

Levelling up: Financing and capitalising the UK's SMEs – Session 1 Summary

22nd June 9:30am - 10:30am

Session 1: What is the business lending market like for small businesses?

Purpose of these sessions

- Look at where challenges are for SMEs in the business lending market and what the alternative solutions are
- To understand the issues facing alternative finance providers lending to small businesses
- Explore how more diverse funding models can deliver more choice and better outcomes for SMEs in the UK

APPG inquiry panel:

- Kevin Hollinrake MP, Conservative
- Lord Holmes, Conservative
- Peter Dowd MP, Labour
- Lord Sharkey, Liberal Democrat (9.30am - 10am)
- Sarah Olney MP, Liberal Democrat
- Alison Thewliss MP, SNP
- Tonia Antoniazzi MP, Labour (could not attend first session)
- Ben Lake MP, Plaid Cymru (could not attend first session)

Witnesses:

- **Diana Chrouh**, Federation of Small Business BAME Policy Chair and Special Advisor to the APPG for BAME Business Owners
- **Martin McTague**, Federation of Small Business Policy and Advocacy Chair
- **Dr Roger Barker**, Director of Policy & Governance at the Institute of Directors

Key themes:

- Significant concentration of business lending market in four banks coupled with concern that these banks have lost their appetite for lending to small businesses - witnesses were concerned over the impact of this concentration
- Lack of information & data around reasons for SMEs getting rejected for loans have a significant impact on small businesses and can perpetuate a cycle of rejection
- The move away from personal support from bank relationship managers and greater reliance on technology has implications for small businesses who need a reliable source of support and no longer have a place to go
- The use of personal guarantees for business purposes has the potential to put business owners in a compromising position

A full summary of the inquiry is below

How would you describe the current experience of small businesses seeking to take out a business loan? (Kevin Hollinrake MP)

- Diana Chrouh (D.C) explained that two thirds of business owners last year were unable to find finance while systemic issues in the financial sector were exacerbated by the pandemic. On top of this, there exists a range of issues for BAME business owners taking out loans such as lacking digital skills, difficulty understanding what gov.uk has to offer and frequent refusals by the top 4 banks for business loans without explanations. This lack of information and data around reasons for businesses getting rejected for loans leaves individuals without a clear route forward.
- Martin McTague (M.M) emphasised the massive concentration in the sector for the big four and noted the need for more diverse business banking arrangements. Aside from the top four, challenger banks have let down the SME community due to the struggles faced by many during the pandemic. He singled out his disappointment in Tide who explicitly said they could not offer a pay as you grow option on the Bounce Back Loan.
- Dr Roger Barker (R.B) argued that most SMEs don't use external financing, in their latest survey 19% of IoD members reported access to finance as a significant challenge - although not the number one issue faced as getting access to talent and tackling regulatory burdens came out higher. Due to the pandemic many SMEs are in a difficult position and have resorted to taking out loans. He argued that banks favour existing customers and described the borrowing process as 'arduous'. This could be tackled by FinTechs, but this can be costly. R.B agreed with D.C that a lack of feedback from banks as to why businesses are rejected is unhelpful. He suggested businesses could be encouraged to use the bank's appeal process which are often underused.

Do SMEs feel supported by finance providers when things go wrong? (Lord Sharkey)

- R.B felt that there was a general concern regarding how banks will deal with non-performing loans. Bad experiences from the banking crisis, and scandals such as the RBS GRG situation have cast a shadow over the process and he argued banks seem to have reached the 'limit of their appetite' for lending to SMEs.
- M.M argued that it is too early to tell currently whether SMEs are supported as most loans taken out last year have not reached collection phase yet. That being said, he felt that banks are nervous about this imminent process and would rather push this responsibility off to an external institution, especially given their exposure in struggling sectors such as hospitality.
- D.C reiterated her point that there needs to be more inclusive financial framework to allow minority business owners to access finance in order for SMEs to feel supported.

Would there be any benefit to SMEs were business lending to be covered by the FCA's Fair Treatment principles? (Lord Sharkey)

- R.B explained that being covered by the FCA's Fair Treatment principles would potentially benefit SME

confidence, especially with the current threat of insolvencies coming through the economy and the question of how banks will react.

- M.M believes that the Lending Standards board is the more likely model to be used with SMEs rather than the FCA's Fair Treatment principles.
- D.C felt that moving under the FCA's Fair Treatment principles would lead to a more inclusive framework, which would be a huge benefit to SMEs and the economy. However, this is a matter that needs urgently addressing with the FCA. She made the point that this is not charity work, and supporting businesses to grow will in turn grow the economy.

What would you describe as the biggest challenge facing small businesses who are rejected by mainstream lenders? (Peter Dowd MP)

a. Cost of alternatives

b. Lack of availability of certain types of finance (eg. loans under £50,000)

c. Complexity of different alternative and / or the decision-making process

- D.C explained that when business owners are rejected by mainstream lenders, they tend to be rejected from the whole financial framework. She was shocked to learn that many were turning to payday lenders as a reliable route of finance, despite being considerably more expensive. A lack of signposting along with a lack of help and advice left SMEs unsure and lacking in knowledge when they were rejected. Furthermore, any added barriers made the whole process even more treacherous - including potential cultural and language factors.
- R.B elaborated on what happens when a business is rejected for a loan, the bank refers customers to designated platforms but with no information given as to why they were rejected, they are less likely to have an increased chance of getting a loan. R.B expressed his support for the start-up loan scheme, and argued that there is a need to expand it and make it more flexible. There is also an issue with foreign companies with no UK track record having difficulties accessing finance.
- M.M emphasised the issue that most small businesses are under a great deal of time pressure and often leave financial decisions to the last minute. Following a loan rejection, it is likely there will be massive time pressure on the individual to find funds. Referral systems often don't work because they go 'into a loop', reasons for rejection will stay the same so advice is needed on how to change the application instead of continuously trying the same application. M.M also brought up his concern with personal guarantors given the risk it involves. He felt that the ability to convert a commercial loan into a personal loan without protection was dangerous for all involved. M.M even felt that personal guarantors being used from external institutions charging interest could be a future scandal.

What is the experience of BAME business owners in accessing appropriate finance? (Sarah Olney MP)

- D.C explained that minority business owners often prefer to go to friends and family for loans, where of course there are no protections, due to mistrust of big banks. Therefore, it is vital that there is reform in the access to banking to ensure inclusiveness.

- R.B suggested there could be a case in the financial system to incentivise greater or easier borrowing by certain groups in society and questioned what kinds of incentivisation could be used, including making use of the start up loan scheme.
- M.M furthered D.C's point by mentioning the issue of minority business owners struggling to find someone to talk to for professional financial advice, especially with bank closures and increased reliance on digital skills.

What has the impact of new technologies introduced into bank lending been on your experience of getting a business loan? (Alison Thewliss MP)

- M.M followed up on his previous point of the move away from personal support with bank managers. The average SME has a relationship manager that's dealing with roughly 3,000 clients. He argues that banks like to promote a 'cuddly image' but, in reality, they are a commercial entity and cannot justify the costs. They want to deal with the best of the SME cohort and will filter out those who can handle and know the system. With branch closures, the question of cash deposits has become a huge issue for small businesses. Technological advances have contributed to this issue as it's easier for banks to stay behind the screen. M.M argued this gap should be bridged by the British Business Bank, banks picking a day a week to offer SME support in person or continuing the idea of the Post Office banking hub.
- D.C recognised that technology is improving accessibility, however, those without the necessary digital skills are being left behind. D.C also brought attention to the fact that banks are adamant on doing everything themselves, such as data gathering and research. This is allowing businesses to fall through the gaps while a collaborative approach could benefit all parties.
- R.B described modern banking as impersonal. He brought light to the start-up loan scheme which incorporates mentoring due to it being aimed at those who don't have business experience. He said that this emphasises the need and role for government backed organisations to fill the gaps. Technology has also brought new providers and a new landscape to diversify the business lending market.

What do you and your members see as the wider social and economic consequences of a lack of access to finance for SMEs? (Lord Holmes)

- D.C explained that businesses are unable to fulfil their potential without access to finance. Inclusive finance is critical to enable minority business owners to take part in the new green industrial revolution and said that it makes sense to give businesses what they need in order to take a fuller part in this industrial strategy.
- M.M drew attention to the social and economic consequences of a lack of access to finance for SMEs. As a nation, productivity is poor, and this would only improve if businesses were given the resources they require. M.M argued that investing in skills training will allow for economic growth in the face of big skills shortages. And lastly, in order to achieve net zero obligations, it will be necessary to invest significantly in green investments.
- R.B emphasised the importance of SMEs as the most innovative part of our economy, who tend to employ

young people and dominate certain sectors. He agreed with M.M that the move to net zero will be difficult for SMEs due to their lack of in-house resources in this area. Finally, R.B reiterated the importance of SMEs for the UK as they tend to be connected with their local communities, and pay their taxes, further benefiting society.

Are there any specific ideas that policymakers or industry should explore in order to address these issues?

- D.C argues her research shows that there are longstanding structural and systemic issues, exacerbated by the pandemic, which mean that the banking sector do not meet the needs of modern multicultural business community - which is estimated to be worth between 25 and 75bn£ - she called for an all out disruption of the business lending market with a root and branch reform to make it more inclusive.

Useful documents

- Responsible Banking and Finance - [The Future of Funding SMEs](#)
- FinTechOS - [What's Wrong With Traditional Banking](#)
- Paypayers - [Overcoming the financing challenges of SMEs](#)

Chair of the APPG on Fair Business Banking and Registered contact:

- Kevin Hollinrake MP, Chair of the APPG – kevin.hollinrake.mp@parliament.uk
- Heather Buchanan, Executive Director of Policy and Strategy – buchananh@parliament.uk

An All Party Parliamentary Group (APPG) is an interest group that occupies a strategic and effective position within Parliament. It is cross-party, with a minimum number of parliamentarians from the Government and the official opposition, and cross-house, made up of both peers and MPs. The APPG on Fair Business Banking is a platform through which businesses, professionals and trade bodies can discuss issues regarding commercial banking and its role in the life cycle of a business, and through which parliamentarians can access information on banking, finance and related issues, including business rescue and insolvency, on behalf of constituents. As a cross-party group, the APPG is an effective vehicle to effect meaningful change via the Parliamentary system. The Group's status is that of an APPG is bound by the rules set out by [The Office of the Parliamentary Commissioner for Standards](#). It does not have charitable status, or official status in the House, nor is it funded by Parliament. It relies wholly on the participation and contribution of parliamentarians, industry members and stakeholders committed to creating a strong platform for business in the UK to thrive. The APPG is coordinated and administered via the APPG on Fair Business Banking Secretariat.

The APPG on Fair Business Banking processes personal data. Further information on the processing of personal data for constituents is found on our [Data Protection Privacy Notice for Constituents](#) and for members and affiliates of the APPG on our [Data Protection Privacy Notice](#). We hold your information securely on Parliament's digital network and keep your information for one year after the current Parliament ends (maximum of 5 years). We will not share your personal data with a third party unless we have your express consent. You have the right to access your data, withdraw consent for the APPG to hold your data, to have your data corrected or to restrict the use of your data at any time. Please contact buchananh@parliament.uk in order to do so. The data controller is the Chair of the APPG.