve these objectives, UK Government and regulators shared information with UK Finance and its members to facilitate the introduction of these economic measures. UK Government and regulators were also generally quicker at responding to communications from UK Finance and were receptive to suggestions and requests from UK Finance and members even if not all of these were taken forward.
- 31 Generally, those at UK Finance that were involved with dealing with UK Government bodies at the time considered that the UK Government was responsive to the pandemic and engaged well with UK Finance and its members. There was a general sense that UK Government and the financial services industry were working together constructively to find solutions to support businesses and customers.
- 32 UK Finance and its members made a number of suggestions and requests of UK Government throughout the pandemic. Whilst not all of these were taken forward, it was felt that the UK Government was listening and responding to concerns raised and acknowledged the challenges members were facing to support their customers. Examples of requests that were not taken forward include the request for a UK Government indemnity in relation to the Bounce Back Loan Scheme (see paragraph 85 below), the request for HMRC to provide lenders with details of sole traders' tax status (see paragraph 86 below), and the request for a loan scheme tailored to the Non-Bank Specialist Lending Sector (see paragraphs 183-184 below). Given the diversity of UK Finance's membership, inevitably differences in views within the industry arose. Wherever possible UK Finance sought to present a consensus view, and where not possible, ensured different perspectives were communicated to the UK Government.
- 33 As prefaced at the outset of this statement, the environment in which UK Finance was operating during the pandemic was characterised by an exceptional degree of urgency and pressure. The need to respond swiftly to the rapidly changing situation required all parties to work at an exceptional pace. The early stages of the pandemic in particular were incredibly intensive across all sectors of UK Finance's work, with UK Finance staff and members having to react and adapt to a changing and uncertain environment. Throughout this period UK Finance worked well with the UK Government and regulators to deliver vital support to its members.

Relationship between UK Finance and Devolved Administrations

- 34 UK Finance maintains regular engagement and good lines of communication with the Scottish and Welsh Governments and the Northern Ireland Assembly. Engagement with these institutions is primarily related to housing policy, as a devolved matter, and related mortgage market impacts, as UK financial policy is largely developed centrally by UK Government agencies, such as HM Treasury, and the Bank of England on a “whole UK” basis. In Northern Ireland, engagement is generally with the Finance Minister and the Economy Minister and their respective committees.
- 35 During the pandemic, the nature of UK Finance’s interactions with the Devolved Administrations did not change significantly. The measures aimed at alleviating the economic impact of the pandemic were mostly developed centrally, in particular by HM Treasury and the Bank of England.
- 36 UK Finance was in contact with the representatives from the Northern Ireland Assembly in the period from 16 March 2020 to 29 April 2021, to provide assurance that the economic measures being considered between UK Finance and UK Government and regulators (and in particular the COVID-19 loan schemes) would provide effective assistance to Northern Ireland businesses. For example, as at October 2020, 33,000 loans via the Bounce Back Loan Scheme worth more than £1 billion and more than 1,000 loans via the Coronavirus Business Interruption Loan Scheme worth more than £300 million had been offered in Northern Ireland. Concerns were raised by the Economy Minister, in particular around access to the Coronavirus Business Interruption Loan Scheme, and the Economy Minister sought reassurance that banks would work in partnership with the UK Government and other stakeholders to limit damage to the economy. These concerns were relayed to HM Treasury by UK Finance. Engagement with the Finance Minister and the Economy Minister also covered issues such as branch closures, face coverings, access to cash and maintaining banking services. UK Finance’s Commercial Finance team recalled that reconciling the Northern Ireland Protocol and State Aid Rules with the economic measures proved challenging.
- 37 Another particular issue on which UK Finance engaged with the Devolved Administrations related to the definition of “key workers” in both Northern Ireland and Scotland. The definition of “key workers” in England and Wales was amended on or around 20 March 2020 to include bank staff such that those staff could return to work and their children could be educated at school despite the lockdowns in place. However, for a period the definition of “key workers” in Northern Ireland and Scotland did not

include bank staff. Following intervention by UK Finance the definition of “key workers” in those nations was extended to bank staff.

- 38 UK Finance also worked with the Devolved Administrations on the following matters:
- (a) UK Finance supported the Devolved Administrations on the reopening of the housing market over June and July 2020. UK Finance fed into eviction protection provisions in Scottish legislation. Additionally, a UK Finance working group developed and reviewed cross-cutting industry guidance for the Devolved Administrations on re-opening markets. UK Finance's Devolved Government & Social Housing team also supported the Land Registry Service in Northern Ireland and Registers of Scotland in digitising their processes in response to lockdowns.
 - (b) UK Finance submitted evidence to the review by the Scottish Parliament's Economy, Energy and Fair Work Committee on COVID-19 impact on businesses, workers and the economy 6 July 2020. UK Finance's submission outlined the support measures available to businesses in Scotland and across the UK and provided UK-level data on their uptake.
 - (c) In Scotland, specific protections for renters were developed via legislation of the Scottish Parliament. UK Finance engaged with the UK Government and regulators on behalf of its members in this regard.

UK Finance's response to the COVID-19 pandemic

- 39 The financial services 'Sector Response Framework' provides a non-statutory mechanism for financial services firms and industry groups to coordinate, share information and ensure the sector can respond effectively to incidents. It supports the collaborative engagement between the sector, financial authorities and UK Government. In line with the financial services Sector Response Framework, during a significant industry-wide operational resilience event such as the COVID-19 pandemic, UK Finance has a voluntary role in gathering information related to systemic impacts and ensuring clear lines of engagement and communication across the banking and financial services industry.
- 40 At the outset and throughout the pandemic, UK Finance worked closely with its members in relation to the impact of COVID-19 on the financial services industry and customers of its members. It also aimed to anticipate any unforeseen impacts to help inform the initial industry response and to coordinate with the UK Government, the Bank

of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authorities.

- 41 On 4 March 2020, UK Finance's Business and Operational Continuity Committee started regular cross-sector meetings with its members as a result of the recent increase in COVID-19 cases in the UK. Under the Business and Operational Continuity Committee, a Communications Steering Group was also established. Additionally, UK Finance joined regular calls with major trade associations across different sectors to further understand the broader impact of the pandemic.
- 42 UK Finance is also part of the Cross-Market Business Continuity Group, a Bank of England committee comprised of UK financial authorities, financial market infrastructure providers, and financial markets. The Cross-Market Business Continuity Group is assembled to make significant decisions which require senior input, and it met on several occasions during the pandemic. Additionally, UK Finance co-chairs the Cross Market Operational Resilience Group with the Bank of England. Participation in the Cross Market Operational Resilience Group is voluntary. It develops playbooks and sector wide contingency plans for the Cross-Market Business Continuity Group. The use of its capabilities is voluntary, and they do not constitute regulatory rules or supervisory expectations.
- 43 On 10 March 2020, the Cross-Market Business Continuity Group was first convened. The purpose of this initial meeting was to develop a strategic view of developments in relation to COVID-19 and support baseline readiness across the sector, with UK Finance and participating firms providing a summary of firms' business continuity planning and key activity to date.
- 44 At this meeting, members reported that their pandemic plans were well advanced, and that while practical disruption had been relatively limited thus far, they were preparing for any deterioration in the situation. Firms emphasised the need for regulatory guidance to support the industry on response options. These included consideration of regulatory forbearance as a result of increased working from home, support packages both for small and medium-sized enterprises and larger firms, and longer-term prudential considerations like potential relaxation from certain regulatory obligations. Regulators also committed to working with the industry to address its concerns and requested that UK Finance continue to proactively communicate members' concerns to them.

- 45 On 16 March 2020, the UK Government declared that those that could work from home should do so, and on 26 March 2020 the first UK “lockdown” legally came into force.
- 46 In the weeks and months following the onset of the pandemic, UK Finance worked with its members, UK Government bodies, regulators and third-party organisations including non-profit organisations and consumer bodies to try and achieve a balanced view. In this regard, UK Finance worked on a number of initiatives in relation to the following areas:
- (a) Commercial Finance;
 - (b) Cash and Payment Transactions;
 - (c) Vulnerable Customers;
 - (d) Personal Finance;
 - (e) Mortgages;
 - (f) Unsecured and Secured Credit (Cards);
 - (g) Wholesale and Capital Markets;
 - (h) Prudential; and
 - (i) Monitoring, analysis and data collection.
- 47 I have set out below a summary of the role played by UK Finance in respect of each of these areas, focusing on Commercial Finance, which includes the various COVID-19 loan schemes developed to support UK businesses.

Commercial Finance

- 48 The banking and finance industry played a critical role in helping businesses during the COVID-19 pandemic. In early March 2020, several banks made announcements of packages (including funds, overdraft extensions, capital repayment deferrals and flexibility in relation to invoice finance facilities) to support their customers. UK Finance supported these initiatives. It provided online support and guidance for small and medium-sized enterprises and encouraged businesses to speak to their finance providers if they had concerns. UK Finance also worked with its members, business groups, professional advisers, the Department for Business, Energy, and Industrial

Strategy, HM Treasury and the British Business Bank in coordinating communications to businesses. UK Finance's Chief Executive Officer at the time provided views to HM Treasury as to the measures that UK Government could take to help businesses and the self-employed deal with the financial impact of the pandemic. For example, in relation to businesses: delaying HM Revenue & Customs payment deadlines, paying suppliers more quickly, giving relief on business rates, considering National Insurance and VAT deferrals; and in relation to individuals: ensuring everyone, including the self-employed, was entitled to statutory sick pay (see exhibit DP/05 [INQ000548769])."

- 49 A chronology of the key correspondence between UK Finance and UK Government bodies relating to the commercial finance aspects of UK Finance's work is set out at Appendix A to this witness statement.

Coronavirus Business Interruption Loan Scheme - Background

- 50 On 11 March 2020, the Chancellor of the Exchequer announced the introduction of the Coronavirus Business Interruption Loan Scheme, which was modelled on the Enterprise Finance Guarantee Scheme which existed at that time. In consultation with the major Enterprise Finance Guarantee Scheme accredited lenders, HM Treasury and the British Business Bank decided to use the Enterprise Finance Guarantee Scheme as a basis for the Coronavirus Business Interruption Loan Scheme given the urgent need to launch the scheme and the Enterprise Finance Guarantee Scheme infrastructure already in place. The Coronavirus Business Interruption Loan Scheme was delivered through amendment and adaptation of the Enterprise Finance Guarantee Scheme Agreement and processes, with UK Finance involved in discussions regarding the necessary amendments and implementation. The Coronavirus Business Interruption Loan Scheme was aimed at supporting small and medium-sized enterprises that were trading successfully before COVID-19 but as a result of the pandemic experienced lost or deferred revenues, or disruptions to their cashflow. To be able to offer the Coronavirus Business Interruption Loan Scheme to small and medium-sized enterprises, lenders needed to be accredited by the British Business Bank. However, not every accredited lender offered all Coronavirus Business Interruption Loan Scheme variants.

Coronavirus Business Interruption Loan Scheme - UK Finance involvement

- 51 UK Finance had some involvement in relation to the Coronavirus Business Interruption Loan Scheme prior to the Chancellor's announcement on 11 March 2020, for example by engaging with its members to gauge support for an initiative targeted at providing

working capital support for small and medium-sized enterprises (see exhibit DP/08 [INQ000548770] for example). A number of design enhancements were made to the proposed scheme shortly before launch following UK Finance and industry feedback (see paragraph 58 below).

- 52 Following the 11 March 2020 announcement by the Chancellor, UK Finance was involved in coordinating the implementation of the scheme, working closely with its members and primarily HM Treasury and the British Business Bank, but also the Lending Standards Board and the Financial Conduct Authority. As part of this coordinating role, UK Finance aimed to ensure that the Coronavirus Business Interruption Loan Scheme could support a wide range of viable businesses and was workable for the British Business Bank accredited lenders to offer. For example, on 16 March 2020 in a meeting with major banks, UK Finance, HM Treasury and the British Business Bank, the discussion focused on tests of business viability, State Aid restrictions on funding businesses in financial difficulties, the interpretation of affordability in the Financial Conduct Authority's Consumer Credit Sourcebook, the Senior Managers and Certification Regime and the Standards of Lending Practice.
- 53 UK Finance was also actively engaged with the British Business Bank in relation to accelerating the process for granting accreditation to lenders and liaising with its members that were seeking accreditation to provide loans under the Coronavirus Business Interruption Loan Scheme. As illustrated by a report published by the British Business Bank in June 2022 (see exhibit DP/08a [INQ000655613]), the speed of the accreditation process was highly variable and "absorb[ed] time", partly due to the iterative nature of the process of the British Business Bank in querying information from lenders, asking for more detailed information to be provided and working with the lender to ensure all required information was available to inform a decision as regards accreditation. The British Business Bank also stated, in relation to the speed of the accreditation process (albeit not specific to the Coronavirus Business Interruption Loan Scheme), that "*the average number of days to completion was 66 days – though this varied from 56 days for PRA regulated banks, to over 90 days for specialist capital providers, and almost 130 days for venture debt lenders*".
- 54 On 17 and 18 March 2020, the British Business Bank circulated updated drafts of the formal amendment letter that would effect the changes from the old Enterprise Finance Guarantee Scheme to the new Coronavirus Business Interruption Loan Scheme.

- 55 The Coronavirus Business Interruption Loan Scheme was launched on 23 March 2020 and was made available by existing Enterprise Finance Guarantee Scheme accredited lenders, with the intention of including newly accredited lenders in due course.
- 56 Initially, the maximum value of a facility provided under the Coronavirus Business Interruption Loan Scheme was £5 million. This could be made available in the form of term loans, overdrafts, invoice finance and/or asset finance, and to supplement rather than displace existing funding. The Coronavirus Business Interruption Loan Scheme gave the lender a UK Government-backed guarantee for the loan repayments to encourage more lending. However, the borrower remained fully liable for the debt. The UK Government guaranteed 80% of the finance to the lender and paid interest and any fees for the first 12 months. Under the first iteration of the Coronavirus Business Interruption Loan Scheme, taking personal guarantees was permissible for all facility sizes, at a lender's discretion and in line with their normal policies. Lenders were required to demonstrate lending additionality (i.e. lending that without the scheme, would not have otherwise taken place). The Coronavirus Business Interruption Loan Scheme was available to borrowers which, were it not for the pandemic, would have been considered viable by the lender.
- 57 For a business to be eligible for the Coronavirus Business Interruption Loan Scheme, it had to be based in the UK and have an annual turnover of up to £45 million. All types of businesses could apply except for banks, insurers and reinsurers (but not insurance brokers), public-sector bodies and state-funded primary and secondary schools.
- 58 On 2 April 2020, the British Business Bank announced that the Coronavirus Business Interruption Loan Scheme was being expanded, along with changes to the scheme's features and eligibility criteria. As a result of these changes, personal guarantees could not be taken for any facilities below £250,000, and insufficient security was no longer a condition to access the scheme. For facilities above £250,000, use of personal guarantees was still permissible in line with lender's normal policies, but recoveries were capped at a maximum of 20% of the outstanding Coronavirus Business Interruption Loan Scheme facility amount (after other recovery proceeds applied). In addition, the maximum loan size was increased from £1.3 million to £5 million, the scheme was extended to all sectors, and capital repayment deferrals were made available as long as loans were repaid within 10 years (for loans up to £600,000) or within 5 years (for loans between £600,000 and £5m).

- 59 Following the launch of the Coronavirus Business Interruption Loan Scheme on 23 March 2020, UK Finance worked with accredited members to operationalise the scheme at pace. UK Finance was also involved in communications and stakeholder engagement to ensure that businesses and sector groups understood the full detail behind the Coronavirus Business Interruption Loan Scheme. This included representing the concerns of lending businesses that were either not accredited by the British Business Bank or were awaiting British Business Bank accreditation. These businesses expressed fears of being driven out of business due to their inability to compete with a UK Government scheme that offered interest-free loans to borrowers from accredited lenders.
- 60 Following the first operational week of the Coronavirus Business Interruption Loan Scheme, UK Finance produced a note on key issues and potential solutions identified by the industry, which was shared with HM Treasury for consideration (see exhibits DP/09 [INQ000548837], DP/09a [INQ000548838]). UK Finance also participated in regular webinars for business groups which included the Federation of Small Businesses, the Confederation of British Industry and the British Chambers of Commerce, as well as engaging with a broader group of sector specialists through its weekly 'Let's Talk Business - Covid-19' business group forum.
- 61 UK Finance was also in continuous dialogue with the Department for Business, Energy, and Industrial Strategy and HM Treasury including collecting management information data from participating lenders, which demonstrated the flow of enquiries from small and medium-sized enterprises against the conversion into approved Coronavirus Business Interruption Loan Scheme facilities, for provision to HM Treasury to assess the success of the scheme.
- 62 UK Finance worked with the British Business Bank and HM Treasury to assist in clarifying key eligibility criteria for customers. A particular area of focus was the requirement under State Aid rules that a business not be an 'undertaking in difficulty' and requirements around profitability, which in principle excluded many start-ups and high-growth businesses from being able to access the Coronavirus Business Interruption Loan Scheme.
- 63 Given the Coronavirus Business Interruption Loan Scheme was focused on providing debt finance to viable small and medium-sized enterprises with a turnover of less than £45 million, UK Finance continued to promote the expansion of existing support measures to businesses not eligible for the Coronavirus Business Interruption Loan

Scheme, in particular for those businesses already in distress. It also considered how mid-size corporates and high-growth firms could access financing, including where equity would be more appropriate.

- 64 In the weeks following the launch of the Coronavirus Business Interruption Loan Scheme, UK Finance worked with the British Business Bank to simplify and clarify the Coronavirus Business Interruption Loan Scheme processes and improve the speed at which funding was made available to eligible applicants. However, substantial operational challenges remained given the demand for Coronavirus Business Interruption Loan Scheme loans. For example, all relevant functions in accredited lenders needed to fully understand the operation of the Coronavirus Business Interruption Loan Scheme, and end-to-end processes needed to be developed to deliver loans under the Coronavirus Business Interruption Loan Scheme in an efficient manner (see exhibits DP/09 [INQ000548837], DP/09a [INQ000548838]).
- 65 UK Finance issued a series of statements encouraging businesses to contact their banks or finance providers at the earliest opportunity to discuss what support was available to them. UK Finance also provided reassurance to businesses that banks and other finance providers had the capacity to provide additional financing to meet the increase in demand.
- 66 On 29 and 30 March 2020, UK Finance provided post-launch feedback on the Coronavirus Business Interruption Loan Scheme to HM Treasury, the Department for Business, Energy, and Industrial Strategy and the British Business Bank, which covered key issues and potential solutions identified by the industry following the first week of the Coronavirus Business Interruption Loan Scheme being in operation (see exhibits DP/09 [INQ000548837], DP/09a [INQ000548838]). Some of the recommendations were reflected in the changes subsequently announced by the British Business Bank on 2 April 2020. For example, feedback from the industry included:
- (a) that the features of the Coronavirus Business Interruption Loan Scheme may have been inaccurately represented to the public, leading to confusion amongst some small and medium-sized enterprises about the circumstances in which loans under the Coronavirus Business Interruption Loan Scheme were available;
 - (b) for loans of up to £250,000, whilst firms were required to apply their own normal underwriting criteria in determining security requirements for eligible Coronavirus Business Interruption Loan Scheme borrowers, many accredited lenders had

chosen to waive their normal personal security requirements for smaller businesses and take no personal security for loans under the Coronavirus Business Interruption Loan Scheme;

- (c) the Coronavirus Business Interruption Loan Scheme was unclear about the requirements for personal security for loans above £250,000, and industry believed that the British Business Bank should be asked to ensure that lenders have discretion as to what they take as security for all loans above £250,000;
- (d) to deal with challenges regarding the speed of delivery, industry believed that the British Business Bank should be instructed by the UK government to look for further ways to simplify the roll-out of the Coronavirus Business Interruption Loan Scheme. For example, allowing accredited lenders to accept simple automated underwriting in line with the usual process for small loans, with documentation sent electronically or available on a website;
- (e) to speed up the accreditation process, the premise of who should be eligible needed to be automatic, and whilst UK Finance had sought to help the British Business Bank prioritise the most capable lenders likely to make the biggest difference in the shortest time, it gave feedback that simple qualification criteria for automatic accreditation would be more effective.

67 Following reforms to the Coronavirus Business Interruption Loan Scheme announced by HM Treasury and the British Business Bank on 2 April 2020, the largest lenders announced that they would not require businesses to provide forward-looking financial information and would only ask businesses for information and data they might reasonably be able to provide at speed. This was intended to streamline the application process and help lenders provide financing to businesses that needed it as quickly as possible. Amendments were made to the level of affordability tests banks were required to perform under the Coronavirus Business Interruption Loan Scheme, and regulation was clarified in order to address this challenge.

Coronavirus Large Business Interruption Loan Scheme

68 On 3 April 2020, the Chancellor announced the introduction of the Coronavirus Large Business Interruption Loan Scheme. The Coronavirus Large Business Interruption Loan Scheme was launched on 20 April 2020 and was intended to provide finance to mid-sized and larger UK businesses which were ineligible for the Coronavirus Business

Interruption Loan Scheme and were too small to use the COVID-19 Corporate Financing Facility which provided liquidity support for the very largest companies.

- 69 The Coronavirus Large Business Interruption Loan Scheme provided facilities to eligible businesses (i.e. that would be considered viable, were it not for the impact of COVID-19), initially offering facilities of up to £25 million for businesses with a turnover from £45 million up to £250 million, and facilities of up to £50 million for businesses with a turnover of more than £250 million and less than £500 million. Lenders could provide finance by way of term loans, revolving credit facilities (overdrafts), invoice finance and asset finance, with UK Finance engaging with the British Business Bank to make the scheme more accessible for the purposes of invoice finance.
- 70 The Coronavirus Large Business Interruption Loan Scheme gave the lender a UK Government-backed partial guarantee (80%) against the outstanding balance of the facility. The borrower always remained fully liable for the debt. The Coronavirus Large Business Interruption Loan Scheme was available through a range of British Business Bank accredited lenders, and existing Coronavirus Business Interruption Loan Scheme lenders could seek expedited accreditations to become Coronavirus Large Business Interruption Loan Scheme lenders. All types of businesses were eligible for the Coronavirus Large Business Interruption Loan Scheme except for banks, insurers and reinsurers (but not insurance brokers), building societies, public-sector bodies and state-funded primary and secondary schools.
- 71 UK Finance became involved in the development of the Coronavirus Large Business Interruption Loan Scheme in April 2020, working with the British Business Bank, HM Treasury and major bank members to implement the new scheme quickly. UK Finance's role was supporting the implementation of the Coronavirus Large Business Interruption Loan Scheme, which included initial discussions on terms such as the removal of the £500 million turnover cap and increase of maximum loan size, and the ability to lend to non-bank credit institutions and permitting syndicated loans.
- 72 On 19 May 2020, HM Treasury announced an extension to the Coronavirus Large Business Interruption Loan Scheme. The extension of the Coronavirus Large Business Interruption Loan Scheme went live on 26 May 2020 enabling larger businesses to apply for facilities of up to £200 million. Where borrowing more than £50 million, businesses were subject to additional restrictions, such as a ban on dividend payments and cash bonuses (except where they were previously agreed). Similarly, to provide finance under

the extended scheme lenders required further accreditation from the British Business Bank.

- 73 On 18 May 2020, UK Finance sent a paper to the British Business Bank (see exhibit DP/10 [INQ000548978], DP/10a [INQ000548979]), setting out some of the main challenges members were facing relating to the Coronavirus Large Business Interruption Loan Scheme, as well as some recommendations for potential improvements. In particular, the 'Undertaking in Difficulty' test written into State Aid rules was a significant challenge for larger businesses trying to access the Coronavirus Large Business Interruption Loan Scheme. The test applied strict criteria in relation to a business' losses, solvency status and ratios, and ability to repay rescue or restructuring aid, to determine whether a business was an Undertaking in Difficulty and therefore its eligibility for the Coronavirus Large Business Interruption Loan Scheme. Further, the test was applied as of 31 December 2019 only, so did not take into account any subsequent recovery or restructuring of that business.
- 74 Between June 2020 and September 2020, UK Finance engaged with the British Business Bank, the European Banking Federation and business groups on additional flexibility in relation to State Aid rules. On 1 July 2020, UK Finance sent a letter to the British Business Bank in relation to the treatment of shareholder loan notes as debt for the purposes of the Undertaking in Difficulty test, and the definition of an "undertaking" in the context of group companies (see exhibit DP/10b [INQ000549022]).
- 75 The new guidance issued by the British Business Bank on the interpretation of the Undertaking in Difficulty criteria on 25 September 2020 allowed for the Undertaking in Difficulty assessment to be determined at the date of application for the scheme to allow flexibility for businesses to prove they were no longer an Undertaking in Difficulty and/or to restructure their finances before applying so that they could become eligible for the Coronavirus Large Business Interruption Loan Scheme.

Bounce Back Loan Scheme

- 76 UK Finance became involved in the development of the Bounce Back Loan Scheme in April 2020. Following the launch of the Coronavirus Business Interruption Loan Scheme, concerns were raised by Members of Parliament and various business groups that the scheme excluded many businesses with smaller borrowing needs and did not make funds available to businesses quickly enough. Recognising that the Coronavirus Business Interruption Loan Scheme did not enable microbusinesses impacted by

COVID-19 to access small loans quickly, the Bounce Back Loan Scheme was designed and subsequently launched on 4 May 2020.

- 77 During the development of the Bounce Back Loan Scheme, UK Finance engaged with the seven lenders initially identified by HM Treasury (which were all members of UK Finance) (the **Seven Lenders**) to offer the Bounce Back Loan Scheme. Additionally, UK Finance acted as an intermediary between its members and the HM Treasury and the British Business Bank at this time, facilitating a feedback loop. UK Finance also liaised with the Financial Conduct Authority in relation to forbearance and disapplication of regulatory rules, the Lending Standards Board in relation to changes to, or disapplication of, certain of its Standards, and HM Treasury in relation to the scheme generally and the need for elements of the Consumer Credit Act 1974 to be disapplied.
- 78 On 23 April 2020, the Seven Lenders and UK Finance attended a meeting with the Chancellor, the Economic Secretary and individuals from HM Treasury to discuss both the Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme. On 24 April 2020, HM Treasury shared versions of the scheme parameters and application form in relation to the Bounce Back Loan Scheme with the Seven Lenders and UK Finance, which were discussed at a meeting between the same entities on 25 April 2020.
- 79 On 26 April 2020, at the request of one of the Seven Lenders, UK Finance convened a meeting with senior management and lawyers representing the Seven Lenders to discuss legal and regulatory issues relating to the proposed framework for the Bounce Back Loan Scheme.
- 80 Later that same day legal representatives of the British Business Bank disseminated a draft term sheet to the Seven Lenders and UK Finance, in response to which lenders provided their feedback to the British Business Bank (or their legal representatives) and/or HM Treasury, copying or sharing with UK Finance.
- 81 On 27 April 2020, the Chancellor announced the Bounce Back Loan Scheme to the House of Commons and that it would be available from 9am the following Monday. UK Finance issued a statement setting out the nature of the scheme and the work being done by lenders to operationalise the scheme (see exhibit DP/10c [INQ000655614]). The key terms included:
- (a) lenders could provide a six-year term loan from £2,000 up to 25% of a business' turnover, with a maximum loan amount of £50,000;

- (b) the scheme gave the lender a full (100%) UK Government-backed guarantee against the outstanding balance of the facility (both capital and interest);
- (c) the UK Government covered the first 12 months of interest and no repayments were required for the first 12 months, although the borrower always remained fully liable for the debt;
- (d) interest rates were fixed at 2.5% and loans were for a 6-year period with no early repayment charges;
- (e) there would be no forward-looking checks regarding business viability and no complex eligibility; and
- (f) most loans should arrive within 24 hours of approval.

82 Under the rules of the Bounce Back Loan Scheme, which were set by UK Government, businesses applying for a Bounce Back Loan had to self-certify that they understood the repayments costs and confirm they would make timely repayments in future.

83 In accordance with their usual legal and regulatory obligations lenders were required to carry out Anti-Money Laundering and Know Your Customer checks for new customers. For existing customers, these would have been carried out at onboarding and thereafter as required.

84 Credit and affordability checks on the Bounce Back Loan Scheme applicants were not required, although lenders were nevertheless still required to undertake a prescribed minimum level of fraud checks. This included usage of a reputable fraud bureau such as CIFAS (a UK-based fraud prevention service that maintains a cross-sector fraud sharing database) to screen potential or known fraudsters. Lenders were also required to take into account anything identified by their Anti-Money Laundering and/or Know Your Customer processes that raised concern about potential fraud and decline an application where the applicant failed the lender's fraud checks. Lenders were also expected to maintain their usual transaction fraud monitoring controls in accordance with their usual frequencies. However, where the lender's fraud checking process was embedded within credit checks, credit-related flags could then be disregarded unless they gave rise to potential fraud concerns. Additionally, lenders were instructed that a Bounce Back Loan could not be declined on the basis of a credit decision or resulting from an affordability check (see exhibit DP/11 [INQ000549156]).

- 85 Following the announcement by the Chancellor on 27 April 2020, UK Finance was involved in discussions with HM Treasury and the Seven Lenders in relation to the possibility of a UK Government indemnity. Lenders were concerned about the additional risks they would be assuming by offering loans under the Bounce Back Loan Scheme, given the modifications made to standard lending compliance and risk management procedures (in particular, fraud screenings, verification procedures and affordability checks). However, the UK Government confirmed on 30 April 2020 that an indemnity would not be provided (see exhibit DP/12 [INQ000653672]).
- 86 On 28 April 2020, UK Finance was engaged in discussions with the UK Government in respect of whether HM Revenue & Customs could provide details of sole traders' tax status to assist in lenders' determination of eligibility of sole traders operating from a personal rather than business current account. UK Finance was subsequently advised by HM Treasury that HM Revenue & Customs was unable to provide this information. UK Finance and the UK Government subsequently discussed this issue and the UK Government agreed that manual checks would need to be carried out, which would not be possible within 24 hours. Therefore, it was accepted that the process would take longer for sole traders. UK Finance was also engaged with HM Treasury in relation to the Undertaking in Difficulty test under EU State Aid rules.
- 87 From 29 April 2020, UK Finance was involved in discussions between the British Business Bank (or their legal representatives), HM Treasury, the Department for Business, Energy and Industrial Strategy and the Seven Lenders in relation to the Bounce Back Loan Scheme Guarantee Agreement to resolve outstanding issues, including the scope of credit and affordability checks, the application of regulatory rules, and the need for regulatory forbearance or disapplication of certain Financial Conduct Authority requirements, as set out in more detail below.
- 88 On 30 April 2020, UK Finance was also in correspondence with the Financial Conduct Authority and HM Treasury with regards to formal disapplication or regulatory forbearance in relation to certain rules in the Financial Conduct Authority Handbook, particularly provisions of the Consumer Credit Sourcebook, Senior Management Arrangements, Systems and Controls and Dispute Resolution Sourcebooks, and the Financial Conduct Authority's Principles for Business, and excluding the Bounce Back Loan Scheme from the jurisdiction of the Financial Ombudsman Service.
- 89 On 1 May 2020, the Chancellor wrote to accredited lenders in relation to the Bounce Back Loan Scheme, confirming that HM Treasury had made a statutory instrument

amending the Regulated Activities Order so that providing small business loans of £25,000 or less to sole traders, unincorporated associations and partnerships with fewer than four people would not be a regulated activity for the purposes of the Bounce Back Loan Scheme. The statutory instrument would come into force on 4 May 2020. The letter also confirmed that the UK Government would introduce primary legislation at the earliest opportunity to disapply sections 140A-140C of the Consumer Credit Act 1974 for the Bounce Back Loan Scheme lending which would have retrospective effect (meaning that it would apply from the scheme launch). This was introduced in July 2020, as noted in paragraph 95.

90 However, the requests made of the Financial Conduct Authority for regulatory disapplication or forbearance outlined in paragraph 88 above were rejected by the Financial Conduct Authority in a communication to UK Finance on 2 May 2020 (see exhibit DP/12a [INQ000653677]). It cited the importance of protections for borrowers and prevention of potential issues in relation to the treatment of customers in financial difficulty.

91 UK Finance and the Seven Lenders received the final version of the application form and related documents related to the Bounce Back Loan Scheme on 2 May 2020 (see exhibits DP/13 [INQ000548951], DP/13a [INQ000548952], DP/13b [INQ000548953], DP/13c [INQ000548954], DP/13d [INQ000548955], DP/13e [INQ000548956], DP/13f [INQ000548957]). However, certain issues remained unclear, including whether lenders were required not to conduct credit and affordability checks.

92 On 2 May 2020, HM Treasury shared with the Seven Lenders and UK Finance copies of letters which the Financial Conduct Authority and Financial Ombudsman Service had agreed to exchange in relation to the Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme (see exhibits DP/14 [INQ000548958], DP/14a [INQ000548959], DP/14b [INQ000548960]). The letter from the Financial Conduct Authority stated explicitly in relation to the Bounce Back Loan Scheme that there was no requirement for lenders to conduct creditworthiness or affordability checks and acknowledged that this was clearly different to requirements within Financial Conduct Authority rules on creditworthiness assessments for regulated credit agreements (i.e. 5.2A of the Financial Conduct Authority's Consumer Credit Sourcebook). In response, the draft letter from the Financial Ombudsman Service to the Financial Conduct Authority acknowledged the new legal and regulatory framework in relation to the Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme, recognised the schemes required lenders to take a different approach to lending and

that this approach would be determined by the schemes' rules and new regulatory arrangements.

- 93 The final version of the Bounce Back Loan Scheme Guarantee Agreement was ultimately shared with UK Finance, amongst others, on 3 May 2020 and the Bounce Back Loan Scheme was launched on 4 May 2020. Schedule 8 of the Bounce Back Loan Scheme Guarantee Agreement sets out the Anti-Money Laundering, Know Your Customer and fraud checking standards that the lenders were expected to carry out and maintain. This included that lenders “*should make and maintain appropriate anti-money laundering (AML) and know-your-customer (KYC) checks in relation to each Applicant and Borrower, in line with its legal and regulatory obligations and taking into account the Financial Conduct Authority’s “Statement on the UK Coronavirus Business Interruption Loan Scheme (CBILS) and the new Bounce Back Loan Scheme (BBL)” of 27 April 2020*”. It also set out that if these Anti-Money Laundering and/or Know Your Customer processes identified anything that raised concerns about potential fraud, these should be taken into account. However, Schedule 8 also clarified that where the lender’s fraud checks were embedded within their credit checks, then credit-related flags could be disregarded unless they gave rise to potential fraud concerns.
- 94 Post launch, UK Finance continued to engage with the UK Government, regulators, the Seven Lenders (and thereafter other accredited lenders) and the British Business Bank in relation to the risks to lenders in respect of the Bounce Back Loan Scheme and how these might be addressed. For example, in an email from UK Finance to HM Treasury, the Financial Conduct Authority, Financial Ombudsman Service, the Prudential Regulation Authority and the Seven Lenders on 4 May 2020, UK Finance highlighted that whilst some risks had been identified and discussed, others might emerge once the scheme was operationalised or after customers fell into repayment difficulties. UK Finance also highlighted that new lenders needed to be accredited by the British Business Bank as soon as possible, that primary legislation needed to be changed and that further regulatory forbearance may be required (see exhibit DP/15 [INQ000548968]).
- 95 Throughout May 2020, UK Finance continued to engage in correspondence with the Department for Business, Energy, and Industrial Strategy and HM Treasury regarding required legislative changes, emphasising the urgent need for these amendments. For example, given the requirement for lenders to process Bounce Back Loan Scheme applications quickly and their reliance on borrowers’ information and declarations in application forms, there was concern that borrowers unable to pay may later challenge

a Bounce Back Loan Scheme loan. As such, to provide reassurance to lenders, UK Finance engaged with HM Treasury on the potential disapplication (with retrospective effect) of sections 140A to 140C of the Consumer Credit Act 1974 (which provide the courts with extensive powers in respect of credit agreements if the court finds the relationship between the lender and borrower is unfair) (see exhibits DP/16 [INQ000548976], DP/16a [INQ000548977]). Subsequently, a Business and Planning Bill was laid before Parliament on 25 June 2020 which included a provision to disapply an order made under s140B in connection with a credit agreement entered into under the Bounce Back Loan Scheme. This Bill received Royal Assent on 22 July 2020.

- 96 UK Finance was also involved in communicating to businesses that whilst the Bounce Back Loan Scheme aimed to provide rapid funding to applicants to support small businesses, it was nonetheless a debt product rather than a grant and that businesses should therefore carefully consider whether to take on additional debt.
- 97 Throughout the pre-and post-launch period UK Finance was in frequent contact with the Lending Standards Board in relation to the changes required to their Standards of Lending Practice for business customers in relation to both the Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme, acting as liaison between the Lending Standards Board, accredited lenders and regulators. UK Finance emphasised in correspondence with regulators, copying HM Treasury, the importance of the Financial Conduct Authority recognizing the revised Lending Standards Board's Standards in respect of the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme so that the lenders, in complying with the revised Lending Standards Board's Standards, would be regarded by the Financial Conduct Authority as observing proper standards of market conduct. On 5 August 2020, the Financial Conduct Authority confirmed that it would maintain recognition of the Lending Standards Board's Standards as amended.
- 98 Another key area of focus in relation to the Bounce Back Loan Scheme was the risk of fraudulent activity caused by the scheme's light-touch application process, and specifically the reliance on applicants to self-certify their viability and the absence of substantive credit checks (as outlined in paragraphs 82 to 84 and addressed in more detail below in paragraphs 215 to 223).
- 99 Throughout the summer of 2020, UK Finance also worked with HM Treasury, the British Business Bank and the Seven Lenders drafting a 'recoveries strawman' including fraud recoveries guidance to ensure consistency across the industry and set out the UK

Government's expectations of lenders in relation to fraud. This was subsequently agreed and annexed to the Recoveries Principles finalised on 9 December 2020 (see exhibits DP/16b [INQ000549030], DP/16c [INQ000549031]; DP/16d [INQ000549034], DP/16e [INQ000549035]; DP/16f [INQ000549038], DP/16g [INQ000549039]; DP/16h [INQ000549041], DP/16i [INQ000549042]; DP/18 [INQ000549043], DP/18a [INQ000549044], DP/16j [INQ000549045], DP/16k [INQ000549046]; DP/16l [INQ000549047], DP/16m [INQ000549048]; DP/16n [INQ000653683], DP/16o [INQ000653684], DP/16p [INQ000653685]; DP/16q [INQ000549070], DP/16r [INQ000549071])

100 As explained below, UK Finance, collectively with the British Business Bank, formed a Bank Fraud Collaboration Group in May 2020, which focused on tackling fraud connected to the Bounce Back Loan Scheme, as set out in more detail in paragraphs 224 to 235 below. In comparison to the Bounce Back Loan Scheme, the Coronavirus Business Interruption Loan Scheme presented fewer fraud concerns because there was limited relaxation of credit assessment controls for lenders and loans were primarily issued to existing customers.

101 On 26 June 2020, UK Finance engaged with the British Business Bank seeking to clarify the British Business Bank's understanding of lenders' contractual obligations regarding ongoing fraud checks (see exhibit DP/17 [INQ000653680]). Subsequent engagement throughout July and August 2020 confirmed that the British Business Bank considered that lenders were under no obligation to check businesses' self-certification, but that if they did discover dishonesty they should take appropriate action (see exhibit DP/18 [INQ000549043], DP/18a [INQ000549044]). Further clarification was received by UK Finance from the British Business Bank in relation to eligibility and self-certification on 23 October 2020. This clarified that the Eligibility Criteria in the legal agreement between the guarantor and each lender included a stipulation that the applicant business must have been trading on 1 March 2020 to be eligible. However, lenders were not able to rely solely on the self-certification by a borrower to ascertain that this criterion was fulfilled (see exhibit DP/19 [INQ000549049]).

102 In the week commencing 2 November 2020, the Chancellor announced that the COVID-19 support schemes (i.e. the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme) would be extended through the new national lockdown, with a 31 January 2021 deadline for new applications. It was also announced that existing Bounce Back Loan Scheme customers who did not apply for the maximum loan amount permitted

could apply to 'top-up' their current Bounce Back Loan Scheme facility before 31 January 2021. UK Finance issued a statement online in support of the extension of the COVID-19 schemes and its intention to work with other stakeholders to finalise these changes (see exhibit DP/19a [INQ000655615]). UK Finance worked with its members and the British Business Bank on the changes to the Bounce Back Loan Scheme and also with Bounce Back Loan Scheme accredited members, HM Treasury and the British Business Bank to deliver the roll-out of the 'top-up' feature, which went live on 10 November 2020. It also engaged with business groups and political stakeholders to ensure the changes were fully understood by businesses, and in particular the rules which limited businesses to applying for up to 25% of their annual turnover at the point of their original Bounce Back Loan Scheme application.

103 Work was underway involving UK Finance and those lenders that had expressed an interest to assess the feasibility of establishing an industry utility for Bounce Back Loan Scheme collections and recoveries activities. UK Finance in agreement with the British Business Bank, later established a Recoveries Collaboration Group. The Bounce Back Loan Scheme Recoveries Collaboration Group met (and continues to meet) at least monthly and was attended by Bounce Back Loan Scheme accredited lenders and other relevant stakeholders (including HM Treasury and the Department for Business, Energy, and Industrial Strategy depending on agenda items). It helped to ensure that lenders had clarity on rules that applied across the scheme's in-life and recoveries scenarios. Whilst the UK Government provided a 100% guarantee to the Bounce Back Loan Scheme lenders, if a borrower was unable or unwilling to repay the loan, lenders were obligated to seek recovery of the debt in line with their 'business as usual' approach to recoveries. Where lenders made recoveries after having already called on the guarantee, the recovered funds were paid back to the UK Government.

104 Following the announcement by the Chancellor on 17 December 2020 of the extension to the Bounce Back Loan Scheme to the end of April 2021, throughout January 2021 UK Finance was involved in discussions with the HM Treasury and/or the British Business Bank in relation to various issues including the proposed changes to Pay as You Grow. Pay as You Grow was a system aimed at providing flexibility for borrowers repaying a Bounce Back Loan Scheme loan, whereby once repayments were due, borrowers would have the option to extend the term of their loan, temporarily move to interest-only payments or temporarily pause payments all together. UK Finance was also engaged with the HM Treasury and the British Business Bank with respect to the proposed amendments to the way lenders' recoveries costs were reimbursed under the

Bounce Back Loan Scheme Guarantee Agreement and State Aid in light of Brexit (i.e. whether the Undertaking in Difficulty test under EU State Aid rules still applied).

Recovery Loan Scheme

- 105 The Recovery Loan Scheme was announced in the UK Government budget on 3 March 2021 to replace the Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme with intended launch on 6 April 2021. The UK Government announcement stated that the Recovery Loan Scheme would provide lenders with a guarantee of 80% on eligible loans between £25,000 and £10 million to give them confidence in continuing to provide finance to UK businesses. The Recovery Loan Scheme would be open to all businesses, including those who have already received support under the existing COVID-19 guaranteed loan schemes.
- 106 In the lead up to the launch of the Recovery Loan Scheme, UK Finance liaised with the British Business Bank on behalf of lenders with regards to the design and implementation of the Recovery Loan Scheme and certain legal, commercial and operational issues raised by lenders. UK Finance also engaged with the British Business Bank with regards to the Recovery Loan Scheme Guarantee Agreement which was finalised on 24 March 2021.
- 107 The minimum term loan or overdraft facility size under the scheme was subsequently amended prior to launch to £25,001 so that lending under the Recovery Loan Scheme was largely non-regulated or exempt for the purposes of the Consumer Credit Act 1974 and outside of the remit of the Financial Conduct Authority's Consumer Credit Sourcebook. As explained in paragraph 89 above, lending of £25,001 and above to sole traders, unincorporated associations and partnerships fewer than four people is exempt from regulation.
- 108 Lenders were expected to undertake their usual fraud/Anti-Money Laundering checks prior to lending. They were also expected to undertake their usual creditworthiness assessments. Nonetheless, to ensure additionality, they could only lend where, in the absence of the UK Government guarantee, they would not have been prepared to offer the facility on similar terms or would only have been prepared to do so at a higher price. Therefore, there was an expectation that some Recovery Loan Scheme customers would fall outside a lender's normal risk appetite, for example because of a lack of available security. Additionally, in determining eligibility and the viability of an applicant's business proposition, lenders were permitted, but were not required, to disregard any

concerns over the applicant's short-to-medium term business performance due to the uncertainty and impact of COVID-19.

- 109 The Recovery Loan Scheme marked a return to a more 'normal' UK Government lending scheme environment. Criteria were also more restrictive for the use of the Recovery Loan Scheme than in relation to the COVID-19 loan schemes. The Recovery Loan Scheme therefore played a significantly more limited contribution in small and medium-sized enterprise finance but provided a route for some businesses to access finance, especially those that lack security.
- 110 In the budget on 27 October 2021, the UK Government announced an extension of the Recovery Loan Scheme until 30 June 2022. The announcement included that finance would be available up to a maximum of £2 million per business and that the UK Government guarantee would be reduced from 80% to 70%.
- 111 In early 2022, UK Finance participated in discussions with HM Treasury, the Department for Business and Trade, the British Business Bank and lenders about the future of the scheme after the impending expiry of the Recovery Loan Scheme extension. The current scheme, now called the Growth Guarantee Scheme, provides up to £2 million for small and medium-sized enterprises, providing a guarantee level of 70%. This is lower than the pre-COVID-19 Enterprise Finance Guarantee Scheme (up to 75%), Bounce Back Loan Scheme (100%), Coronavirus Business Interruption Loan Scheme (80%), Coronavirus Large Business Interruption Loan Scheme (80%) and the earlier variants of the Recovery Loan Scheme (80%).

COVID-19 Corporate Financing Facility

- 112 The COVID-19 Corporate Financing Facility was designed to release liquidity into the market and targeted larger listed companies. On 17 March 2020, it was announced that HM Treasury and the Bank of England were coordinating on the development of the COVID-19 Corporate Financing Facility to help companies during the economic shock from COVID-19, due to the disruption to supply chains and weaker economic activity. Further details were published in a Market Notice on 18 March 2020. The COVID-19 Corporate Financing Facility was implemented through the Bank of England and enabled it to buy commercial paper of up to one-year maturity, issued by the eligible firms. Its aim was to relieve cash flow pressures on eligible firms by raising working capital. The COVID-19 Corporate Financing Facility was open to companies and their

finance subsidiaries that made a material contribution to the UK economy, but they had to demonstrate that they were in sound financial health prior to the pandemic.

- 113 UK Finance spoke with the Bank of England about the progress of the scheme on 15 April 2020, during which the Bank of England provided feedback around challenges with respect to scheme documentation and credit ratings for scheme users.
- 114 UK Finance consulted its members on the COVID-19 Corporate Financing Facility and presented members' concerns to the Bank of England on 4 May 2020, including the backlog of approvals and the publishing by banks of their market share. Additionally, UK Finance engaged with the Bank of England on the possibility of providing access to the COVID-19 Corporate Financing Facility to its non-bank members.
- 115 UK Finance was aware of the COVID-19 Corporate Financing Facility and signposted it, as appropriate, to its members, but unlike with the other UK Government lending schemes, UK Finance was not greatly involved in its development. Some of UK Finance's members had queries regarding the COVID-19 Corporate Financing Facility (mainly in relation to whether financial institutions affiliated with corporates could access the scheme and how suitability was being assessed), which UK Finance directed to the Bank of England and HM Treasury. UK Finance signposted on occasion to Bank of England public data on the take-up of the scheme.

Future Fund Scheme

- 116 The Future Fund Scheme sought to provide convertible loans ranging from £125,000 to £5 million to innovative companies facing financing difficulties due to the COVID-19 pandemic, subject to at least equal match funding from private investors. The scheme was delivered by the British Business Bank.
- 117 To the best of the recollection of those at UK Finance at the time, UK Finance was not involved in the design or implementation of the Future Fund Scheme.

Cash and Payment Transactions

- 118 During the COVID-19 pandemic, UK Finance was closely involved in a number of initiatives relating to cash, payment transactions and personal finance. For example, UK Finance developed shared media lines on payments (e.g. the potential infectivity of notes, coins, and PIN pads) in consultation with LINK and Pay.UK, and issued core

messaging externally to emphasise that firms would continue to support customers to pay in the way that suited them.

Cash

- 119 The impact of COVID-19 restrictions had a profound effect on the use and demand for cash, both notes and coins. In the month following the introduction of the first national lockdown on 23 March 2020, UK Finance members observed unprecedentedly low levels of activity in the use of both notes and coins, with ATM withdrawals at historically low levels and coin stocks at their highest for several years prior to the pandemic. UK Finance also received updates from contacts in other European countries which had been impacted at an earlier stage by the pandemic about disruptions to cash distribution networks. The updates further helped to build a picture of the challenges the COVID-19 pandemic would pose to the cash industry.
- 120 UK Finance's Cash Policy Committee is responsible for UK Finance's work with respect to the cash industry, and consists of representatives of UK retail banks, wholesale cash processors, the Post Office and cash-in-transit firms. The Cash Policy Committee maintains "playbooks" designed to ensure continuity of the UK's cash supply in the event of certain occurrences, including in the event of a pandemic. The Cash Policy Committee had developed a pandemic playbook (the **Cash Pandemic Playbook**) in the years prior to the outbreak of the COVID-19 pandemic in response to concerns about a possible swine flu pandemic. The Cash Pandemic Playbook outlined a strategy for minimising disruption to the cash supply in the event of a pandemic, and specified lines of communication with key stakeholders (including the Royal Mint and the Bank of England). It required that all members maintained up to date contingency plans (including plans to ensure an adequate supply of bagged coin and plans to ensure the continued operation of ATMs).
- 121 In the week commencing 3 March 2020, the Cash Policy Committee approved the formal invocation of section 2.1 of the Cash Pandemic Playbook, which triggered the instigation of weekly calls with the Cash Risk Group members. These weekly meetings focused on ensuring continuity of the cash supply in the face of changing demand levels for cash. Early initiatives included interacting with the European Payments Committee Cash Efficiency working group and engaging with HM Treasury on possible forbearance for cash distribution issues and a suspension of the obligation under Coin Checking and Validation Framework to validate £1 and £2 coins separately to identify any counterfeits.

- 122 Additionally, a desktop exercise to stress test incident plans was carried out by UK Finance's Cash Services team, and outputs from this exercise were used to update the pre-existing Incident Response Playbook which outlines the initial actions UK Finance staff should take if they become aware of a systemic operational disruption.
- 123 On 16 March 2020, the second section of the Cash Pandemic Playbook ('Actions to be taken during a UK Pandemic') was invoked. This section focuses on the collective actions the financial services industry should carry out to mitigate the effects of the pandemic on the UK cash supply. Under this section, UK Finance was expected to convene a call at least once a week with the appropriate operational contacts to assist with coordination between firms, and work with members, the wider industry and stakeholders to ensure that cash circulation continued to function in affected areas.
- 124 On 24 March 2020, UK Finance wrote to HM Treasury to provide it with early insights into the effects of the COVID-19 pandemic on the distribution of cash (see exhibit DP/20 [INQ000549161]). HM Treasury responded to UK Finance in a letter dated 30 March 2020, in which it thanked UK Finance for its work in coordinating the continued distribution of cash. Amongst various issues HM Treasury's letter discussed the inclusion of staff needed for essential financial services provision in the Government's list of key workers (including staff necessary to maintain essential cash distribution) and UK Finance's work in identifying a list of ATMs that should be prioritised for replenishment in the event of further disruption to cash supplies.
- 125 During the week commencing 20 April 2020, UK Finance facilitated an exercise to test the industry's readiness to meet consumer and retailer demand for cash once the UK Government announced a lifting of lockdown restrictions.
- 126 UK Finance's Cash Services team also liaised with members regarding the implications of the UK Government guidance documents on the restart strategy. During the Cash Pandemic Call in the week commencing 24 May 2020, members reported that branch opening hours were being lengthened and increased volumes of cash were being withdrawn over branch counters as recipients of UK Government grants drew out their payments in cash.
- 127 In response to the changing use of cash, UK Finance undertook a data collection exercise with UK Finance members on branch-based access to cash to explore the extent to which appropriate access to cash was being provided to consumers.

128 UK Finance was also involved in new coin orders. For example, in light of the incoming lockdown restrictions and expected reduction in demand, UK Finance Cash Services agreed with The Royal Mint/HM Treasury to revise the November 2020 new coin order to reduce pressure on the industry and introduce as little new coin into circulation as possible. UK Finance also worked with The Royal Mint on demand forecasts and production requirements for a new coin in 2021.

129 In its capacity representing the financial services industry, UK Finance issued a series of press releases and statements to the media reassuring customers that they could continue to withdraw cash at ATMs and set out alternative options for withdrawing cash.

Payments Transactions

130 UK Finance's Payments team attended biweekly calls with HM Treasury, the Financial Conduct Authority and the Payment Systems Regulator to discuss payments issues.

131 In relation to card payments, UK Finance's work at the outset of the pandemic related to contactless card limits. UK Finance's Payments team worked with card schemes, issuers and acquirers to raise the contactless card limit from £30 to £45 in light of concern around contagion at PIN pads, which applied from 1 April 2020. A move to £45 was already under consideration by the industry aligned with the average basket size in supermarkets. UK Finance also engaged with the Financial Conduct Authority on Strong Customer Authentication requirements which were being introduced at the time across the European Union and which required cardholders to take additional steps to authenticate transactions. UK Finance agreed with the Financial Conduct Authority a temporary relaxation of the need for a cumulative limit of five transactions or a value count of £130, to reduce how often customers were asked to input their PIN when making purchases. HM Treasury, the Financial Conduct Authority and the Payment Systems Regulator were supportive of the increase to the contactless card limit and asked to be updated as retailers went live with the increase.

132 Previous contactless limit changes had been planned over a two-year period in consultation with retailers with a specific implementation rollout, so to expedite the limit change, UK Finance held weekly implementation calls with retailers, acquirers, issuers and schemes to address any blocks and allow issuers to respond to new transaction volumes. UK Finance's engagement with the European Banking Federation included coordinating with other European countries on measures being taken for example on managing retailer insolvencies and weekly European Banking Federation calls took

place at which potential changes or forbearance to the cumulative limit under Strong Customer Authentication for contactless transactions were discussed, with a number of countries pushing for a delay to the implementation of Strong Customer Authentication. Ultimately, the Strong Customer Authentication upper limit for contactless transactions was set at €50 which at the time was equivalent to the £45 limit in the UK.

- 133 Other action taken by UK Finance in relation to cards included:
- (a) coordinating an industry-wide waiver of certain card payment fees for charities to assist with their fundraising activities relating to COVID-19;
 - (b) working with merchant acquirers to determine what measures could alleviate financial stress for the retail sector. Many businesses in lockdown were no longer trading or were trading at a materially lower level; at the same time, their customers were increasingly requesting refunds and chargebacks in relation to goods and services that would not be delivered. The overall amount of refunds or chargebacks against a particular merchant is monitored by acquirers and is known as 'exposure'. For significantly impacted sectors where exposure was overtaking cashflow received, acquirers were forced to take increasingly stringent measures in order to protect their own credit risk positions. For a large number of merchants, acquirers were operating on a 'negative settlement basis', where acquirers continued to settle merchants' card transactions while also paying out on refunds and chargebacks, in spite of there being insufficient trading income to meet these refunds and chargebacks. On 22 May 2020, UK Finance shared with HM Treasury a proposal, which outlined the important role that merchant acquirers play in ensuring businesses can trade and accept payments for goods and services. It also highlighted the challenges that the pandemic created for acquirers' ability to process payments, and set out how UK Finance envisaged the role that UK Government could play in supporting acquirers in maintaining cashflow for businesses that were viable prior to the COVID-19 crisis (see exhibit DP/21 [INQ000548997], DP/21a [INQ000548998]). The proposal was not taken forward by HM Treasury.
- 134 An initial focus on payments ensured that funds were paid to corporates and citizens as quickly as possible. A UK Finance and Pay.UK working group was initiated to consider how banks could support UK Government expectations following the emergency measures announced and disburse funds to corporates and citizens.

- 135 UK Finance also worked with Pay.UK, Vocalink and some payments providers in a Retail Payments Taskforce to ensure additional COVID-19 payments for Universal Credit accounts, the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme were delivered effectively. The Retail Payments Taskforce advised the UK Government on available payment options and worked closely with HM Revenue & Customs to ensure that necessary payment overlay services were incorporated into the Self-Employment Income Support Scheme.
- 136 On 30 April 2020, the Financial Conduct Authority announced a deferred date for the enforcement of Strong Customer Authentication requirements in an e-commerce context, and UK Finance contributed to the proposed implementation plan. In agreement with the Financial Conduct Authority, UK Finance subsequently ran a 4-year programme to implement Strong Customer Authentication in the UK, as a means of mitigating the impact of these regulations on e-commerce retail sales while in-person retail was still in recovery.
- 137 UK Finance also engaged with regulatory bodies on the delay to the implementation of Confirmation of Payee by the Payment Systems Regulator mandated firms to 30 June 2020 and supported forbearance work on the Open Banking Revised Roadmap.
- 138 Other UK Finance activities in the payments area included:
- (a) working with the National Health Service and Local Government Authorities to address the needs of vulnerable customers, especially those relying on volunteers to buy supplies and how these supplies are paid for; this included sharing best practice knowledge on 'carer cards' (where the primary cardholder was able to request an additional card with limited functionality for their carer) between members and promoting these with UK Government agencies;
 - (b) coordinating with issuers, acquirers and schemes in relation to retailer insolvencies (existing and likely), providing ongoing acquirer insight to HM Treasury, the Financial Conduct Authority and the Payment Systems Regulator on potential failures (see paragraph 133(b)); and refining guidance for issuers and customers on retailer insolvencies, especially in the travel sector; and
 - (c) contributing to the payment specific issues within the Corporate Insolvency and Governance Bill.

Personal Finance

Vulnerable Customers

- 139 The initial focus of UK Finance’s personal, retail and mortgage activity was ensuring that the industry was able to identify and respond to the needs of customers in vulnerable circumstances – be these individuals with existing vulnerability characteristics which were exacerbated due to the pandemic or individuals that were facing financial difficulties for the first time due to the economic impacts. UK Finance convened its standing Vulnerability Committee and consulted its wider membership, including the Vulnerability Contact Group and the Bereavement Contact Group, to address the specific challenges posed by the COVID-19 pandemic to vulnerable customers.
- 140 The purpose of the Vulnerability Committee is to provide strategic oversight of and direction to UK Finance’s activity with respect to supporting customers in vulnerable circumstances by:
- (a) acting as the collective voice of the industry on vulnerability matters;
 - (b) creating visibility of the sector’s progress in delivering good outcomes for vulnerable customers and mitigating potential consumer detriment;
 - (c) driving and sustaining improved consumer outcomes and consistency across the sector; and
 - (d) determining priorities and sequencing of sector deliverables.
- 141 The Vulnerability Contact Group was established in May 2019 and is used to disseminate information to a wide range of UK Finance members and individuals that have an interest in vulnerability matters. The Vulnerability Contact Group met regularly during the pandemic, initially on a monthly basis, and worked to coordinate members’ responses to customer vulnerability issues that arose as a consequence of the pandemic – including in particular how to assist customers who were shielding. As explained below, priority areas included third party access and support, bereavement processes, access to banking for vulnerable and self-isolating people, and forbearance.

Personal Banking

- 142 UK Finance's Personal Banking team initially focused on two critical areas: maintaining safe access to banking and vulnerable customers.
- 143 With respect to maintaining safe access to banking:
- (a) recognising the significant strain on call centre capacity, an industry level co-branded advert was developed and published with the support of UK Finance's members, encouraging the public to consider if calling their bank was necessary, or whether they could use a digital channel or the bank's website instead;
 - (b) in line with further measures on social distancing, UK Finance worked with external organisations on advising customers to respect the "two metre rule" in bank branches. UK Finance also worked with members to understand operational constraints to social distancing and engaged with the Financial Conduct Authority on firms having the maximum flexibility to maintain service;
 - (c) as explained at paragraph 37 above, UK Finance was engaging with authorities in Scotland and Northern Ireland to ensure that bank staff were classified as "key workers"; and
 - (d) UK Finance also worked with the Financial Conduct Authority on its concerns around temporary branch closures during lockdown and alternative arrangements for impacted customers, developing proposals for members to signpost customers to Post Office counter services.
- 144 In respect of vulnerable customers:
- (a) UK Finance's Vulnerability Committee worked on how members could support customers who were unable to access their bank branch or digitally excluded could maintain access to everyday banking services.
 - (b) UK Finance explored how as wide a range of payment options as possible could be made accessible to customers facing difficulty in making payments, which included enabling elderly customers to pay a volunteer for their shopping without needing access to mobile banking. UK Finance engaged with the National Health Service and the Royal Voluntary Service to explore how volunteer services could be supported by appropriate payment options for those customers facing difficulty

in making payments, including introducing payment providers to the National Health Service.

- (c) UK Finance also worked with members and the Post Office to explore scaling the pre-authorised cheque encashment service proposition. The Post Office unveiled its 'Fast Pre-Authorised Cheque Encashment' scheme in April 2020 to provide access to cash "more simply and speedily" through its branch network. Under Fast Pre-Authorised Cheque Encashment, any trusted individual – such as a friend or neighbour – could replace the named individuals permitted under the original service to cash a cheque. UK Finance's input helped to ensure that suitable protections were in place for vulnerable customers to guard against potential fraud and financial abuse risks.
- (d) By working with members of the Bereavement Contact Group and the Vulnerability Committee, UK Finance considered and sought clarity from HM Treasury and the General Register Office regarding how firms could accept digital death certificates in line with the Emergency COVID-19 Bill. UK Finance engaged with the Official Solicitor and Ministry of Justice on the processing of digital court orders, including sharing members' views on the process for accepting new electronic documents as an alternative to paper-based with key stakeholders.
- (e) UK Finance worked with members to identify emerging issues around financial abuse and gambling activity. UK Finance and its members supported a Home Office Domestic Abuse Campaign (#You Are Not Alone), coordinating communications on the UK Government's key messages, and signposting the Financial Abuse Code and the 'It's Your Money' leaflet.
- (f) UK Finance also engaged in discussions HM Prison and Probation Service and the Ministry of Justice regarding opening accounts for 4,000 prisoners expected to be released early, and UK Finance worked with HM Treasury and the Ministry of Housing, Communities & Local Government to develop guidance for Local Authorities on the support for homeless individuals in local Government funded accommodation.
- (g) In October 2020, the Vulnerability Committee discussed industry readiness for a second wave and lockdown, and UK Finance agreed to initially focus on the following three key areas:

- (i) Bereavement: on 23 October 2020, UK Finance met with the General Register Office about the significant challenges Local Registrars faced transitioning to a working from home operation, which led to the 'Burial & Cremation' administration being prioritised, and subsequent delays in the issuance of death certificates, certificates for burial and cremation, and letters. The General Register Office also asked UK Finance to flag any ongoing concerns about documentation or delays so that additional support could be provided.
- (ii) Court of Protection Orders: following its work with the Ministry of Justice and the Official Solicitor on digital court orders during the first wave, UK Finance supported 'priority' organisations without a process for digital court orders to support them putting in place an appropriate solution before the end of 2020.
- (iii) Vulnerable Customer Support Mechanisms: at the start of the second national lockdown, UK Finance sought to ensure that vulnerable customer support mechanisms remained effective, which included vulnerable customer payment solutions (e.g. Post Office Pre-Authorised Cheque Encashment & Pay Out Now), bespoke helplines and basic bank account opening. A Request for Information was issued to members of the Vulnerability Contact Group, requesting a status update by 6 November 2020 to enable UK Finance to provide appropriate reassurances to regulators if required.

Mortgages

- 145 As regards mortgages, UK Finance's work at the outset of the pandemic focused on supporting customers in financial difficulty, making mortgage payment deferrals available to customers and appropriate messaging around support for customers.
- 146 On 17 March 2020, following discussions between UK Finance and the Chancellor, payment deferrals to support mortgage customers in COVID-19 related financial difficulty were announced by the Chancellor.
- 147 On 18 March 2020, UK Finance issued a statement setting out the support that was available to homeowners, clarifying the nature of payment deferrals and reiterating that interest on a mortgage would continue to accrue during the payment holiday. UK Finance also set out the eligibility criteria and application process for payment deferrals.

- 148 UK Finance worked with the UK Government, lenders and the Financial Conduct Authority to provide payment deferrals of up to three months. Given that mortgage deferrals required Financial Conduct Authority rules to be amended temporarily, UK Finance's Mortgages team engaged closely with the Financial Conduct Authority on its consultation, such that lenders were ready to provide deferrals within a period of two to three weeks.
- 149 UK Finance also set up a working group specifically for the purpose of operationalising the mortgage payment deferrals which met daily, with UK Finance's Mortgages Product and Service Board ratifying any decisions made by the working group. The mortgage deferrals application process was designed to be very simple, allowing customers to self-attest and apply online with minimal checks being carried out.
- 150 Around this time, there were concerns from the industry that the effects of taking a payment "holiday" was not fully understood by the public and that the term "holiday" might be misleading. UK Finance worked with its members and the UK Government to clarify to customers the impact of taking a payment deferral. UK Finance issued a series of public statements reiterating that interest would continue to accrue under a payment deferral.
- 151 On 18 March 2020, the UK Government announced that mortgage payment deferrals also extended to landlords with buy-to-let mortgages to support tenants who might be struggling to pay the rent, and the industry also agreed with the Financial Conduct Authority to suspend all repossession activity. UK Finance fed into legislative eviction protection provisions in both the UK and Scotland, e.g. the Coronavirus (Scotland) Act 2020.
- 152 During this period, UK Finance continued to engage with the Financial Conduct Authority and UK Government on the exit strategy for mortgage payment deferrals, as members needed to plan for customers starting to exit their payment deferrals from June 2020.
- 153 In light of UK Government guidance to delay home moves where possible to prioritise safety, UK Finance also worked with members and the UK Government to agree that mortgage providers would give customers who had exchanged contracts the option to extend their mortgage offer for up to three months.
- 154 On 6 May 2020, UK Finance wrote to the Department for Work and Pensions asking that the waiting time for Support for Mortgage Interest be reduced from 39 weeks to 13

weeks (see exhibit DP/22 [INQ000548970]). This suggestion was not taken forward by the Department for Work and Pensions. On 7 May 2020, UK Finance wrote to the Minister of State for Housing, highlighting that, in the context of Shared Ownership, while payment deferrals could support customers with mortgage payment difficulties, there was no equivalent support for the rental element of Shared Ownership. UK Finance requested that the Minister encourage housing associations and the National Housing Federation to adopt a clear and consistent practice of not capitalising shared ownership rent arrears on mortgage accounts during mortgage payment deferrals (see exhibit DP/23 [INQ000549164]).

- 155 On 22 May 2020, the Financial Conduct Authority published its draft guidance on the next steps on mortgages for responses by 26 May 2020. The Financial Conduct Authority proposed that the application window for new mortgage payment deferrals should remain open until 31 October 2020 and that customers who had a payment deferral would be able to apply for a further three-month full or partial mortgage payment deferral up to the same date effectively allowing customers up to six months payment deferral. The repossession moratorium would also remain in place until 31 October 2020. UK Finance submitted its response to the draft guidance on 26 May 2020.
- 156 On 2 June 2020, the Financial Conduct Authority published its updated guidance on mortgages and COVID-19, responding to a majority of the concerns raised by UK Finance. On 17 June 2020, the Financial Conduct Authority further updated its guidance on mortgages and COVID-19, making revisions to the requirements to provide personalised information to customers.
- 157 On 31 October 2020, the Financial Conduct Authority indicated its intention to propose extending the availability of payment deferrals. On 2 November 2020, the Financial Conduct Authority issued a consultation on draft guidance, which sought to extend the mortgage payment deferral scheme until 31 January 2021 and reintroduce possessions so that lenders could commence or re-commence possession action. UK Finance consulted with members on the response, including in relation to whether borrowers who had taken fewer than six monthly payment deferrals should be able to apply for additional monthly deferrals (taking them to a total of six-monthly deferrals). On 17 November 2020, the Financial Conduct Authority issued its final guidance, which reflected the regulator's expectations of firms to extend the availability of payment deferrals until 31 July 2021. The Financial Conduct Authority also clarified that it expected firms to allow customers impacted by COVID-19 to defer up to six monthly

payments in total but that firms should not provide deferrals under this guidance for payments extending beyond 31 July 2021.

158 Other UK Finance activities in relation to mortgages included:

- (a) Working with the All-Party Parliamentary Group Fairer Banking working group on mortgage prisoner solutions, which brought together mortgage prisoner representatives, the Financial Conduct Authority, trade associations, Members of Parliament and members of the House of Lords. The working group recognised that many mortgage prisoners would be unable to extend their mortgages after deferrals. It called on lenders to develop products to meet their needs. UK Finance engaged with the Financial Conduct Authority on mortgage prisoners issues which needed to be resolved before lenders could finalise any products, including exceptions processes and communications for this category of customer (e.g. the identification of appropriate brokers).
- (b) UK Finance also worked with Governments across the UK on reopening housing markets safely, with the English market reopening in mid-May 2020; Northern Ireland on 15 June 2020; Wales on 22 June 2020; and Scotland on 29 June 2020. UK Finance was involved in supporting the development of guidance on the reopening of housing markets which included enabling physical valuations and inspections to resume. Work on this was led via UK Finance through its Valuation Committee and the Mortgages Product and Service Board and liaising with the Royal Institution of Chartered Surveyors and the Ministry of Housing, Communities and Local Government.

Unsecured credit

159 At the start of the pandemic, lenders continued to offer support through applying usual forbearance practices. As the pandemic progressed, discussions were undertaken with UK Finance's members as to whether additional support might be necessary. Discussions were held with members of the Cards Product and Service Board in March 2020 and a draft set of principles were created by UK Finance which would allow members to provide payment deferrals to certain customers in early arrears. Similarly, discussions were had with the Personal Banking Product and Service Board which supported similar measures being applied to loans. Regulatory waivers were required to support firms' ability to do this for credit cards without breaching the Financial Conduct Authority regulatory provisions set out in the Financial Conduct Authority's Consumer

Credit Sourcebook in relation to minimum payments and therefore these proposals were discussed with the Financial Conduct Authority.

- 160 UK Finance was also considering how to overcome the difficulties of providing deferrals to loan customers given that regulatory notices contradictory to permitted deferrals would continue to be required to be sent to customers under the Consumer Credit Act 1974. This risked causing customer confusion. However, HM Treasury chose not to exempt lenders from these requirements. A number of lenders made public announcements of their intention to offer interest-free buffers through to the end of March 2020.
- 161 On 2 April 2020, the Financial Conduct Authority published draft guidance for consultation on payment deferrals and overdrafts measures which were finalised on 9 April 2020. The guidance covered deferrals for credit cards and loans and required interest-free overdrafts to be provided of up to £500. Immediately following the publication of this guidance, UK Finance approached HM Treasury and jointly engaged with the Finance & Leasing Association to try to simplify the requirements under the Consumer Credit Act 1974 through secondary legislation to support modifications of agreements consequent upon the deferrals, to avoid the need to send the Consumer Credit Act 1974 notices. HM Treasury were supportive of finding a solution but nevertheless did not take forward a proposed amendment to the Consumer Credit Act 1974 to disapply the requirement to provide Notices of Sums in Arrears, with the aim of avoiding confusion. The deferrals and overdraft guidance were extended by way of further consultations of the Financial Conduct Authority during which exit arrangements were discussed and formed part of the final policy statement in September 2020.
- 162 At the outset of the pandemic, UK Finance examined what regulatory initiatives were underway that would potentially make life more difficult for customers facing financial difficulty and sought dispensations from appropriate stakeholders. One significant matter for credit card holders was the Financial Conduct Authority requirement to suspend the credit card of customers who were deemed to be in persistent debt in accordance with the Financial Conduct Authority rules set out in the Consumer Credit Sourcebook. This was flagged to the Financial Conduct Authority and rules were revised such that the requirement to take this measure (i.e. suspend credit cards) was delayed to October 2020.
- 163 UK Finance also liaised with the Insolvency Service regarding effective delivery mechanisms for extended payment breaks for COVID-19 impacted individuals in an

individual voluntary arrangement. Given the flexibility through deferrals offered to customers who were not yet in debt, further flexibility was provided to those customers who had entered into a formal insolvency solution through an individual voluntary arrangement. Payment deferrals of up to three months and flexibility on payment amounts together with protection from breach provisions were agreed and announced by the Insolvency Service in September 2020.

- 164 Other UK Finance activities included broader debt management activity, including in relation to the Scottish Government's review of Protected Trust Deeds; consideration of the extension of Insolvency Service COVID-19 guidance to Insolvency Practitioners on individual voluntary arrangements; and engagement with the Cabinet Office's Call for Evidence on Fairness in Debt Management.
- 165 In addition, UK Finance provided input in relation to the Amendment Coronavirus (Scotland) Bill 2, which proposed a six-month waiver of interest where a moratorium in diligence exists in bankruptcy proceedings, which was ultimately not progressed given the potential for customer detriment.

Economic Crime

- 166 In the early days of the pandemic, UK Finance was monitoring for any increase in economic crime, and fraud levels were assessed through its existing fraud intelligence sharing activity with the National Economic Crime Centre, the City of London Police and CIFAS.
- 167 US authorities' reports identified that numerous international sources were reporting a rise in financial crime, which included phishing scams posing as legitimate organisations, such as the World Health Organisation, and purchase scams for virus-related items (e.g. hand sanitiser). On 20 March 2020, it was reported that the National Fraud Intelligence Bureau had also identified 21 Coronavirus-related reports, with losses of £800,000 since February 2020, half of which related to purchases of medical masks.
- 168 Through UK Finance's threat management process and respective fraud management groups, UK Finance members shared intelligence and observations on how criminals were exploiting the COVID-19 situation. During the UK Finance weekly intelligence sharing calls members discussed good practice and appropriate mitigation. A COVID-19 fraud landscape mapping assessment was also developed with the Financial Fraud Panel, a group within the Economic Crime Product and Service Board responsible for

monitoring the threat landscape and allowing members to discuss fraud prevention strategies. The Financial Fraud Panel discussions fed into the weekly OTELLO Fusion Intelligence calls on COVID-19 run by the National Economic Crime Centre.

- 169 As explained at paragraphs 224 to 235, UK Finance, collectively with the British Business Bank, formed a Bank Fraud Collaboration Group in May 2020. This group comprised a wide range of stakeholders, including Bounce Back Loan Scheme accredited lenders, UK Finance, the British Business Bank, CIFAS, multiple UK Government departments and Law Enforcement Agencies. This group met weekly through the Bounce Back Loan Scheme on-sale period and continues to meet monthly now. It provided a platform to share information and intelligence across the Bounce Back Loan Scheme fraud landscape and was responsible for developing key Bounce Back Loan Scheme counter fraud activities of strategic importance.
- 170 On 6 May 2020, the Financial Conduct Authority published a statement setting out its expectations on how firms should apply their systems and controls to combat and prevent financial crime during the pandemic. UK Finance engaged with the Financial Conduct Authority on its impact and considerations for firms exiting lockdown restrictions. UK Finance also engaged with the Financial Conduct Authority to advocate for flexibility for its members with respect to certain Know Your Customer obligations, namely requirements to do in-person checks which were impeded by the pandemic.
- 171 On 20 May 2020, UK Finance's Fraud Committee met to discuss the industry's preparation for the transition from lockdown, including how the fraud landscape would gradually return to normality as restrictions were lifted.
- 172 On 3 June 2020, the Economic Crime Product and Service Board discussed the expected impact of COVID-19 on how the financial services industry would work in the future and the associated fraud and financial crime risks, and considered support for individual members' plans post lockdown, e.g. offering guidance/training for subject matter experts about risks.
- 173 On 19 June 2020, UK Finance hosted a virtual roundtable with its members and the then Director General of the National Economic Crime Centre. The roundtable discussed how the pandemic had provided an opportunity to accelerate progress in intelligence sharing; there was appetite to maintain this momentum and the Home Office's work on legislative changes.

174 UK Finance also had involvement in fraud and scam related communications during the pandemic.

- (a) Through UK Finance's "Take Five to Stop Fraud" campaign alerts, consumers were made aware of the risks associated with fraud and scams i.e. phishing, smishing and vishing. For example, during summer 2020, UK Finance issued "Take Five to Stop Fraud" advice on common holiday scams as criminals took advantage of the uncertainty around travel restrictions and cancellations.
- (b) Additionally, due to concern that the National Health Service Test and Trace system would be exploited by criminals, the UK Finance Economic Crime team worked to raise awareness of the risks.
- (c) The availability of vaccines also gave rise to fraud opportunities, with UK Finance feeding any intelligence it had into communications about the vaccines.
- (d) Social media was also monitored for potential scams, and UK Finance actively engaged with a large number of stakeholders including law enforcement agencies and National Trading Standards. UK Finance participated in Operation Etherin, a multi-agency communications group led by the City of London Police that focused on the drafting of an overarching script in relation to fraud and scams.
- (e) UK Finance provided a fraud messaging template to a number of fraud education and awareness groups.

175 UK Finance also worked with members on identifying economic crime related controls and checks that needed to be conducted differently (such as Know Your Customer, Anti-Money Laundering and credit checks) or reprioritised due to the impact of COVID-19. As explained above, in relation to the Bounce Back Loan Scheme, because lenders were still required to carry out Anti-Money Laundering/Know Your Customer checks at onboarding for new customers but were not required to carry out credit checks, there may have been relevant information that would ordinarily have been flagged by lenders' usual credit and affordability checking processes that may have helped to identify potentially fraudulent behaviour.

176 Furthermore, as explained in more detail at paragraphs 236 to 241 below, UK Finance's Economic Crime team supported the National Economic Crime Centre in its newly created OTELLO COVID-19 Fusion Cell, which was convened at pace and included organisations across the financial services, insurance and telecoms industries. The

Fusion Cell collated intelligence on COVID-19 incidents across fraud and money laundering, working with law enforcement on the intelligence gathered. UK Finance provided weekly feeds of relevant COVID-19 related intelligence from its members to the Fusion Cell, to be used when considering prevention strategies. The Fusion Cell provided a mechanism to escalate issues affecting the industry and ensured a public and private collaborative approach was taken to mitigating threats, including fraudulent activity concerning COVID-19 local authority grants.

- 177 UK Finance worked with the British Business Bank to understand and seek to manage the fraud landscape around the Bounce Back Loan Scheme. The Economic Crime team also supported members by using its existing intelligence functions and services to help monitor fraud threats and risks relating to the Bounce Back Loan Scheme and during this time. Moreover, as explained at paragraphs 230 to 231 below, UK Finance worked with CIFAS to implement measures to identify duplicate and fraudulent Bounce Back Loan Scheme applications and manage fraudulent loans that had been paid out.

Wholesale and Capital Markets

- 178 UK Finance members' wholesale related concerns at the start of the pandemic included reconciling regulatory requirements around sales and trading monitoring with issues like staff working from home. The UK Finance Capital Markets and Wholesale team actively coordinated members' concerns and raised these with the Financial Conduct Authority on 11 March 2020. In particular:
- (a) Telephone call recording: experience in Italy and Asia demonstrated that distributing devices that could record telephone calls to staff at short notice could be challenging. UK Finance members requested that the Financial Conduct Authority adopt a "best efforts" approach, where firms could prioritise distributing devices to persons most in need or at risk.
 - (b) Video-conferencing: the Markets in Financial Instruments Directive II introduced an EU-wide minimum harmonizing requirement on firms to record telephone conversations and electronic communications when providing specific client order services that relate to the reception, transmission and execution of orders, or dealing on own account. However, experience in Italy showed that video conferences could not easily be recorded. Therefore, with staff working from home using video conferencing for internal meetings, firms needed guidance on interpreting this rule in a disaster recovery environment.

- (c) Market surveillance: trading data needed to be fed into compliance alerts for market abuse monitoring purposes. However, experience in other jurisdictions affected by the pandemic demonstrated that this was challenging where stretched compliance and IT teams were prioritising the maintenance of trading platforms and adherence to trading rules and regulations. UK Finance therefore asked the Financial Conduct Authority to allow firms to prioritise in this way.
- 179 UK Finance was in regular contact with members via its Wholesale Policy Committee and raised their concerns on an ad hoc basis directly with regulators.
- 180 On 23 March 2020, UK Finance hosted a virtual roundtable with the Executive Director of Supervision for the Financial Conduct Authority's Investment Wholesale & Specialists Division, and EU wholesale bank members. This focused on the response to COVID-19 issues and the Financial Conduct Authority's priorities (financial resilience, operational resilience, customer handling, financial crime and ensuring open and orderly markets), with the Financial Conduct Authority requesting ongoing input.
- 181 On 26 March 2020, UK Finance's then Chief Executive Officer held a follow up conference call with the Financial Conduct Authority, during which UK Finance reiterated concerns around regulatory implementation dates, major transformation projects, the senior managers regime and the transition away from LIBOR.
- 182 From 6 April 2020, the Wholesale Policy Committee held weekly conference calls to discuss key pandemic related issues for capital markets and wholesale members, which updated on UK Finance's work and sought input on engaging with the authorities.
- 183 In relation to the Non-Bank Specialist Lending Sector, UK Finance non-bank members were raising concerns about being excluded from the Government loan schemes and the Bank of England liquidity initiatives, however this later subsided as the Government's fiscal response was effected. UK Finance worked with Innovate Finance, the Finance & Leasing Association, the Association of Alternative Business Finance and the Intermediary Mortgage Lending Association to develop funding programme proposals for the Non-Bank Specialist Lending Sector, which included options for a liquidity funding scheme, bank guarantee scheme and bond purchasing scheme. UK Finance also facilitated conversations with Non-Bank Specialist Lending Sector members so that regulatory authorities could better understand different types of financing within the industry.

- 184 On 14 May 2020, HM Treasury informed UK Finance of its plans for a solution for non-banks providing small and medium-sized enterprise lending. This involved facilitating commercial banks' access to the Bank of England's term funding scheme to provide capital to non-banks for the provision of the Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme to small and medium-sized enterprise customers. This structure would require agreement on the assignment of the Bounce Back Loan Scheme/Coronavirus Business Interruption Loan Scheme guarantee and an adaptation of the term funding scheme rules to accommodate collateral. In response, UK Finance highlighted that this proposal would not address the funding issues of its mortgage, unsecured and specialist lending non-bank members, which was particularly crucial in light of the Financial Conduct Authority's extension to payment forbearance impacting on non-bank providers of consumer finance. While UK Finance engaged with its members on this proposal and collated feedback for HM Treasury to consider, this scheme was ultimately not taken forward.
- 185 On 5 May 2020, the Capital Markets and Wholesale Product and Service Board met to discuss the role of the capital markets and wholesale sector as the Government and regulatory authorities began to exit COVID-19 support schemes, and the wider impact of the pandemic on regulatory timelines, such as changes to the LIBOR transition milestones.

Prudential

- 186 At the outset of the pandemic, UK Finance's Prudential team focused on abatement, allowance and postponements. UK Finance facilitated the Prudential, Reporting and Taxation Strategic Policy Committee which comprised Chief Risk Officers and Chief Financial Officers of all of the UK's major banks and a selection of large international and smaller banks and members. It liaised with this committee and its members to understand what prudential allowances were needed. UK Finance then collated views and fed these into letters to the Bank of England requesting prudential alleviations for its members. This included advocating for the Bank of England to work with European regulators to extend and refresh the existing International Financial Reporting Standard 9 transitional relief to mitigate the impact of International Financial Reporting Standard 9 credit losses on the capital regime, until the economic and business impacts of a widespread outbreak had receded. The Bank of England agreed to discuss the International Financial Reporting Standard 9 related capital considerations with international regulators. This resulted in an announcement at international level by the

Basel Committee to provide such capital relief which was then promulgated by UK, European and other regulators.

187 In June 2020, UK Finance also engaged with the Bank of England regarding the work being taken forward by the Bank of England in relation to negative interest rates, in particular emphasising the potential challenges that these would present. Ultimately the Bank of England's Monetary Policy Committee did not introduce a negative bank interest rate.

188 Towards the later stages of the pandemic, around 2021-2022, UK Finance attended meetings with its members and the Bank of England which focused on forbearance and impairment.

Monitoring, analysis and data collection

189 In April 2020, UK Finance engaged with its members to collate and provide daily lender-by-lender data to HM Treasury on the take-up of loans issued pursuant to the Coronavirus Business Interruption Loan Scheme. Upon the introduction of the Bounce Back Loan Scheme, lenders began to report data directly to HM Treasury, and the majority of engagement with the UK Government with respect to monitoring of and monthly reporting on the economic interventions took place directly between members and the UK Government, rather than through UK Finance.

190 UK Finance's Data and Research team gathered feedback from members on the HM Treasury data collection and received copies of the data provided to HM Treasury for monitoring purposes and to facilitate updates to its members. UK Finance's Data and Research team also worked with HM Treasury on decisions regarding the frequency of reporting and determining an appropriate end date for the cessation of the collection of this data.

191 HM Treasury initiated a separate data collection exercise in order to understand the volume of Bounce Back Loan Scheme facilities falling due for repayment, the proportion of borrowers fully repaying the loan and the number of businesses utilising Pay As You Grow options. As with the previous data collections on COVID-19 loan schemes, UK Finance collected this data from members in parallel to HM Treasury to understand the performance of these facilities.

- 192 UK Finance also collected data on consumer credit (credit cards and loans) payment deferrals, as well as the number of COVID-19 overdraft buffers, on a weekly basis from members. This was shared internally with colleagues and with members.
- 193 UK Finance data showed credit card spending and personal loan take-up increase as the economy re-opened in mid-2021 but with levels relatively suppressed as some consumers displayed caution and international travel remained restricted. With the winding down of the Covid Job Retention Scheme and withdrawal of the temporary increase to Universal Credit, UK Finance was particularly focused on emerging signs of an increase in households experiencing payment difficulties.
- 194 In addition, UK Finance's Data and Research team collected data in relation to the mortgages payment deferrals which reflected the take-up rate of the deferrals and how customers were exiting the deferrals (i.e. whether customers were reverting to making payments or remained in difficulty). This data was gathered daily from members and shared with the Financial Conduct Authority and HM Treasury. Data was shared with members on a monthly basis via a Mortgage Market Dashboard.
- 195 UK Finance data showed that in mid-2020 when the first wave of mortgage payment deferrals came to an end, industry and UK Government support during the initial lockdown months had kept mortgage arrears low with no enforced possessions. This trend continued throughout 2020. With new lockdowns at the end of 2020, the payment deferral scheme was extended to March 2021. Data did not show a significant increase in deferral uptake at the end of 2020. Borrowers were eligible for a maximum of six months' deferral, after which lenders would use standard forbearance measures, as agreed with the Financial Conduct Authority, to assist customers on a case-by-case basis. UK Finance's regular reports advised borrowers concerned about meeting payments to contact their lenders early for support.
- 196 Savings data was also collected, which reflected how savings rose for certain income brackets during the pandemic. UK Finance shared this data regularly with the UK Government and Financial Conduct Authority, and its members.
- 197 UK Finance's Data and Research team also commissioned third party research in February 2021 in relation to consumers' reactions to the contactless limit being increased. The research concluded that consumers' use of contactless payments had increased since before the pandemic, with many customers taking advantage of the higher £45 spending limit introduced in 1 April 2020. On future changes to the limit, there

was no consensus amongst consumers with regard to further increases with three-fifths taking the view that the £45 limit was the appropriate limit and one-fifth of the opinion that the limit should be higher. The contactless limit was increased to £100 in October 2021.

PART C: COVID-19 Loan Schemes

- 198 The conception, design and implementation of the COVID-19 Loan Schemes was fundamentally shaped by the extraordinary and unprecedented circumstances presented by the pandemic and its impact on the UK economy. The schemes were established in response to acute and immediate economic threats, and their development by the UK Government aimed to ensure rapid deployment to mitigate the severe and widespread financial distress facing businesses across the country.

Challenges faced by UK Finance's members

Speed of launch and speed of approvals

- 199 UK Finance's members were under significant pressure to launch the schemes at pace, and there were challenges around operational delivery. These challenges manifested in a number of ways.
- 200 In relation to the Coronavirus Business Interruption Loan Scheme, following the announcement of the scheme on 11 March 2020, the Chancellor expected the scheme to be operational within days. Therefore, following the 16 March 2020 meeting referred to in paragraph 52 above, UK Finance and its members had to move at pace to facilitate timely delivery. However, the term sheets for some scheme variants only became available on the day of the launch. Where this was the case, lenders could not proceed on those products until they had reviewed and fully understood the final requirements. This necessarily required time for legal, risk, and operational teams to analyse the terms, update documentation and credit processes, and, where applicable, obtain any additional accreditations. These steps could only sensibly be undertaken once the final term sheets were available and settled, and the timing of those documents therefore directly affected the pace of rollout.
- 201 The initial product design of the Coronavirus Business Interruption Loan Scheme also gave rise to challenges. Initially, lenders were permitted to require personal guarantees for loans under £250,000, and the scheme was only available to businesses which could demonstrate additionality (i.e. the business was unable to secure commercial financing

and therefore lending was only available to them via the scheme). However, following feedback, including feedback coordinated on behalf of industry by UK Finance, changes were made to the scheme on 3 April 2020 to prohibit lenders from requesting personal guarantees for loans under £250,000 and to remove the additionality requirement, thereby expanding the eligibility criteria for the Coronavirus Business Interruption Loan Scheme.

202 In relation to the Bounce Back Loan Scheme, the constricted timeframe within which the scheme was set up was unprecedented, and the projected scale and reach meant it was inevitable that some challenges would be encountered once it started to operate.

203 In the first week of its launch, £8.38 billion of Bounce Back loans were approved to 268,173 businesses, with an average of over 38,000 loans approved each day. This level of activity was made all the more extraordinary by the fact that the scheme was designed and implemented in a little over a week. The volume of Bounce Back Loan Scheme applications and the speed at which they were required to be actioned by the UK Government gave rise to challenges regarding standard lending compliance and risk management procedures including fraud screenings, verification procedures and affordability checks, which was communicated to HM Treasury ahead of the launch (see exhibits DP/24 [INQ000653669], DP/24a [INQ000653670]) . The “*desire to deliver at speed does come with added risk*” was highlighted by the then Chief Executive Officer of UK Finance in press commentary on the day of the launch. As the National Audit Office noted in its December 2021 report on the Bounce Back Loan Scheme “*Lenders were expected to make loan payments within 24 hours of application, or in some cases, within 48 hours if further counter-fraud checks were required*”. Notwithstanding these expectations, lenders were still required to carry out prescribed fraud checks and Anti-Money Laundering and Know Your Customer checks in line with their legal and regulatory obligations.

Accreditation for the Bounce Back Loan Scheme

204 At launch, only the Seven Lenders were accredited to deliver the scheme and other UK Finance members raised concerns about the time it took for the British Business Bank to grant accreditation, which UK Finance fed back to the British Business Bank. By 15 May 2020 the British Business Bank had mobilised to ensure that a number of lenders already accredited for the Coronavirus Business Interruption Loan Scheme were accredited for the Bounce Back Loan Scheme too.

205 As explained in more detail at paragraph 53 above, the British Business Bank reported in June 2022 that the speed of the accreditation process was “highly variable” and that this was partly attributed to the iterative nature of the application process. Relatedly, non-bank lenders reported challenges in connection with their view that the process was tailored to traditional banks.

Legal and Regulatory changes

206 The changes made to the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001, with effect from 4 May 2020, meant that lending under the Bounce Back Loan Scheme that would otherwise have resulted in a regulated credit agreement instead did not constitute a regulated activity. This meant that the standard requirements under the Consumer Credit Act 1974 and the Financial Conduct Authority’s Consumer Credit Sourcebook stipulating what lenders must do in the lead-up to, and when entering into, credit agreements did not apply to Bounce Back Loan Scheme arrangements. As such, accredited lenders did not issue borrowers with the pre-contract information stipulated by the Consumer Credit Act 1974 or the Financial Conduct Authority’s Consumer Credit Sourcebook.

207 As set out at paragraph 85 above, members that were accredited to provide Bounce Back Loan Scheme loans were concerned about the additional risks that they would be assuming, in light of the modifications made to standard lending regulatory compliance and risk management procedures, including fraud screenings, verification procedures and affordability checks. On this basis, UK Finance (on behalf of the Seven Lenders) sought an indemnity from HM Treasury. However, the UK Government confirmed that such an indemnity would not be provided.

208 UK Finance engaged with HM Treasury, raising (amongst other issues) the risk of fraud in the Bounce Back Loan Scheme application process, which HM Treasury confirmed that the Chancellor was aware of and accepted. In particular, on 29 April 2020, UK Finance sent an email to HM Treasury, welcoming HM Treasury’s continuing engagement with UK Finance and highlighting the following (see exhibit DP/24 [INQ000653669], DP/24a [INQ000653670]):

‘There are however material risks to participating lenders arising from waiving or significantly expediting critical procedures. Whilst the proposed guarantee arrangements will seek to address default and recovery risk in respect of loans made under BBLS, there is currently no protection for participating lenders in respect of liability

arising from breaches or claims that may occur due to the inability of lenders to apply their normal compliance and risk management procedures. These procedures include fraud screenings, verification procedures and affordability checks, and are a critical tool in ensuring good customer outcomes and compliance with applicable law and regulation. The risks in this respect are material and could expose the banks to significant losses.'

- 209 The fact that lenders had taken on “*significant risks*” in this regard was reiterated in an email from UK Finance to HM Treasury, the Financial Conduct Authority, the Financial Ombudsman Service, the Bank of England and the British Business Bank, copying the Seven Lenders, on the day of the launch, 4 May 2020 (see exhibit DP/15 [INQ000548968]).

Impact on the lending market

- 210 In relation to the Coronavirus Business Interruption Loan Scheme, as set out at paragraph 59 above, there were concerns amongst more specialist lending businesses that were either not accredited by the British Business Bank or were awaiting British Business Bank accreditation, of being driven out of business due to their inability to compete with a Government scheme that offered interest-free loans to borrowers.
- 211 The attractiveness of the Bounce Back Loan Scheme also led to a fall in the use of other commercial lending products, which posed a challenge to the diversity of providers in the market and limited the range of products on offer. As reported by UK Finance in its September 2023 response to the Treasury Select Committee inquiry on small and medium-sized enterprise finance, there was a 39% drop in the amount of funds being drawn down by clients of UK Finance’s Invoice Finance and Asset-Based Lending members in the three months from April to June 2020. Client numbers also fell but less dramatically than funds advanced. Similarly, the number of new bank overdrafts taken up by small and medium-sized enterprises reduced by 61% in the year following the introduction of schemes and take up of overdrafts remained significantly lower in 2023 than prior to the pandemic. The significant amount of outstanding debt under the COVID-19 loan schemes continued to have an impact on both demand for finance and ability to access new finance.

Additional operational challenges

- 212 The Coronavirus Business Interruption Loan Scheme rules were complex and issues arose, for instance in relation to the application of the State Aid rules and regulatory

compliance (in addition to those related to the personal guarantee and additionality requirement). These needed to be resolved.

- 213 Lending under the Coronavirus Business Interruption Loan Scheme to unincorporated businesses for amounts up to £25,000 also created deployment difficulties as borrowing at that level is regulated (as set out in paragraph 89 above).
- 214 In relation to the Bounce Back Loan Scheme, as explained at paragraph 86 above, HM Revenue & Customs was unable to provide details of sole traders' tax status to assist in lenders' determination of eligibility of sole traders operating from a personal rather than business current account. The necessary checks required for sole trader loan applicants had to be carried out, in part, manually, which increased the time required to execute loans for sole traders.

Bounce Back Loan Scheme fraud risk

Nature of fraud risk associated with the Bounce Back Loan Scheme

- 215 As explained at paragraph 82, under the rules of the Bounce Back Loan Scheme, which were set by the UK Government, businesses applying for a Bounce Back Loan only had to self-certify that they understood the repayments costs and confirm they would make timely repayments in the future. Lenders were not required to carry out credit checks but, as clarified in Schedule 8 of the Bounce Back Loan Scheme Guarantee Agreement, *"if the Lender's fraud checking process is embedded within credit checks then credit related flags may be disregarded unless they give rise to a potential fraud concerns [sic]."* Additionally, lenders were instructed that a Bounce Back Loan could not be declined on the basis of a credit decision or resulting from an affordability check.
- 216 Notwithstanding the position in respect of credit and affordability checks, applications from new business customers were still subject to onboarding checks, including Anti-Money Laundering and Know Your Customer assessments, prior to any loan being made (these Anti-Money Laundering and Know Your Customer assessments would have been completed for existing customers at onboarding and/or as required thereafter). In addition, all applicants were subject to a prescribed level of fraud checks (as set out in more detail at paragraph 84 above).
- 217 The UK Government prioritised speed in getting funding to applicants and, therefore, expressly designed the scheme to exclude lenders' normal credit checks, accepting this could lead to higher levels of losses than is typically associated with business lending.

HM Treasury and the Chancellor also made it clear that they expected businesses to receive funds within 48 hours of a Bounce Back Loan Scheme application (see exhibit DP/25 [INQ000549163]).

- 218 Additionally, with the Bounce Back Loan Scheme lending falling outside regulated activity, accredited lenders did not apply the Financial Conduct Authority's rules on creditworthiness or affordability checks as would have otherwise been required for regulated consumer credit agreements under the Financial Conduct Authority's Consumer Credit Sourcebook.
- 219 The reliance upon borrower self-certification, and the absence of credit or affordability checks made the Bounce Back Loan Scheme more vulnerable to fraud than conventional business lending. Recent UK Government data has identified that as at 30 June 2025, lenders have reported £1.88 billion of the £46.48 billion (4.04%) of the Bounce Back Loan Scheme drawn value as suspected fraud and of the £11.15 billion total settled amount, £1.57 billion has been paid out to lenders against loans with a suspected fraud flag.
- 220 However, it is important to note that contemporaneous data reported by members at the time in respect of "suspected fraud" does not necessarily equate to actual fraud and is, therefore, an invariably wider measure than proven fraud. As acknowledged by the National Audit Office in December 2021 each lender reported on a different basis, and as noted by the Department for Business and Trade in each quarterly data publication, lenders employed different approaches to reporting fraud identification, which also changed over time in light of developing processes.
- 221 It was often not possible for lenders to identify issues such as misstated turnover (as a lender may not have complete information on the customer's turnover). Additionally, it was difficult or impossible for lenders to distinguish between genuine errors, such as misstated turnover, and deliberate falsification. For example, factually incorrect self-certification may represent innocent misrepresentation, opportunist behaviour or fraud (with the lender's determination potentially impacted by the information sources available to it).
- 222 It is also important to highlight that, because lenders were not required to carry out credit checks and instead were reliant on self-certification, there may have been relevant information that would ordinarily have been flagged by lenders' usual credit and

affordability checking processes. This information may have helped to identify potentially fraudulent behaviour (such as grossly overstated turnover) but this was not obtained.

- 223 It became clear over time that the British Business Bank expected lenders, once they had accepted an application, to take appropriate action where they had any suspicion of potential fraud. Following engagement between UK Finance and the British Business Bank, on 24 August 2020, the British Business Bank confirmed that *“The lenders are under no obligation to check the self-certifications. [Where] Lenders have instigated their own fraud checks, in addition to the minimum standards, if they become aware of dishonesty then we would expect they take appropriate action and either decline the loan or if drawn take steps to cancel the loan and reclaim the funds”* (see exhibit DP/18 [INQ000549043], DP/18a [INQ000549044]).

The Bank Fraud Collaboration Working Group

- 224 The Bank Fraud Collaboration Working Group was instigated by the British Business Bank and first convened in May 2020. It was jointly led by the British Business Bank and UK Finance and consisted of representatives from the various accredited lenders under the Bounce Back Loan Scheme (and later expanded to include accredited lenders under the Coronavirus Business Interruption Loan Scheme) and included representatives from UK Finance, CIFAS, the British Business Bank, the Cabinet Office, the Department for Business, Energy, and Industrial Strategy and HM Treasury.
- 225 The Bank Fraud Collaboration Working Group met regularly from 6 May 2020, initially on a weekly basis, before moving to a fortnightly basis from March 2021, and finally a monthly basis (from 14 July 2021 onward). As noted in paragraph 103 above, UK Finance and the British Business Bank established the Recoveries Collaboration Group which continues to meet monthly.
- 226 The role of the Bank Fraud Collaboration Working Group was to enable members to share information and best practices regarding fraud and fraud prevention on an ongoing basis – including through identifying emergent fraud typologies and measures to help mitigate those identified issues.
- 227 From June 2020 onwards, UK Finance produced a slide deck to accompany Bank Fraud Collaboration Working Group meetings covering:
- (a) identified fraud risks for Government support schemes;

- (b) Bounce Back Loan Scheme associated fraud risks (covering challenges and industry initiatives); and
 - (c) an intelligence log (summarising Bounce Back Loan related fraud trends reported by Bank Fraud Collaboration Working Group members).
- 228 The sharing of this information and discussions regarding mitigation measures contributed to the development of a number of measures that helped both to reduce the incidence of fraud against the loan schemes and to identify where suspected instances of fraud had occurred so that investigation and/or recovery processes could be initiated.
- 229 The Bank Fraud Collaboration Working Group's intelligence sharing work helped to identify emerging fraud issues arising throughout the course of the pandemic, including with respect to the loan schemes. Amongst the first of the potential fraud issues identified by the group were instances of duplicate loan scheme applications being made to different accredited lenders from the same applicant.
- 230 In its first meeting, the Bank Fraud Collaboration Working Group discussed a proposal to develop a ring-fenced database, via the CIFAS platform, for use by Bank Fraud Collaboration Working Group members, to alert when a customer had already applied for a Bounce Back Loan (in order to prevent access to multiple Bounce Back Loan Scheme loans). In a little over two weeks, Bank Fraud Collaboration Working Group members were sharing batch data regarding Bounce Back Loan Scheme applications with CIFAS to enable CIFAS to begin developing the database.
- 231 The CIFAS solution was seen as a key priority for the Bank Fraud Collaboration Working Group and members were encouraged to work as closely with CIFAS to get the system up and running as quickly as possible. The initial beta version of the CIFAS solution was built and went live on 2 June 2020 – less than a month after the first Bank Fraud Collaboration Working Group meeting. By 10 June 2020, six lenders were using the CIFAS solution on a daily basis. The CIFAS solution became fully operational on 25 June 2020 and participation in the CIFAS solution was adopted into the Department for Business, Energy, and Industrial Strategy and HM Treasury's minimum standards for accreditation as a new lender under the Bounce Back Loan Scheme, so as to ensure the solution's continued effectiveness. By 1 July 2020, 20 lenders were submitting data to the CIFAS solution, which by then had grown to incorporate over 1.1 million records.
- 232 In addition to the CIFAS solution, the Bank Fraud Collaboration Working Group, in conjunction with HM Treasury, also developed and circulated Bounce Back Loan

Scheme eligibility guidance relating to corporate groups, linked relationships and sole traders. This guidance contained 18 different legal structure examples which aimed to enable lenders to ensure compliance with the Bounce Back Loan Scheme rules when dealing with a high volume of applications.

- 233 Intelligence sharing via the Bank Fraud Collaboration Working Group helped to identify and circulate common indicators of fraudulent Bounce Back Loan Scheme applications – including loan applications being made of the maximum Bounce Back Loan size and instances where changes to Companies House information had occurred immediately prior to a Bounce Back Loan application being made. This feedback led to an initiative by the Cabinet Office to use Government data (including Companies House data) to help identify Bounce Back Loan Scheme fraud, including by using details of directors' names to find links to organised crime groups.
- 234 By 15 July 2020, the Cabinet Office had developed a database of dormant, 'high-risk companies' with two years of credit data which had undergone a change of director since 1 May 2020. This development enabled the CIFAS solution to directly alert Bank Fraud Collaboration Working Group members of Bounce Back Loan Scheme applications from a high-risk company, triggering a potential extension to the Bounce Back Loan Scheme application processing period from a turnaround time of 24 hours, to a turnaround time of 48 hours, so that lenders could, if deemed necessary, carry out additional anti-fraud checks. Back book checks of existing Bounce Back Loan Scheme loans conducted in July 2020 using the new Cabinet Office supplied data identified 684 instances of suspected fraud.
- 235 In August 2020, the Bank Fraud Collaboration Working Group, in conjunction with the British Business Bank, coordinated the collection of Bounce Back Loan Scheme suspected fraud information to send to the Department for Business, Energy, and Industrial Strategy and lenders. This suspected fraud information gathered data on four principal areas: prevented loss; detected loss; recovered loss and reporting errors. and was reported on a monthly basis.

National Economic Crime Centre COVID-19 “Fusion Cell”

- 236 In March 2020, the National Economic Crime Centre set up its COVID-19 “Fusion Cell” (**the Fusion Cell**) which was chaired by the Director of the National Economic Crime Centre.
- 237 The Fusion Cell brought together the core partners of the National Crime Agency (such as the Financial Conduct Authority, HM Revenue & Customs, the Serious Fraud Office, the Crown Prosecution Service and the City of London Police) with representatives from financial institutions, money transfer businesses, insurance companies and trade bodies, including UK Finance.
- 238 The Fusion Cell met with a view to sharing information between the public and private sector. Key to this was a focus on how the threat of economic crime was changing and looking at what could be done to tackle that threat.
- 239 UK Finance, through its Financial Fraud Panel, acted as a conduit for the monitoring of emerging COVID-19 related fraud trends observed by its members, and in keeping its members apprised of work being undertaken by the National Economic Crime Centre and the UK Government to combat COVID-19 related fraud, including fraud targeting the COVID-19 loan schemes.
- 240 From April 2020 UK Finance began sharing a weekly financial intelligence report with the National Economic Crime Centre, summarising high-level intelligence on COVID-19 related fraud (including phishing and Authorised Push Payment scams) reported by UK Finance members.
- 241 The report was also shared with members to help individual lenders consider and improve existing anti-fraud processes, share best practice, and inform the development of fraud mitigation tools by Bank Fraud Collaboration Working Group members. It also served to help the National Economic Crime Centre understand the threats experienced by members and increased the speed at which COVID-19 fraud-related intelligence from across UK Finance’s members reached law enforcement agencies.

Impact on level of Bounce Back Loan Scheme fraud

- 242 As a trade body representing the interest of the banking and finance industry, it is not part of UK Finance’s role to obtain and maintain independent data to facilitate the assessment of the overall efficacy of counter fraud measures adopted across the

financial services sector. It is not within UK Finance's remit to comment upon or evaluate the effectiveness of the UK Government policy in this regard.

- 243 UK Finance is not, therefore, in a position to hold one singular, comprehensive view on the overall effectiveness of anti-fraud measures taken in relation to the Bounce Back Loan Scheme. Neither UK Finance nor the Bank Fraud Collaboration Working Group themselves directly collected statistics on suspected fraud – instead each accredited lender kept their own records as regards declined applications and suspected instances of fraud and reported as required to the British Business Bank.
- 244 That being said, the Bank Fraud Collaboration Working Group's meetings occasionally revealed information which showed the impact of some of the anti-fraud measures implemented. For example, it was reported in a Bank Fraud Collaboration Working Group meeting that the CIFAS 'change of director flag' alone had prevented an estimated £13 million of fraud by 14 October 2020.
- 245 UK Finance is aware that publicly available data in relation to the repayment rates relating to the schemes might assist in illustrating the effectiveness of the measures taken to prevent fraud. By way of example, the National Audit Office reported in December 2021 that as of April 2021 lenders claimed to have prevented £1.97 billion of fraudulent applications (a figure which was not audited by the National Audit Office). In addition, the UK Government reported the following as of June 2025 (see exhibit DP/25a [INQ000655616]):
- a) in respect of the Bounce Back Loan Scheme, businesses had drawn a total of £46.48 billion. 68.08% of Bounce Back Loan Scheme facilities by volume were either fully repaid or on schedule, 4.42% of all scheme facilities by volume were in arrears (but not yet progressed to defaulted) and 0.79% by volume were defaulted (but had not yet progressed to claimed by lenders). The UK Government guarantee had been settled on 25.77% of the total Bounce Back Loan Scheme facilities by volume;
 - b) additionally, as set out in paragraph 219, lenders have reported £1.88 billion of the £46.48 billion (4.04%) of the Bounce Back Loan Scheme drawn value as suspected fraud, and of the £11.15 billion total settled amount as at 30 June 2025, £1.57 billion has been paid out to lenders against loans with a suspected fraud flag.

- 246 Separately, lenders have identified £ 56.91 million of the £25.83 billion Coronavirus Business Interruption Loan Scheme drawn value as suspected fraud. The data shows that, of the £1.03 billion total settled amount as at 30 June 2025, £24.86 million has been paid out to lenders against loans with a suspected fraud flag. Lenders have not reported any fraud in relation to the Coronavirus Large Business Interruption Loan Scheme.
- 247 In relation to the Recovery Loan Scheme, the British Business Bank published data sets out that as at 30 June 2025, 20,069 Recovery Loan Scheme facilities had been drawn which totalled £4.33 billion. 51.82% of Recovery Loan Scheme facilities were on schedule, while 21.11% had been fully repaid. 2.57% were currently in arrears (but not yet progressed to default), and 1.32% were currently in default (but had not yet progressed to a claim by lenders). Additionally, the UK Government guarantee had so far been settled on 22.03% of the total Recovery Loan Scheme facilities. With respect to fraud, lenders had identified £33.04m as suspected fraud, which equates to 0.45% of the total Recovery Loan Scheme facilities.

PART D: Reflections on COVID-19 Loan Schemes

- 248 Certain matters addressed in this section are also dealt with in other parts of my witness statement. Therefore, I do not repeat the full details here. Where appropriate, I refer to and rely upon the relevant sections set out elsewhere in this statement, and the contents of those sections should be read together with this section for a complete understanding of the matters addressed.
- 249 When considering the balance struck between the imperative to deliver support to businesses quickly and the need to manage the risks of fraud and error, it is important to take full account of the circumstances at the time and the urgency with which the schemes were established.
- 250 As set out above, UK Finance members were under significant pressure to launch the schemes at pace in line with the UK Government's priority at that time of providing funding to businesses and I have set out in paragraphs 260 to 268 below the key challenges that UK Finance members inevitably faced because of the constricted timeframes that had to be adopted in order to pass on funding to businesses in unprecedented volumes and speed. As regards the Bounce Back Loan Scheme, this involved expressly designing a scheme to exclude lenders' normal credit checks, accepting this could lead to higher levels of losses than is typically associated with

business lending. The UK Government expressed the view that fraud vulnerability was a necessary trade-off given the priority to get urgent liquidity to businesses.

251 Notwithstanding the fraud risk, recent data published by the British Business Bank indicates that there have been a number of benefits to UK employment and the economy generally as a result of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme, including the following key findings:

- (a) *'The Covid-19 Loan Guarantee Schemes resulted in tens of billions of additional Gross Value Added (GVA) in the UK economy (£15 billion to £36 billion for BBLs, £12 billion to £33 billion for CBILs and £0.4 billion to £8 billion for CLBILs). The range of the GVA estimates reflect statistical uncertainty as well as uncertainty around future benefits and the level of product market displacement.'*
- (b) *'The evidence suggests that the benefits of the Covid-19 Loan Guarantee Schemes outweigh their costs. The evidence is particularly compelling in the case of the CBILs scheme. Taken collectively, the benefit to cost ratios of the schemes are estimated to be between 1.24 and 3.78 across different modelling scenarios.'*
- (c) *'The analysis finds that the schemes prevented closures among an additional 5.9%-8.0% of BBLs borrowers and 5.8%-6.8% of CBILs/CLBILs borrowers between April 2020 and March 2022. These impacts are statistically significant.'*
- (d) *'Econometric analysis of IDBR data finds that turnover was 6.8% higher among BBLs borrowers and 6.8% higher among CBILs/CLBILs borrowers in the second year of the pandemic than it would have been in the absence of the schemes. This impact (while still statistically significant) is slightly smaller than the corresponding impact from the first year of the pandemic (9.7% and 11.5% for BBLs and CBILs/CLBILs borrowers respectively).'*
- (e) *'An estimated 1.0m total extra jobs likely would have been lost among BBLs and CBILs/CLBILs borrowers in the second year of the pandemic without the schemes. It is estimated that BBLs and CBILs/CLBILs borrowers respectively had 7.9% and 12.0% higher employment than they would have in the absence of the schemes. This highlights that the schemes likely had a positive social impact during the time of crisis as well as an economic impact.'*

252 As a trade body representing the interest of the banking and finance industry, UK Finance is not responsible for matters of public policy which are reserved solely for the UK Government and Parliament. Accordingly, UK Finance does not hold independent data enabling us to assess or contrast the effectiveness of the COVID-19 loan schemes against any other approaches in relation to Government support for businesses. It is not within UK Finance's remit to comment upon or evaluate the effectiveness of the UK Government policy in this regard.

Strengths and weaknesses of the COVID-19 Loan Schemes

253 As set out at the outset of this statement, UK Finance's role is that of a trade body, acting in the interests of its members and engaging on their behalf with UK Government, regulators and other key stakeholders. Whilst part of this role is to engage in discussions with the UK Government in relation to policy and regulation concerning the financial services sector, the responsibility for public policy decisions rests solely with the UK Government and Parliament. In that context, I set out below some observations regarding both areas of strength and aspects that presented particular challenges in relation to the design and implementation of the loan schemes by the UK Government but make no overall comment as regards the appropriateness of the steps taken by the UK Government at the time.

Strengths

Speed

254 One strength of the design and implementation of the loan schemes was the speed from their design to launch. As set out in more detail at paragraphs 50 to 104, the Coronavirus Business Interruption Loan Scheme launched on 23 March 2020, the same day the then-Prime Minister announced the first national lockdown in the UK. The Coronavirus Large Business Interruption Loan Scheme was launched one month later on 20 April 2020. The Bounce Back Loan Scheme, launched on 4 May 2020, was designed and established in approximately one week from the time of the first proposals from HM Treasury.

255 The speed of loan deployment is also reflected in a British Business Bank report dated June 2022, in particular in relation to the Bounce Back Loan Scheme: 45% of Bounce Back Loan Scheme borrowers took less than one week to obtain finance from the scheme. It took around five weeks for Coronavirus Business Interruption Loan Scheme/Coronavirus Large Business Interruption Loan Scheme borrowers. The British

Business Bank commented that this was “*consistent with the automated nature of the BBLs application process.*”

Support to businesses

256 UK Finance acts as the collective representative of its members, articulating the perspectives and priorities of its members to relevant stakeholders; the formulation and implementation of public policy remain the exclusive prerogative of the UK Government and Parliament, and it is not for UK Finance to opine on or provide a qualitative assessment on the effectiveness of the UK Government policy in that role.

257 However, available data demonstrates that the schemes provided considerable support to a substantial number of businesses as previously highlighted in this statement at paragraph 251.

Collaboration

258 The UK Government and lenders worked quickly together to identify issues with the first scheme (Coronavirus Business Interruption Loan Scheme) and launched subsequent schemes to address these issues and ensure that larger (Coronavirus Large Business Interruption Loan Scheme) and smaller (Bounce Back Loan Scheme) businesses alike could access UK Government support. The evolution of this process is explained in further detail at paragraphs 50 to 104 above.

259 The collaborative approach of all stakeholders enabled faster design, implementation and delivery than would have been possible in non-crisis times.

Challenges

Coronavirus Business Interruption Loan Scheme

260 As set out above, the design of the Coronavirus Business Interruption Loan Scheme gave rise to operational challenges, in part because lenders were required to demonstrate additionality (i.e. that lending that would not have taken place without the scheme).

261 Changes to the Coronavirus Business Interruption Loan Scheme eligibility criteria, personal guarantee element and other features were announced on 3 April 2020 and subsequently implemented on 27 April 2020. The Coronavirus Business Interruption

Loan Scheme rules remained complex, with viability and State Aid assessments required.

262 Lending to unincorporated businesses for amounts up to £25,000 also created deployment difficulties as borrowing at that level is regulated.

Bounce Back Loan Scheme

263 I have set out at paragraphs 199 to 214 the fraud-related risks, legal and regulatory and operational difficulties experienced by members in relation to the design and implementation of the Bounce Back Loan Scheme, and, therefore, I only provide a summary of these matters below.

264 The UK Government expressly prioritised the rapid disbursement of funds to applicants, designing the scheme to exclude lenders' usual credit checks, and accepting that this approach could result in higher levels of losses than would ordinarily be expected in business lending. It was made clear by HM Treasury and the Chancellor that businesses were expected to receive funds within 48 hours of application.

265 Initially, the UK Government engaged only with the Seven Lenders. However, the decisions by the UK Government taken as a result had an impact on other lenders, whose interests UK Finance also represent, and who were required to familiarise themselves with the scheme, obtain accreditation and operationalise the scheme at speed.

266 The reliance on borrower self-certification, together with the absence of credit or affordability checks, were central to the unprecedented speed and volume of Bounce Back Loan Scheme lending. However, this also rendered the scheme more susceptible to fraud and credit losses than conventional business lending.

267 As highlighted at various points in this statement, in the absence of a requirement or expectation on lenders to carry out credit checks, this meant that in some cases lenders were not alerted to information where credit/affordability checks would ordinarily have highlighted relevant information. In this regard, it was often difficult or impossible for lenders to distinguish between genuine errors and deliberate misstatements by applicants. Incorrect self-certification, for example, could arise from innocent error, opportunistic behaviour, or fraud, with the lender's assessment dependent on the information available to it.

268 Furthermore, as explained at paragraph 222 above, because lenders were not required to carry out credit checks, there may have been relevant information that would ordinarily have been flagged by lenders' usual credit and affordability checking processes that may have helped to identify potentially fraudulent behaviour. However, this was not uncovered at the time.

Reflections on engagement with UK Government

269 As highlighted throughout this statement, the collaborative approach between the UK Government and external parties such as UK Finance enabled funding to be provided to businesses in unprecedented volumes and at unprecedented speed. Throughout the pandemic, UK Finance worked in close collaboration with UK Government and regulators, bringing together the collective expertise of the industry to support the rapid and effective design, implementation, and delivery of key initiatives. This collaborative approach adopted by all parties enabled outcomes to be achieved with a speed and efficiency that would have been impossible in non-crisis times.

270 In light of the unprecedented urgency to deliver the loan schemes, it is important to emphasise that, at the relevant time, there existed no established playbook, protocol, or industry standard upon which firms or other stakeholders could reasonably rely. The crisis and emergency nature of the circumstances necessitated immediate and decisive action and as such, the UK Government worked primarily with UK Finance and major lenders without reference to a pre-existing playbook.

Considerations for support to businesses in future crises

271 It is inherently challenging to anticipate which mechanisms or approaches would be most suitable in responding to any future crisis, whether similar to COVID-19 or of a different nature altogether, whether global or national in scale. Each crisis presents its own unique circumstances, complexities, and demands, making it difficult to prescribe a one-size-fits-all solution in advance. As explained at the outset of this statement and highlighted throughout, as an industry body, UK Finance's remit is to represent the interests of its members and to provide expertise and insight based on the organisation's collective experience. UK Finance's contributions are necessarily limited to an advisory capacity. It does not set public policy or determine the strategic direction of crisis response. Ultimately, decisions regarding the most appropriate mechanisms for addressing future crises rest with the UK Government and other public authorities, which

are responsible for weighing a broad range of social, economic, and political considerations.

272 It is difficult to predict in UK Finance's role as a trade body focused on the interests of the UK's financial services sector, which mechanisms might be most appropriate for any response to any future pandemic or other future global or national crisis (which may or may not be, akin to the COVID-19 pandemic). The following suggestions are presented with the understanding that their applicability and effectiveness will be highly contingent upon the specific scale, characteristics and nature of any future economic crisis. It is, therefore, essential that these recommendations be reviewed and tailored in accordance with the unique circumstances presented by each crisis:

- (a) A mechanism could be established to periodically test how communication between the UK Government and trade associations, such as UK Finance, would work in a crisis.
- (b) The Growth Guarantee Scheme (successor to the Recovery Loan Scheme), which was established in August 2022 and extended by the UK Government to 5 April 2030, could potentially be utilised, with a significant increase in its budget. Enhancements to the Growth Guarantee Scheme, even absent an economic crisis, could support more lending than it currently does with its limited budget.
- (c) Support for sole traders could be facilitated by disapplying sections of the Consumer Credit Act 1974 or expanding the business purpose exemption, but without turning off credit and affordability checks or relying extensively on self-certification of borrower eligibility. This suggestion is presented solely for consideration and discussion purposes; it should not be interpreted as reflecting any agreed position or commitment on behalf of UK Finance or its members. Any approach to supporting sole traders and credit and affordability checks will necessarily depend on the specific characteristics and severity of the event. While it is important not to dispense with credit and affordability checks or to rely excessively on self-certification of borrower eligibility, it is recognised that the design of previous loan schemes was shaped by the imperative to deliver funding to businesses with exceptional speed. Should a crisis of similar magnitude to COVID-19 arise, with widespread economic disruption, it would be essential for affordability assessments to be tailored and to take into account the extraordinary circumstances affecting businesses at the time. Equally, careful consideration must be given to the operational challenges faced by lenders, particularly if the

scale of support required necessitates the rapid deployment of mass loan schemes. Collaboration and flexibility will be key to ensuring that support is both effective and responsibly delivered.

PART E: The Bank of England and the Macroeconomic Response to the Pandemic

Relationship between UK Finance and the Bank of England

- 273 At the outset of the pandemic discussions between the Bank of England and UK Finance focused on accounting, liquidity and capital considerations and evolved into discussions about the COVID-19 Corporate Financing Facility and general market movements, as well as the continued implications of International Financial Reporting Standard 9, as the pandemic progressed. Additionally, UK Finance engaged with the Bank of England on the capital treatment of the Coronavirus Business Interruption Loan Scheme, Coronavirus Large Business Interruption Loan Scheme and Bounce Back Loan Scheme, with the Bank of England subsequently publishing statements in relation to credit risk mitigation and leverage ratio treatment of loans on 27 April 2020 and 4 May 2020.
- 274 During 2020 and 2021, the Bank of England engaged with banks and UK Finance on firms' operational readiness and challenges with potential implementation of negative interest rates, particularly in terms of technology capabilities. UK Finance convened its members to collate common industry challenges and considerations. UK Finance's Negative Interest Rates working group, initiated in October 2020, supported members with: coordination of preparedness planning; conduct risk mitigation; optimising review of financial contracts; engagement with the UK authorities and outsourced providers; and customer communications. Ultimately, a negative Bank Rate was never introduced by the Monetary Policy Committee.
- 275 UK Finance's Prudential team has been involved in regular discussions with the Bank of England on topical prudential developments since the Global Financial Crisis, including International Financial Reporting Standard 9 before its implementation in 2018/2019. This relationship, particularly in relation to International Financial Reporting Standard 9, continued during and after the pandemic, to the present day. From the start of the pandemic and to its later stages, around 2021-2022, these discussions focused on considerations relating to the pandemic, including forbearance and impairment.
- 276 The UK Finance Mortgages team engaged with the Bank of England on a regular basis, and UK Finance participated in the Residential Property Forum (an advisory committee

of the Bank of England), which focused on macroprudential and financial stability issues, such as the impact on financial institutions of people falling into arrears.

- 277 UK Finance was not consulted by the Bank of England on reducing the Bank Rate, and quantitative easing. UK Finance understands that the Bank of England's powers to set the Bank Rate, conduct monetary policy and deliver certain financial assistance to financial institutions derive primarily from the Bank of England Act 1998, and that these decisions were made independently by the Monetary Policy Committee and Financial Policy Committee.
- 278 UK Finance does not consider that it should have been consulted on these initiatives. The authority to make decisions in relation to reducing the Bank Rate, setting monetary policy and implementing certain schemes relating to the provision of financial assistance to small and medium-sized enterprises during the pandemic therefore, rested with the Bank of England. By contrast, in light of the scope of the role of UK Finance as a trade body (representing the interests of the financial sector) UK Finance is not in a position to influence or comment on the macroeconomic decision-making of the Bank of England (or any of its related committees, including the Monetary Policy Committee and Financial Policy Committee) beyond considering how its measures might impact UK Finance's members.
- 279 In relation to the Bank of England Term Funding Scheme with additional incentives for small and medium-sized enterprises, non-bank lenders were unable to access this scheme directly. As explained above at paragraph 184, UK Finance engaged with HM Treasury on a proposed funding solution for non-banks providing small and medium-sized enterprise lending, but this scheme was not taken forward.

PART F: Lessons Learned and Reflections

- 280 UK Finance's existing processes and means of communicating and coordinating with its members and with the UK Government and other authorities worked well during the pandemic.
- 281 UK Finance has since produced a draft Business and Operational Continuity Committee Industry Incident Management Plan to support the Business and Operational Continuity Committee's response to a potential or actual systemic incident. Additionally, the Cross Market Operational Resilience Group annually conducts an attestation process to ensure the Sector Response Framework remains functional.

282 UK Finance did not produce or commission any internal or external reviews or lessons learned exercise specifically relating to the matters in the Provisional Outline of Scope for Module 9. However, some regular reviews conducted by UK Finance do contain information relating to the impact of the pandemic, including the economic measures introduced as a result. For example, UK Finance's Household Finance Review, which is produced quarterly, comprises analysis on arrears, the take-up of mortgage payment deferrals and the broader impact of the deferrals on customer savings. UK Finance also publishes a regular Business Finance Review which covers trends in small and medium-sized enterprise finance.

283 It is inherently challenging to anticipate the specific issues and, therefore, solutions which might be most suitable in responding to any future pandemic - which may be on a global or national level, similar to COVID-19 or of a different nature altogether with its own unique circumstances. That being said, and subject to the circumstances of any future pandemic, the Chair might wish to consider the proposals set out below, the relevancy and appropriateness of which will necessarily be dependent on the relevant social, economic, political, and global factors at the time:

- (a) early as possible engagement and collaboration with sector experts and trade bodies to assist the UK Government and regulators in understanding the issues facing the market in a timely manner;
- (b) in relation to taxation, a permanent implementation of electronic filing for the purposes of corporate income tax returns with a view to the enhancement of business practices (to reflect the temporary measure that was put in place during the pandemic) which was echoed in UK Finance's response to a 2023 HM Revenue & Customs consultation;
- (c) a review of the Death Registration Process and Court of Protection Orders, to ensure they are fit for purpose and can be accessed digitally but remain secure and meet environmental standards. Accordingly, UK Finance welcomes the Government's £40 million investment to improve the environmental sustainability of the courts and tribunals' estate in England and Wales;
- (d) consideration of data sharing processes and mechanisms that allow the transfer of information where there is a social benefit (for example, sharing National Health Service vulnerable customer lists when necessary);

- (e) better use of data and verification measures as part of Companies House’s reform efforts to develop an accessible register containing comprehensive verified information with robust enforcement;
- (f) establishing a mechanism to periodically test how communication between the UK Government and trade associations, such as UK Finance, would work in a crisis; and
- (g) whilst UK Finance recognises that matters relating to the Devolved Administration are for Parliament, to the extent constitutionally compatible, UK Finance would welcome efforts to minimise inconsistencies and duplication of effort between the UK’s nations. For example, during the pandemic there were differences of approach to “essential worker” status within the financial services industry.

Statement of Truth

I believe that the facts stated in this Witness Statement are true. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed:

Personal Data

Dated: 27 October 2025