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Michelle Ballantyne MSP
Convener
Economy, Energy and Fair Work Committee
The Scottish Parliament
Edinburgh EH99 1SP

Dear Ms Ballantyne,

Thank you for your letter of 6 May on the impact of Covid-19 on businesses, workers and the economy in Scotland. The challenge that Covid-19 presents to everyone in this country and around the world is unprecedented. In Scotland, as across the rest of the UK, every person, family and business has been affected in some way and as a bank we are doing all we can to support our customers and the communities we serve. I am happy to respond to the questions that were set out in your letter. I also thought it would be helpful to the Committee to summarise our wider support package for business customers impacted by the Covid-19 pandemic.

In addition to the support we are providing directly to our business customers, we are engaging closely with colleagues across a range of trade bodies representing SMEs, as well as individual sectors. This engagement has allowed us to share information and respond in a coordinated way to the needs of businesses that are important employers and central to the Scottish economy.

Supporting our business customers

We are committed to doing everything we can to support our customers and the economy. We have moved quickly to support our customers both through implementation of the various government schemes and our own support; through The Royal Bank of Scotland's £350 million Coronavirus Working Capital Fund, our starting point of £5,000 for the Coronavirus Business Interruption Loan Scheme (CBILS) (prior to the introduction of Bounce Back Loans at £2,000) and our commitment not to take Personal Guarantees. The package of support we have made available for our SME customers includes:

- a £350m Coronavirus Working Capital Fund from which we are currently taking several requests through approval and getting to our customers as fast as possible;

- we have approved more than 45,000 Capital Repayment Holidays for up to 6 months on fixed and variable rate lending;
- we have processed over 7,900 new and increased overdrafts from customers since COVID began;
- we have waived connectivity and hire fees on our contactless payments terminals to receive payment, and offer online and telephony payments; and,
- we are offering a free subscription to accounting software FreeAgent to all customers of our standalone Business Banking account Mettle.

We are also supporting our customers through the UK Government schemes, including Bounce Back Loan Scheme (BBLs), CBILs, CLBILs and Covid-19 Corporate Financing Facility (CCFF):

- Our CBILs started at £5,000 with a streamlined approach to ensure we can support our customers as quickly as possible and at no point have we requested a Personal Guarantee. We have approved more than 11,430 applications with a total value of more than £2.44bn (as of May 17).
- In relation to BBLs we have approved 86,490 applications with a cumulative value of £2.7bn under the BBL scheme (as of May 17).
- Supporting the largest corporates that play a key role in the economy, employing such large numbers through the CCFF by having facilitated more than ~£5bn issued by clients of the bank.

In relation to your specific questions:

Q1: In order to determine whether to offer support, some banks are using normal commercial criteria that existed before the Coronavirus Business Interruption Loans Scheme (CBILs) was created, with certain businesses (such as small hospitality businesses) being put through a higher level of scrutiny than businesses in other industries, making support less likely.

We have worked closely with HMT and the British Business Bank to ensure the quick implementation of CBILs, CLBILs and Bounce Back loans and we will continue to support our customers through these and the other relevant government schemes - we want to do all we can to help our business customers. All viable business customers can access a form of support – either through products that we have made available like fee free overdrafts or capital repayment holidays and / or via one of the government schemes.

Our priority from the outset of the crisis has been to make support as widely available as possible that's why we made the early decision from the outset to offer CBILs loans from £5,000 with no personal guarantees. Indeed, we do not require the provision of forward-looking financial information (but may ask for such information on a voluntary basis to inform decision making in cases that may otherwise be declined) or business plans from businesses applying for CBILs-backed lending, relying instead on our own information to assess credit and business viability. Our viability framework follows scheme requirements and is based on

the historical pre-Coronavirus performance of the business. Therefore, any business that was viable, passes the relevant checks and can afford to repay will get approved. Although, it should be noted that each institution will have their own risk appetite that informs decision making. To that end, we have not made any material changes to our existing risk appetite for any sector as a result of the Covid-19 pandemic.

The online Bounce Back Loan scheme based on self-attestation of viability further increases coverage and makes it more straightforward for small businesses to access government support. In addition, we provide loans from £2,000 upwards under the BBL scheme. Finally, it is important to note that the 'lending criteria' are as determined by HMT and the BBB so where the business meets these criteria, they should be able to obtain the loan.

Q2: Some banks are requiring normal paperwork, applying unchanged timelines for processing applications or requiring personal liability.

As outlined above, at no point has the bank sought Personal Guarantees to access any of the government schemes. We have kept all paperwork to an absolute minimum and designed our processes to be as quick and smooth as possible and we are continuing to improve the process based on customer feedback. In addition, the lending documentation that we use reflects our agreement with the British Business Bank on how the scheme will be operated.

Q3: Some banks are lending a minimum of £25k in loans and not operating overdrafts, (which are better suited to most smaller businesses) through the scheme.

We recognised that this is not business as usual and we were clear about exactly what we needed to do to support our customers and, in that context, starting at £25k to stay outside CCA regulated territory was not the right approach for our customers. We were also mindful of being the biggest lender to UK SMEs especially in the smaller business segment and we wanted to get as much support to our customers as quickly as possible, so made the decision to start our lending under the scheme at £5,000. To ensure no gaps in provision we have made, where appropriate, new and extend overdrafts available to our customers. These are fee free up to the £5,000 CBILS starting point. Furthermore, to extend the support to our customers we provided a bridging product to help our customers manage their cashflow while the UK Government's Employee Furlough Scheme was implemented.

Q4: Some banks are prioritising existing customers for any lending that is occurring under CBILS.

We know how stressful a time this is for our customers. We have support available and our priority is to get support to those customers that need it as quickly as possible. In the circumstances where all banks are facing unprecedented demand it is appropriate that customers contact their existing bank in the first instance as they will have the information on file that makes decision making quicker. In several instances, we have supported customers of other banks who were not participating in the government schemes with CBILS lending.

Q5: One business was told by a bank that it will not be supported as its business is ‘too strong’ and some banks are imposing prohibitive interest charges.

It is difficult to comment without knowing the specifics of the case. It is worth noting that at the time of the initial CBILS launch lenders were obliged under the scheme rules to offer commercial lending in certain circumstances. However, the Chancellor of the Exchequer announced changes to the scheme in early April which meant that all viable small businesses affected by Covid-19, and not just those unable to secure regular commercial financing, would be eligible for CBILS. It should also be noted that in certain circumstances customers continue to have the option between normal commercial lending or being able to access one of the appropriate government schemes.

Q6: Some banks are imposing prohibitive interest rates.

The weighted average margin across our CBILS is currently around 3.6% and is capped at 5%. In assessing pricing, we have passed on both the capital benefit of the guarantee and not charged a term liquidity premium (TLP) given our ability to access the Bank of England’s Term Funding Scheme (TFS).

In relation to BBLS for loans up to £50,000 interest rates are set at 2.5% with repayment on a 6-year straight amortisation basis.

Summary

We understand the world has changed and we are doing everything we can to help our customers and the wider Scottish economy – we want to help people, families and businesses through the challenging times we all face. That’s what has guided our response to this crisis. It is also what has underpinned the decisions we have made in recent months, like no Personal Guarantee’s, and a CBILS starting point of £5,000. For our personal customers we have also offered a range of support; from mortgage and loan deferrals through to frozen overdraft rates and dedicated customer support lines for our customers over 70 and those in isolation so they can access essential banking services and even request a cash delivery.

Every member of the team has worked hard to support our customers through unprecedented demand. In response to our call centre volumes running at around twice normal levels we doubled the size of our call centre team from 200 to 400 to deal with the exceptionally high volumes, while also adjusting our business to allow people to work from home. Furthermore, we have redeployed a further 100 employees to frontline roles to help support our business customers.

In addition, to our direct support for our business and personal customers we have partnered with several charity and community partners to support the communities we are part of across the country. This support has ranged from supporting the Rainbow Boxes Foundation to provide all Lothian COVID-19 patients with support when entering hospital to turning our Gogarburn Conference Centre into a distribution centre to supply food and hygiene products to the Trussell Trust food banks and Social Bite charity.

By maintaining our focus on our customers while carefully utilising the financial strength we have built over the last few years and being there for our customers as we rebuild post-Coronavirus, we will fulfil our commitment to do everything we can to support Scotland's recovery so that the bank and our customers succeed in the future.

Yours sincerely

Malcolm Buchanan
MD Corporate & Commercial Banking
Chair, Scotland Board