



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Kevin Hollinrake MP
House of Commons
London
SW1A 0AA

19th December 2018

Dear Kevin,

Thank you for your letter of 29 November about SME lending regulation in the Republic of Ireland.

The Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015, which came into force on 1 July 2016, have a very particular focus. Replacing the existing SME Code for micro and small enterprises in the Republic of Ireland, the regulations cover areas such as greater transparency for borrowers around the application process – including reasons for declines – greater protections for guarantors, and expanded grounds for appealing certain decisions made by regulated lenders.

Such provisions already exist in the UK, and some are due to be expanded to further the protections they afford to SMEs. In April 2011 the major UK banks established the Appeals Process as one of the 17 commitments of the Business Finance Taskforce. The process allows any business, with a turnover of up to £25 million, which is declined any form of lending to appeal that decision – for any reason – to the participating bank concerned. If an appeal is raised, the decision will be reviewed by a second person from within the bank who was not involved in the original decision. Results since the process began show that in 31% of cases where a decline was appealed against, a lending agreement with which both parties were satisfied was reached.

Currently, micro-enterprises in the UK not only have access to the Appeals Process, but are also eligible to take a complaint to the Financial Ombudsman Service (FOS). As you are aware, the Financial Conduct Authority (FCA) plan to expand access to the FOS to SMEs with a turnover of up to £6.5 million ('small businesses'), and are consulting on increasing the FOS award limit to £350,000. The FCA estimate that this will provide access to the FOS for well over 99% of UK businesses. As such, the overwhelming majority of UK businesses will also be able to take complaints to the FOS. As a part of their work on expanding access to the FOS, the FCA also plan to extend eligibility to complain to the FOS to personal guarantors of corporate loans, and I welcome this important step in ensuring consumer protection.

Your letter also compared the SME finance markets in the UK and the Republic of Ireland, and specifically gross bank lending flows to SMEs. It is important to note that the European Investment Bank's SME Access to Finance Index 2017 ranks the Republic of Ireland 15th relative to the best performer, the UK – largely as a result of the concentrated

market in Ireland, where market share among the top three lenders is at 86% of lending flows in Q1 2018. The Central Bank of Ireland also noted in its latest SME Market Report a lack of alternative finance options and a rise in bank finance rejection rates in September 2017 compared to March 2016.

The UK has been committed to encouraging competition in financial services in order to stimulate a strong and diverse market for SMEs, and the Treasury Select Committee's recent SME Finance report acknowledged the impact that Government measures have had in stimulating the alternative finance market in particular. The growth of these alternative sources of finance such as asset finance – which grew 12% in 2017 – and P2P business lending – which was the equivalent of almost 10% of new bank loans to SMEs in 2017 – demonstrates that they are playing an increasingly important role in the SME finance market, and providing genuine competition to the big banks.

Finally, your letter mentions the All-Party Parliamentary Group on Fair Business Banking's proposal for a Financial Services Tribunal. Given my letter to you of 3 December on SME dispute resolution, I have not repeated the Government's position in this response.

Thank you as always for your ongoing interest in seeking the best outcomes for UK SMEs.

I hope this addresses some of the points you made yesterday afternoon and I look forward to seeing you at 4pm today with the Chancellor.

JOHN GLEN

With very best regards

John