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**From:** Beckett, Sam (BEIS) [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=B11D14851EF347FC88B262C08E66E7EF-SAM.BECKETT]  
**Sent:** 01/05/2020 21:55:00  
**To:** Keith Morgan [Keith.Morgan@british-business-bank.co.uk; **Name Redacted** @british-business-bank.co.uk]; Beckett, Sam (BEIS) [sam.beckett@beis.gov.uk]; tom.scholar@hmtreasury.gov.uk; Roxburgh, Charles - HMT [Charles.Roxburgh@hmtreasury.gov.uk]; Secretary Of State (Private Office) [secretary.state@beis.gov.uk]; Action.Chancellors@HMTreasury.gov.uk  
**CC:** **NR** @beis.gov.uk; Cannizzaro, Angelina (Business Growth) [angelina.cannizzaro@beis.gov.uk]; **NR** @beis.gov.uk; Graeme Fisher [graeme.fisher@british-business-bank.co.uk; **Name Redacted** @british-business-bank.co.uk]; Patrick Magee [patrick.magee@british-business-bank.co.uk]; Edward O'Hara [edward.ohara@british-business-bank.co.uk]; **NR** @hmtreasury.gov.uk; Shanmugalingam, Jo (DG ISSI) [jo.shanmugalingam@beis.gov.uk]; Nurse, Gwyneth - HMT [Gwyneth.Nurse@hmtreasury.gov.uk]; Fleming, Joshua - HMT [joshua.fleming@hmtreasury.gov.uk]; Raw, David - HMT [David.Raw@hmtreasury.gov.uk]; **NR** @hmtreasury.gov.uk; **NR** @hmtreasury.gov.uk; **NR** @hmtreasury.gov.uk; Permanent Secretary [permanentsecretary@beis.gov.uk]  
**Subject:** RE: BBLs

Dear Keith,

On 27 April 2020 the following changes to the Coronavirus Business Interruption Loan Scheme (CBILS) were announced:

- Amending the viability test to remove the requirement for lenders to include a 'forward-looking' element.
- Removing the per-lender portfolio cap, making the guarantee a simple 80%.

I can confirm that these revisions to CBILS are covered by the previous ministerial direction that I received on this matter. I can also confirm that the assurances I have previously given you on CBILS, including regarding funding, continue to apply now that the scheme has been revised.

On 27 April 2020 the Chancellor also announced his intention to support small businesses with a new finance scheme providing loans with a 100% government-backed guarantee for lenders, called Bounce Back Loans (BBL). This scheme will complement CBILS by ensuring that smaller businesses can access finance more quickly and easily.

I can confirm that the Chancellor has given the Secretary of State his agreement for the scheme to go ahead. Subsequently the Secretary of State has issued a ministerial direction to me to implement the scheme.

Thank you for your email setting out the key risks identified by PWC in its Fraud Risk Review of BBL. I flagged these to the Secretary of State and they informed the department's Accounting Officer assessment of the scheme and my decision to seek a ministerial direction. It will be vital for BBB, BEIS and HMT to monitor these risks closely for the lifetime of the scheme, by ensuring that there are effective processes in place for reporting from lenders and using existing governance to review the level of risk.

Please therefore take this message as an instruction to proceed with the changes to CBILS and the BBL scheme as agreed with HMT and BEIS officials. I confirm that BEIS is empowered to instruct you in this way (having received formal consent from HMT), and that it can rely on the parliamentary exceptions regime to inform Parliament after BBL has gone live.

Given the demand-led nature of BBL, no funding limit has been set by HMT and therefore I am also delegating, without limit, authority to allocate capacity to lenders to offer finance under BBL. Further financial cover will also be forthcoming to the British Business Bank as necessary to honour the open-ended commitments you are being instructed to make.

You will need to ensure that there are robust controls and governance around these financial commitments that, as far as reasonably practicable, ensure public funds are being used appropriately in the context of the agreed parameters of

the scheme. Capacity should be allocated at the level that lenders reasonably require to ensure that the scheme is demand-led, as ministers intend it to be, but not beyond that.

On resources, your team has indicated that running costs might be up to £6m in financial year 2020/21 for BBL, which is to meet both the Bank's own cost of delivery (including e.g. staff costs) and also the cost of legal fees. You have also indicated that up to £4m will be needed in financial year 2020/21 to provide enhanced auditing of delivery partners, following the implementation of an accelerated accreditation process. These estimates will need further scrutiny and refinement before we can settle on an agreed budget that will satisfy HM Treasury. In the meantime, to ensure that work is not held up due to uncertainties around funding, I am prepared for you to proceed on the basis that funding will be made available to cover the Bank's reasonably justifiable direct and indirect costs of running BBL as well as the costs of the auditing of delivery partners. I therefore expect you to work closely with BEIS finance to refine the estimate of final costs, and to ensure that costs with this project are reported regularly and kept under review.

Also, progress against these schemes should be reported regularly to enable myself and ministers to remain sighted and able to make any further decisions on the continued operation of the schemes. This should include any decisions that materially impact on the scope or costs of the scheme.

BEIS would be responsible, as the Department responsible in government for State aid policy as well as the sponsor of the British Business Bank, for supporting the British Business Bank in any challenge arising in respect of non-compliance with the State aid rules. Recognising that the BBL scheme will fall under the UK's State aid "umbrella" approvals and also *de minimis* regulations for a certain category of borrower, and recognising the decisions that BEIS has made with respect to these measures, I would of course expect the Bank to comply with the relevant commitments made in respect of these State aid measures and in line with these decisions.

Thank you once again to you and your staff for the exceptional work that has allowed us to make progress so quickly. I look forward to continuing to work with you to ensure that BBL delivers vital support to UK businesses at this time.

With regards,

Sam



**Sam Beckett**

Permanent Secretary  
Department for Business, Energy & Industrial Strategy  
E: [PermanentSecretary@beis.gov.uk](mailto:PermanentSecretary@beis.gov.uk)  
1 Victoria Street, London, SW1H 0ET  
[www.gov.uk/beis](http://www.gov.uk/beis) | [twitter.com/beisgovuk](https://twitter.com/beisgovuk)

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**From:** Keith Morgan <Keith.Morgan@british-business-bank.co.uk>

**Sent:** 01 May 2020 11:57

**To:** **Name Redacted** <[redacted]@british-business-bank.co.uk>; Beckett, Sam (BEIS) <Sam.Beckett@beis.gov.uk>; Permanent Secretary <PermanentSecretary@beis.gov.uk>; tom.scholar@hmtreasury.gov.uk; Roxburgh, Charles - HMT <Charles.Roxburgh@hmtreasury.gov.uk>; Secretary Of State (Private Office) <Secretary.State@beis.gov.uk>; Action.Chancellors@HMTreasury.gov.uk

**Cc:** **NR** <[redacted]@beis.gov.uk>; Cannizzaro, Angelina (Business Growth) <Angelina.Cannizzaro@beis.gov.uk>; **NR** <[redacted]@beis.gov.uk>; Graeme Fisher <Graeme.Fisher@british-business-bank.co.uk>; **Name Redacted** <[redacted]@british-business-bank.co.uk>; Patrick Magee <patrick.magee@british-business-bank.co.uk>; Edward O'Hara <edward.ohara@british-business-bank.co.uk>; **NR** <[redacted]@hmtreasury.gov.uk>; Shanmugalingam, Jo (DG ISSI) <Jo.Shanmugalingam@beis.gov.uk>; Nurse, Gwyneth - HMT <Gwyneth.Nurse@hmtreasury.gov.uk>; Fleming, Joshua - HMT <Joshua.Fleming@hmtreasury.gov.uk>; Raw, David

- HMT <David.Raw@hmtreasury.gov.uk>; [redacted]@hmtreasury.gov.uk;

NR

NR

NR

[redacted]@hmtreasury.gov.uk>

NR

[redacted]@hmtreasury.gov.uk

NR

[redacted]@hmtreasury.gov.uk>

**Subject:** BBLs

OFFICIAL – MARKET SENSITIVE

Dear Sam

In my letter of April 26<sup>th</sup>, I highlighted some key risks around the Bounce Back Loans Scheme (BBLs), including a serious risk of fraud and abuse. PwC have now completed a Fraud Risk Review (draft report attached) of the potential fraud risks that may crystallise in BBLs. We had provided PwC with the Cabinet Office Fraud Countermeasures tool kit and PwC's assessment is that the residual fraud risks should be categorised as 'Very High'. Please note that this PwC assessment was based on 7 larger banks, all of which are likely to have more sophisticated fraud controls compared to less sophisticated delivery partners.

I would highlight the following key risk areas contributing to this "Very High" risk assessment, and you will want to ensure that Ministers have full knowledge of these risks before they consider issuing any instruction to the Bank.

**Multiple applications:** The structure of the Scheme means that lenders have no way to identify if multiple applications are being made under the scheme to different lenders. Additionally, it has become apparent that the speed of delivery may mean that lenders may also be unable to identify multiple applications within the lender. All of the lenders were considering approaches to preventing this however this is highly unlikely to be solved by all lenders by Monday morning.

**Self-certification:** Reliance on self-certification, in the absence of any verification, leads to the residual fraud risk that lending is being made to businesses which are not eligible for the scheme, amounts in excess of that to which they are entitled or whose difficulties do not relate to Covid-19.

**Lack of legitimate business:** Lenders were concerned that the scheme may be abused by individuals in distress opportunistically, with no real business and inactive or dormant accounts or companies being used to facilitate fraud. Many Lenders commented on the recent spikes in company formations and the timing parameters of company set up for eligibility under the Scheme.

**Organised crime:** Given the design of the scheme, there is the potential for exploitation of 'desperate' individuals with valid existing accounts induced by organised crime to provide account details to fraudsters. This is in addition to the risk of 'mule' accounts existing within lender portfolios, as highlighted by many lenders. Whilst most of these are believed to be personal accounts there was acknowledgement that there may also be mule business accounts - a risk particularly exacerbated by the high incidence of company formations in recent months.

**Whilst PwC's report focusses on fraud risk, there is clearly enhanced credit risk and reputational risk here as well.**

Lenders have understandably been saying that affordability in the current environment is difficult to assess, hence the regulatory changes in progress. Removing significant elements of the credit checks that would previously have been taken out will exacerbate the credit risk: credit histories and credit reference assessments will not be required to be checked and therefore many people with poor credit histories, and even multiple County Court Judgements (CCJs), will be permitted access to credit.

PwC also identified concerns regarding the potential reputational impact of lending to, for example, adult entertainment or gambling organisations that lenders would not ordinarily deal with.

**With regards to quantification of the risk we have necessarily had to apply high level assumptions. However, our current combined estimate for fraud and credit losses on BBLs is a range of between 30% - 50%.** The lower range of the combined 30% losses comes from the 7 larger banks themselves; the higher end of the range at 50% takes into account our credit loss experience within the start-up loans programme (SUL) and our estimate of potentially higher

fraud losses in BBLs (and noting that losses outside the 7 larger banks may be higher than those incurred by those institutions).

Our credit loss experience within SUL shows that the earlier cohorts of 2012-13 and 2013-14 had cumulative write offs and charge offs of circa 57%. While our current losses are running at 24% we would expect this to significantly increase due to the rapid deterioration of the economic environment due to Covid-19. We would also estimate a higher level of fraud losses in BBLs (particularly in the early stages of launch) due to the specific nature of the BBLs scheme itself – in particular lack of controls around multiple applications, reliance on self-certification, no CCJ or credit checks, higher risk of organised crime, a departure from normal lending processes and speed of implementation of a new process. These factors, combined with the fact that the low level of checks within the scheme have already been well publicised in the national media, will therefore attract a much higher level of fraud attempts.

If we then assume that, of the circa 800,000 smaller businesses in the UK that are estimated to be facing liquidity issues, 50% will borrow £25k on average (from the £50k limit) we would be looking at a portfolio of £10 billion. **So combined fraud and credit risk losses could be circa between £3bn and £5bn on a £10bn portfolio.**

I hope this additional information is helpful ahead of the scheme's launch, and I would be happy to discuss the findings further with you if helpful.

With regards

Keith

**Keith Morgan CBE**  
Chief Executive Officer

t [redacted] I&S  
m [redacted]  
e [keith.morgan@british-business-bank.co.uk](mailto:keith.morgan@british-business-bank.co.uk)

Executive Assistant – Stephanie Oxley  
Name Redacted [\[redacted\]@british-business-bank.co.uk](mailto:[redacted]@british-business-bank.co.uk)



8 Salisbury Square, London | EC4Y 8AP  
t [redacted] I&S | w [www.british-business-bank.co.uk](http://www.british-business-bank.co.uk)



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**From:** [redacted] [\[redacted\]@british-business-bank.co.uk](mailto:[redacted]@british-business-bank.co.uk)

**Sent:** 26 April 2020 14:07

**To:** Beckett, Sam (Director General, Trade, Europe and Analysis) <[Sam.Beckett@beis.gov.uk](mailto:Sam.Beckett@beis.gov.uk)>; Permanent Secretary <[PermanentSecretary@beis.gov.uk](mailto:PermanentSecretary@beis.gov.uk)>; [tom.scholar@hmtreasury.gov.uk](mailto:tom.scholar@hmtreasury.gov.uk); Roxburgh, Charles - HMT <[Charles.Roxburgh@hmtreasury.gov.uk](mailto:Charles.Roxburgh@hmtreasury.gov.uk)>; Secretary Of State (Private Office) <[Secretary.State@beis.gov.uk](mailto:Secretary.State@beis.gov.uk)>; [Action.Chancellors@HMTreasury.gov.uk](mailto:Action.Chancellors@HMTreasury.gov.uk)

**Cc:** [redacted] NR <[\[redacted\]@beis.gov.uk](mailto:[redacted]@beis.gov.uk)>; Cannizzaro, Angelina (Business Growth) <[Angelina.Cannizzaro@beis.gov.uk](mailto:Angelina.Cannizzaro@beis.gov.uk)>; [redacted] NR <[\[redacted\]@beis.gov.uk](mailto:[redacted]@beis.gov.uk)>; Keith Morgan <[Keith.Morgan@british-business-bank.co.uk](mailto:Keith.Morgan@british-business-bank.co.uk)>; Graeme Fisher <[Graeme.Fisher@british-business-bank.co.uk](mailto:Graeme.Fisher@british-business-bank.co.uk)> [redacted] Name Redacted <[\[redacted\]@british-business-bank.co.uk](mailto:[redacted]@british-business-bank.co.uk)>; Patrick Magee <[patrick.magee@british-business-bank.co.uk](mailto:patrick.magee@british-business-bank.co.uk)>; Edward O'Hara <[edward.ohara@british-business-bank.co.uk](mailto:edward.ohara@british-business-bank.co.uk)> [redacted] NR <[\[redacted\]@hmtreasury.gov.uk](mailto:[redacted]@hmtreasury.gov.uk)>; Shanmugalingam, Jo (DG ISSI) <[Jo.Shanmugalingam@beis.gov.uk](mailto:Jo.Shanmugalingam@beis.gov.uk)>; Nurse, Gwyneth - HMT <[Gwyneth.Nurse@hmtreasury.gov.uk](mailto:Gwyneth.Nurse@hmtreasury.gov.uk)>; Fleming,

Joshua - HMT <Joshua.Fleming@hmtreasury.gov.uk>; Raw, David - HMT <David.Raw@hmtreasury.gov.uk> NR

NR @hmtreasury.gov.uk NR @hmtreasury.gov.uk NR @hmtreasury.gov.uk  
NR @hmtreasury.gov.uk NR @hmtreasury.gov.uk

**Subject:** Letter on CSBILS from Keith Morgan, British Business Bank CEO

OFFICIAL – SENSITIVE

Dear Sam

Please find attached a letter from Keith Morgan, British Business Bank CEO, on CSBILS. I am copying the letter to Tom Scholar and Charles Roxburgh at HMT, as well as to the private secretaries of the Secretary of State and of the Chancellor.

With regards

Name Redacted

Name Redacted

Policy Director

t  
m  
e: Name Redacted I&S | @british-business-bank.co.uk



8 Salisbury Square, London | EC4Y 8AP  
t I&S | w [www.british-business-bank.co.uk](http://www.british-business-bank.co.uk)

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