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02 May 2020

Rt Hon Alok Sharma MP
Secretary of State
Department of Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Dear Secretary of State

BBLs – RESERVATION NOTICE

Over the last ten days, we have been working rapidly with your officials and with HMT to prepare for the launch of the Bounce Back Loans Scheme (BBLs). We are all doing the best we can in an unprecedented situation, and we are acutely aware of the imperative for us to act at pace to support the economy.

I understand that you have seen my letter of April 26th to Sam Beckett, advising on the risks associated with the rapid launch of BBLs, and my subsequent e-mail of May 1st that set out in more detail the very significant fraud and credit risks associated with it (including those highlighted in a draft review that we commissioned from PWC, which classifies the fraud risk as “very high”).

Acting under your direction, Sam Beckett instructed the Bank to implement BBLs yesterday. In light of the concerns we have raised and the findings of PWC’s fraud risk review, the Bank’s Board met this morning to discuss the launch of BBLs. Following those discussions, it has requested that I raise a formal Reservation Notice to you in response to this instruction on BBLs. A Reservation Notice is a mechanism in the Bank’s constitution through which we may raise concerns on particular grounds. In this case, the relevant grounds are: propriety; value for money; and feasibility. I will explain the Board’s position on each of these in turn.

On propriety, our primary concerns relate to the extensive reliance on customer self-certification and the corresponding fraud risk (as discussed in detail in my e-mail of May 1st), as well as to the potential market distortion. With an interest rate for BBLs being set at a uniform 2.5% across the market, it is now very likely that many smaller providers will not be able to compete with BBLs in the sub £50,000 lending market, leaving the large banks as the main providers. This is a competitive issue now as it reinforces their dominance of the market. Over the medium to longer-term, if alternative finance providers fail it may also bring into question the potential diversity of the SME finance market and its ability to support economic recovery. The Board also discussed the conduct-related risk that borrowers sign away rights under the Consumer Credit Act and may then later claim they were vulnerable and so cannot be held accountable for doing so.

On value for money, my e-mail yesterday set out clear concerns based on our own assessment and that of an expert third party. The scheme is vulnerable to abuse by individuals and by participants



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in organized crime. Alongside the fraud risk, there will be considerable credit risk in the current economic environment, which will be exacerbated by removing significant elements of the credit checks that would otherwise have been undertaken.

On feasibility, the compressed timetable has created huge operational challenges for delivery partners, who are facing considerable challenges to stand up systems ahead of launch on Monday. As an example of the compromises made to meet the timetable in order to avoid derailing the builds of the large banks' systems, it has been impossible to agree a methodology to prevent duplicate applications.

On the theme of feasibility, my Board have also asked me to highlight the clause in the Permanent Secretary's instruction that states: "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." Given the pace at which decisions are being made and processes built, and the imperative for simplicity throughout, it is not feasible for us to achieve this to the standard implied by any ordinary interpretation of what is either "robust" or "reasonably practicable".

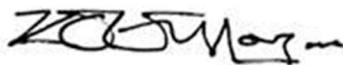
While we recognise that you have already provided a direction to the Permanent Secretary as Principal Accounting Officer in relation to the scheme, the Board have concluded that it is appropriate that we raise a Reservation Notice with you directly. We have flagged to officials at HMT and BEIS as part of the discussions of the scheme that these concerns on propriety, value for money and feasibility could have been mitigated either by proceeding with modifications to CBILS instead of a new scheme, or by delaying the implementation of BBLs to ensure these issues were worked through. As I have communicated previously, however, we do also fully understand both that this is a time of unprecedented market disruption in which an incremental approach itself appears much more risky than in normal times, and also that Ministerial objectives and considerations may in these circumstances be broader than ours.

Given the concerns of the Board, and under our established constitution, in order to ensure the scheme can be launched as planned it will be necessary for you to respond to this letter by instructing the Bank directly. The Board have requested that this wording be unambiguous, and that it should acknowledge the limitations on the Bank's ability to mitigate and control risks which are inherent in the design of the scheme.

I look forward to your response. The Board and I fully appreciate that expectations have been raised and there is now huge public pressure to deliver BBLs. Our implementation efforts continue at pace, and should you direct us accordingly, we stand ready to deliver this programme to the very best of our ability.

You should be aware that I will be required to copy your reply to the Comptroller and Auditor General and the Treasury Officer of Accounts. I am further required to arrange for the existence of your letter of direction to be published unless you direct me to keep the matter confidential. Given the potential impact that making the existence of your direction public might have on the confidence in, and take-up of, the scheme you may alternatively choose to ask me to delay publication of its existence until a later date.

Yours sincerely



Keith Morgan CBE
Chief Executive Officer & Accounting Officer