



# CUSTOMERS

A sustainable and responsible approach to doing business is integral to everything we do for all of our customers – from individuals who hold basic bank accounts with us through to some of the UK’s biggest businesses. Whether our customers want to buy their first home, save for later life, start a business or grow a business we want to be the best bank for them all: serving them fairly; providing products and services that are affordable, accessible and relevant.

## What’s in this update?

Doing business responsibly for customers is ‘business as usual’ for us. So, this update covers all aspects of our relationship with customers. It does so by focusing on the activities that our stakeholders prioritised in our 2016 Materiality Survey. These included our efforts to improve customer experience, do more to support vulnerable customers, including those who are financially excluded, and the actions we take to protect customers’ money, data and privacy. You can read more about stakeholders’ feedback in our Materiality Report.

## How does this support our Group strategy?

Our strategy is to become the best bank for customers. By doing this we believe we can help Britain prosper and deliver superior and sustainable returns for our shareholders.

## Key issues

- Protecting customers’ money, data and privacy
- Responsible investing, lending and marketing
- Widening financial inclusion
- Supporting our vulnerable customers
- Improving customer satisfaction and customer experience
- Making an economic contribution to Britain

## Highlights

**£1m**

committed to support 21 more credit unions

**1,300**

participants helped to improve their digital skills through our DigiZone training sessions

**23,000**

colleagues now signed up as Digital Champions

**1st**

Digital Consumer Index for the UK launched

**62.7**

Net Promoter Score compared with 59.3 in 2015

**12.5m**

customers banking online, including close to 8 million on their mobile devices

**£1.2bn**

of new funding support to British manufacturing businesses

**£38.7bn**

of new mortgage lending

**75,000**

first time buyers supported

## ② Protecting customers' money, data and privacy

**We invest continuously to improve the security measures that protect customers' data and privacy.**

We protect our 25 million customers using state of the art security measures, including secure log-on and log-off features as well as systems that detect possible anomalies in calls we receive and highlight fraudulent payments in real time. We help customers keep themselves safe by providing best practice information and championing public information campaigns, such as Take 5.

We're a strategic partner of Get Safe Online, a joint initiative between the Government, the National Crime agency and many public and private sector organisations. In 2016, we made a significant contribution to the Joint Fraud Task Force, which brings together government, law enforcement and industry partners to set a strategic direction for fraud prevention measures. In London, the Task Force has spearheaded the Banking Protocol, enabling bank colleagues to request immediate police support when they believe that customers are being targeted by fraudsters. We'll champion the Protocol's national rollout in 2017.

To protect our customers, we consistently invest in security technologies, processes and training for colleagues. We also provide customers with information and advice that helps them to improve their own money and data security by taking simple but

effective steps. Financial Fraud Action estimates that consumers in the UK lost £775m in financial fraud during 2015 so tackling this problem is a priority for us. We're doing this through the introduction of new technology, such as Pindrop, a system for identifying telephone fraud.

We take positive action and work closely with legislators and regulators to make sure that the products we offer customers are not used for criminal purposes, for example money laundering or financing terrorist activity. We monitor unusual activity on all customer accounts and use advanced technology to detect any potentially criminal activity. If we spot anything suspicious we take immediate and appropriate action. All Group colleagues are aware of our Anti-Money Laundering and Counter Terrorist Policy and can access specialist training to understand how they can help to protect the Group and our customers.

### Tackling telephone fraudsters

This year we've called time on telephone fraudsters with a European first – introducing new technology to protect 30 million customers from telephone fraud. The PhonePrinting™ technology developed by call centre fraud experts, Pindrop, is already in use across the US, where it has helped prevent millions of dollars of fraud. It creates an audio fingerprint of each call, analysing 147 unique features to identify suspicious calls.

## ③ Responsible investing, lending and marketing

**We lend invest and lend responsibly, in line with our own low-risk business model and customers' ability to meet their repayments. This starts with the low-risk products we create, the transparent way in which we market them, the credit worthiness processes we use and the support we offer our customers when they enquire about a mortgage or loan.**

As a Group, we recognise the need to address climate change, protect biodiversity, support local communities and ensure human rights are protected – so it follows that we assess and manage the social, ethical and environmental risks associated with our lending and the Group is a signatory to the Equator Principles. They provide a further framework for determining, assessing and managing social and environmental risks in project finance transactions.

Our Code of Responsibility states that we don't finance activities prohibited by the international conventions supported by the UK government. These include the Oslo Convention on Cluster Munitions and the Ottawa Treaty on Anti-Personnel Landmines. Colleagues in Scottish Widows who offer investment funds to customers do so in line with our Responsible Investment Governance Framework, the Stewardship Code and the UN Principles of Responsible Investment.

### Responsible mortgage Lending

Through our Product Management process, we continuously review all of our new and existing mortgage and loan products, to ensure that they deliver fair value throughout their use by customers. The process takes into account risk management and the way in which products are explained to customers. Our focus is on doing the right thing for our customers, which as a responsible lender can mean saying no to an application when we do not believe it to be in the customer's interest. Our colleagues are trained to provide guidance ensuring we can better support customers in understanding the rationale for our decisions and outlining what customers can do to improve their chances of being successful in any future application.

### Responsible marketing

We market our brands, products and services in ways that are accurate and easy for our customers to understand, so that they can make informed choices about what's right and wrong for them. Getting it right for customers is in their interest and ours, because it means better outcomes for them and better business for us, including fewer customer complaints. The customer journey transformations we've completed over the past two years have all helped to make our marketing more customer-focused. We've also become more diverse in our marketing campaigns, featuring a wider cross-section of Britain, including our incredibly popular 'He said yes!' ad, which featured a same-sex marriage proposal.

## Widening financial inclusion

We want to do more to help customers who are financially excluded or at risk of becoming so.

Our financial inclusion strategy, launched in 2014, focuses on four strategic themes: providing accessible products and services that meet customers' needs; improving awareness and understanding of the impacts of financial exclusion across the bank; working in partnership with and signposting to other organisations that might be better suited to meet customer needs; and continuing to invest in financial education.

Opening a basic bank account can be the first step towards financial inclusion for many customers. In 2016, we provided almost 350,000 new basic bank accounts and helped 70,000 customers upgrade from basic to more mainstream products. We recognise that not having the right ID can be perceived as a major barrier to opening an account, so we aspire to reach each customer as an individual and ensure colleagues are equipped to accept many different forms of ID. We know we have more to do to achieve this level of personal service.

### Supporting Britain's Credit Unions

As part of our commitment to increase financial inclusion for disadvantaged people across Britain, we announced a further £1m to support 21 credit unions in January 2016, the second tranche released from our £4 four-year commitment. An independent grants committee works with the Credit Union Foundation to decide which credit unions are supported. Our funding should allow each Credit Union to lend more, resulting in an increase in total Credit Union lending of £20 million between 2014 and 2017. Credit Unions play a crucial role in helping people access finance in a safe and responsible way. To date, we have supported 36 of them through our commitment.

### Helping Riverside Credit Union in Liverpool



This year, we've provided an additional £1 million to help credit unions support more customers. In Liverpool, we've helped Riverside Credit Union to provide a better service for more members. Riverside serves around 5,000 people, most of

them mothers, aged 18-30, by providing safe, affordable loans and saving services. They've used a £17,000 grant to create a members website that's designed and built by a local business. The website makes it easier for people to reach Riverside on their devices and frees up staff from answering calls so they can process more application. Riverside is also employing three apprentices, helping young people find a way into employment. "Thanks to this additional financial support, we've built a website that helps our members budget more effectively." Mike Knight, Manager, Riverside Credit Union

### Contributing to a 'Banking for All' report

During 2016 we worked with the think-tank Demos to explore some of the key issues facing people who are financially excluded, including the role of digital technology, education and credit unions. The project, which brought together politicians, civil servants, and charitable organisations, produced the 'Banking for All' report, which puts forward recommendations about how to tackle financial exclusion. These include better signposting of services, banks running money awareness courses for customers and joint campaigns promoting digital banking.

### Building Britain's digital skills to drive financial inclusion

There's increasing evidence that individuals, businesses and charities pay a cost if they don't make best use of digital communications and that building Britain's digital skills can widen financial inclusion in today and in future. Based on our Lloyds Bank Consumer and Business Digital Indexes, which we publish every year, almost 6 million adults in Britain have still never used the internet, more than 1 million SMEs lack basic digital skills and charities who don't accept online donations lose out as a consequence. This is why we've made building Britain's digital skills a priority for 2016 and beyond.

To enable more people to access the benefits digital communications bring, we've worked with Doteveryone (previously Go ON UK) to deliver community based digital skills training in branches, using designated DigiZones throughout 2016. During these DigiZone sessions, which are open to customers and non-customers, our LBG Digital Champions are on hand to help individuals, businesses and charities improve their digital understanding and skills. These digital workshops, which were run with partners that included Google, Reason Digital and Hugo Fox, reached more than 1,300 participants this year.

We've produced an e-learning course for colleagues called Digital for Life designed to enable all colleagues across the Group to access the benefits of being online. Over 1,200 colleagues completed it in the last 2 months of 2016. We've also increased the number of colleagues enrolled as Digital Champions to more than 23,000 by the end of 2016, beating our Helping Britain Prosper Plan target of 20,000 by 2017. Every Digital Champion pledges to improve the digital skills of at least two individuals and organisations a year.

### Lloyds Bank UK Business and Consumer Digital indexes

Our Business Digital Index (published for the third time in 2016 in associate with Accenture) and our Consumer Digital Index (launched this year) help us understand current and future digital trends. Some are positive: for example, 65% of small businesses now use digital reduce costs and the number of charities accepting online donations has doubled since 2015; others are negative, with an estimated 12.6 million individuals still lacking basic digital skills and 78% of all sole traders making no financial investment to improve their digital capability.

### Helping small businesses and charities become more digitally effective

Running the Lloyds Bank UK Business Digital Index helps us highlight ways in which we can make the biggest impact. Now in its third year, the Index highlights both positive and negative trends. We use the results to focus our interventions more effectively, highlighting the need to help charities in particular, as 51% still only have the most basic digital skills. To address this, we've run digital workshops in branches across Britain this year, and massively increased to number of colleagues enrolled as Digital Champions, who will share their digital expertise with as many small businesses, charities and individuals as they can.

### Promoting improved financial wellbeing through digital

In January 2016 we launched the UK's first Consumer Digital Index, the largest ever data-led study of its kind, involving 1 million people. It measures the link between financial wellbeing and digital know-how, showing clearly that people who maximise digital gain real financial advantages and consequently report greater overall wellbeing. This new Index reinforces the importance of the actions we're taking to improve our customers' digital capabilities.

## Supporting our vulnerable customers

Ensuring our products and services are accessible and suitable to the individual needs of all our customers is at the heart of everything we do. We want to consistently offer them the best experience when they need our support.

This year we've made further improvements to the way we serve customers who are bereaved, worked with a number of third sector organisations, including Macmillan, to improve experience and outcomes for customers affected by cancer, and reviewed our websites and mobile banking services with the needs of disabled customers in mind.

### Making digital banking work for disabled customers

Digital banking has the potential to transform banking for around 4 million vulnerable customers, particularly for those with illnesses or disabilities that make it difficult to get to a branch. To make sure our digital services meet the needs of these and other vulnerable customers we've carried out a suitability review of our websites and apps with the UK charity, Abilitynet, which helps older people and disabled people of all ages use computers and the internet to achieve their goals. Next year, we'll build on the solid foundations we've laid with Abilitynet in 2016. Our aim is to be the market-leader, offering best-in-class digital banking for vulnerable customers.

## Improving customer satisfaction and experience

Continuous improvements to our products and services, based on an understanding of what customers want and the root causes of customer dissatisfaction, underpin all of the products and services we offer and our efforts to reduce customer complaints.

During 2016 we have emphasised the need to identify, understand and eradicate the root causes of customer complaints. We encourage all colleagues to share their ideas about how we can remove the issues that drive complaints and improve customers' experience.

When customers do complain, we resolve their complaint as quickly as possible, focusing on achieving fair outcomes for them. Where a complaint is referred to the Financial Ombudsman Service they tend to agree with our decisions in the majority of cases.

We welcome the changes the Financial Conduct Authority has made to complaint classification and reporting, which came into effect from June 30 2016. These changes ensure a transparent approach to complaints reporting, ensuring that businesses are clear on the root causes of customer dissatisfaction, and that the volume of complaints that businesses receive are contextualised to the size of the organisation.

### Measuring customer satisfaction

We measure customer satisfaction using the industry standard Net Promoter Score. In 2016, our score was 62.7 compared with 59.3 in 2015, an increase of 3.4 points and an increase of nearly 50% since the end of 2011. We also use internal customer dashboards, which provide monthly feedback on customers' views and experiences of our products and services. Our Board and Group Executive Committee review our customer satisfaction performance regularly.

## Improving customer experience

We want to improve the quality of our products and services for all retail and business customers, whether they're thriving, managing quite well or only just getting by.

This year we've stepped up the scale of our Customer Journey Transformation initiative, which is making us faster, simpler and more efficient to do business with for all customers, whether they prefer to reach us in branch, by telephone or digitally. We've focused particular attention on more vulnerable customers, including those traditionally excluded from mainstream banking because of their current financial circumstances, because they lack valuable digital skills, or find it difficult to access products and services due to illness or disability.

By the end of 2016, we had completed improvements to eight of our ten planned 'transformation journeys'. We will launch the final two, Personal Account Servicing and Commercial Servicing, in 2017. These are particularly important as they effect most of our customers.

### Making digital mainstream

The world's changing fast and increasingly people want to access products and services digitally, including their bank. We're developing a multi-channel offer driven by the way our customers want to reach us. With 25 million customers we're not only the UK's largest retail and commercial bank but also its biggest digital bank, with 12.5 million customers banking online, including close to 8 million on their mobile devices. Fifty four per cent of our small business customers bank online. Our mobile customers are using apps that achieve top ratings in App & Play Stores, reinforcing just how much their design is driven by our customers' needs and preferences. We're building the digital services they want.

## ➤ Improving customer experience (cont.)

We're leading the way in promoting digital skills amongst our customers and in their communities. In 2015, we launched a first of its kind partnership with the library network, which involves Halifax colleagues promoting digital skills in libraries and in 2016 Bank of Scotland was the first bank to sign the Digital Participation Charter as part of our commitment to promote the benefits of digital in voluntary organisations. We're also working together with Doteveryone, the Good Things Foundation and the Board of Digital Leaders to deliver skills training across the UK. You can read more about our work to promote the benefits of digital skills for charities and local communities in our 2016 Communities Update.

### What's new in digital banking this year?

- Digital banking in branch is becoming increasingly popular, with 40,000 savings accounts opened using digital technology that cuts the time it takes to open an account to under 25 minutes compared with 45 minutes for manual applications.
- More than 100,000 digital applications have been made to open children's savings accounts in 2016 – with the time it takes to do so cut from around an hour to just 10 minutes.
- An online one-click 'do you qualify' test for loans has produced a 50% drop in customers who are not currently creditworthy starting the process – saving time for them and for us.
- Some of our remortgage customers can now complete the whole application process online using our webchat service and uploading all documents electronically.
- Lloyds Bank and Halifax customers can now speak with a mortgage advisor face-to-face on screen using video meeting technology and 95% of those who do rated the experience positively.

### 'Selfie' banking arrives

Using an app developed by our technology teams, customers can now open a Bank of Scotland Classic account using 'selfie' photos of themselves and of other required identity documents. As a result, decisions about current account applications can now take less than an hour rather than several days. 'Selfie' banking has resulted in a 24% increase in customers opening a Classic account.

We're continually reviewing current and future trends in banking as well as emerging technologies inside and outside of our sector. Our customer innovation labs test and trial new ideas and technologies with our customers. In 2016, they ran more than 30 trials, including 'Personetics' – the use of real time predictive analytics to anticipate customers' changing needs and send them relevant service reminders and alerts.

### Improving digital for business customers

Our mission is to help more businesses reap the benefits of digital and in fact, half a million business and commercial customers now bank digitally with us. During 2016 we piloted one of the most ambitious and complex IT projects ever undertaken, called Commercial Banking Online, which now allows clients to make payments and manage accounts digitally and will ultimately result in a single digital entry point for all our Commercial Banking products.

Only 21% of small businesses are currently using digital to support overseas trade. To help more SMEs trade overseas we launched our International Trade Portal in 2016. It offers businesses a wealth of advice and tools that make trading outside the UK easier.

## ➤ Making an economic contribution to Britain

We contribute to the UK economy as a major employer and purchaser, through the commitments in our Helping Britain Prosper Plan and on a significant scale through the products and services we provide for our business customers.

### Supporting British manufacturing

We've provided £1.2 billion of new funding support to manufacturing businesses and, through our £5 million sponsorship of the Lloyds Bank Advanced Manufacturing Training Centre (AMTC) in Coventry, we're helping to train the next generation of highly skilled manufacturing apprentices, graduates and engineers, addressing the widening skills gap that's becoming a major problem for British manufacturing businesses. Our target is that over 1,000 apprentices, graduates and engineers will acquire valuable specialist manufacturing skills by 2020.

The purpose-built training facility at the AMTC is helping to build a reliable pipeline of new talent into British manufacturing by offering a 3-year manufacturing (engineering) apprenticeship. This combines training and the centre with industry placements to ensure apprentices develop the breadth of skills needed to succeed in 21st century manufacturing.

### Supporting investment in Britain's infrastructure

In 2016 we exceeded our target to support infrastructure projects worth a total of £10 billion within the Group's National Infrastructure Plan. The projects we've supported so far include: finance provision for the Port of Dover, with the creation of its new cargo terminal; the Beatrice Offshore Windfarm, one of the largest private investments ever made in Scottish infrastructure; and the creation of a wood pellet power plant in Teesside, which will generate enough electricity to power 600,000 homes.

### Supporting British exporters

We committed to help 5,000 clients export for the first time in 2016 and a total of 25,000 by 2020 – supporting the Government's efforts to help 100,000 businesses become exporters through its 'Exporting is Great' campaign. To help new exporters we are taking concerted action in several ways, including providing some useful tools for exporters, such as a new international trade portal to help businesses identify export opportunities, a new internet banking portal and support from more than 300 colleagues specially trained to support international trade.

## ➤ Making an economic contribution to Britain (cont.)

### Supporting Britain's home builders

We're committed to support house building, including affordable homes, across Britain – and to help more customers get on the housing ladder. One key way to do this is the Housing Growth Partnership, a joint venture with the UK Government. The partnership, launched in 2015, is intended to drive an increase in the supply of new homes and provide capital to energise the UK housing building sector. It is a dedicated joint venture between the Government and the Group, which invests between £500,000 and £5m, along with funding from smaller builders, to support specific housing developments. The partnership expects to make around 50 separate investments, providing and extra 2,000 homes by 2020.

The projects supported in 2016 include: Campbell Buchanan, a Cambridgeshire based housebuilding company, which will receive £1.7m to develop 40 new homes in Cambridge; Devonshire Homes, which will invest around £6m in total to build 250 residential properties a year across Somerset, Devon and Cornwall, from 2017 onwards; and AMA homes in Scotland.

### Helping AMA build more affordable homes

Through our Housing Growth Partnership with the Homes and Communities Agency we're helping small and medium-sized regional house building businesses, such as AMA Homes, build more homes to meet Britain's housing challenge. Our investment has allowed AMA Homes to build their Shandon Gardens development and provide affordable housing for key workers and we're now supporting them with a second development which will see a further 29 homes built. The Partnership has committed over £30 million of equity investment which will deliver more than 1,000 new homes across the UK. Our support often facilitates projects that could not have progressed due to capital constraints and provides a valuable contribution to the housing sector and smaller house builders, who play a vital role.



### Supporting Britain's SMEs and Mid-Market companies

This year we increased our net lending to SME and Mid-Market companies £1.6 billion and have now increased our lending to SMEs by 30% since 2011, during a time when the market contracted by 11%. Our lending to Mid-Market companies increased by 15% in spite of a 3% market contraction over the same period. We missed our Helping Britain Prosper Plan target for 2016, which was £2 billion, but aim to achieve a further £2 billion in lending to these sectors during 2017. To this end, we've given more managers authority to led up to £1m at a local level, expanded our network of SME and enterprise mentors to more than 400 specialists, all trained through the Business Finance Taskforce accredited scheme.

### Helping homebuyers

We're playing our part in addressing Britain's home building and home buying challenges, with targets to help homebuilders and home buyers, especially first time buyers, included in our Helping Britain Prosper Plan. Buying a property is the biggest financial commitment many people ever make. We want to help more people get onto and move up the housing ladder.

We supported 75,000 first-time homebuyers, but missed our Helping Britain Prosper Plan target to support 1 in 4. We want to do more to support the whole housing market by making first-time buyer mortgages easier to access and by being a leading supporter of new build mortgages. Our 2017 Plan reflects this ambition. Our new mortgage lending totalled £38.7 billion in 2016.

We're a leading supporter of the UK government's Help to Buy scheme. We have advanced £5.3 billion of new lending to customers under the mortgage guarantee element of the scheme, since it was launched in the second half of 2013 up to the end of 2016. The Help to Buy scheme expired at the end of 2016, but we're set to help buyers complete on agreed purchases through our 5% deposit mortgages, worth a total of £5.5 billion up until the cut-off point at the end of June 2017.

### Our Help-to-Buy ISA

Since the launch of the Government's Help to Buy: ISA scheme on 1st December 2015, we've been a leading provider of the product via our Halifax, Lloyds and BoS brands. The account is exclusively for first-time buyers, with eligible customers able to make an initial deposit of up to £1,000 and then save up to £200 a month, with a Government bonus boosting their savings by 25% when the customer is ready to purchase their first home. The ISA has helped more than 23,000 of our customers get on the housing ladder by claiming a combined total of £12.4 million in bonuses.

### Simplifying our mortgage process

We're improving the mortgage application process for our customers with a number of new digital tools, including an online Agreement in Principle form and an eligibility checker for customers interested in applying for a further advance on existing mortgages. Customers can also complete their full remortgage application online and upload their supporting documents digitally. We know how important it is to our customers to get their mortgage offer quickly. All the changes we've made mean that the majority of customers now progress from application to offer in under 14 days.

## Read more

Read more about our Helping Britain Prosper Plan [online](#)