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LLOYDS BANKING GROUP PLC

CMA RETAIL BANKING MARKET INVESTIGATION

**LBG submission in relation to the outputs of the SME
loan price and eligibility tool**

23 JANUARY 2017

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- 1.1 LBG understands that the CMA is considering whether the required output of the price and eligibility tool (Article 33.2.1(a) of the Draft Order) should allow greater flexibility than the existing requirement of a percentage likelihood of being eligible for a given product at the requested credit limit.
- 1.2 As explained in Section 10 of LBG's 19 December 2016 response to the Draft Order consultation, there is a risk that providing a precise percentage may not be customer-friendly and may give a misleading impression of the precision of the tool (e.g. when comparing the likelihood of acceptance between different Providers' tools).
- 1.3 LBG notes that two of the other three Providers who will be required to offer a tool (HSBC and RBS) have raised similar concerns in their responses to the consultation, and have also queried how the percentage figure could be effectively monitored or compared as between Providers (who will all adopt different methodologies). There is also the risk of customer confusion if a percentage eligibility figure is misinterpreted by the customer as being the percentage of the requested loan that the Provider would support, as noted by RBS.
- 1.4 LBG notes that the key benefit of the tool is to provide greater clarity and certainty on the cost of lending, and the likelihood of being accepted in advance of an SME making a loan or overdraft application (Final Report paragraph 16.24(c)). This benefit can be achieved by the tool providing one of the following outputs:
- (a) likely to be accepted (a further output of "very likely to be accepted" could also be considered;
 - (b) requires further information;
 - (c) unlikely to be accepted; or
 - (d) ineligible for product.
- 1.5 The advantage of the above approach is that it will give the customer sufficient information on whether to progress to a full application, and if so, the next steps required of them.
- 1.6 Moreover, the ability to explain that an application requires further information before it can be assessed will be more helpful to customers than simply informing them that they have a 0% likelihood of approval based on the information they have provided (which may discourage applications for finance). Similarly, it is helpful for a customer to know that they are ineligible for a product (and not simply that they have a 0% likelihood of approval) as this will prompt them to consider other products for which they are eligible.
- 1.7 However, if the CMA decides to require the tool to return a percentage likelihood of approval, LBG considers that a range is preferable to a precise percentage, and that wider ranges should be adopted. This will mitigate the unintended consequences set out above.
- 1.8 LBG does not consider that amending Article 33.2.1(a) as suggested above would constitute a material change for the purpose of Schedule 10 of the Enterprise Act 2002.