



Levelling up choice for small business: what opportunities and challenges must be overcome to deliver a business lending market fit for the future? - Roundtable Summary

21st July 9:30am - 11:00am

Speakers:

- **Chair: Kevin Hollinrake MP**, Co-Chair of the APPG on Fair Business Banking
- **John Glen**, Economic Secretary to the Treasury
- **Paul Scully**, Minister for Small Business, Consumers and Labour Markets
- **Dr Michael Grenfell**, Executive Director, Enforcement, at the Competition and Markets Authority
- **Janine Hirt**, CEO, Innovate Finance
- **Patrick Magee**, COO of the British Business Bank
- **Suren Thiru**, Head of Economics at the British Chambers of Commerce
- **Tony Greenham**, Executive Director at South West Mutual
- **Mike Conroy**, Director Commercial Finance at UK Finance
- **Martin McTague**, Federation of Small Business Policy and Advocacy Chair

Key themes*:

- The timing of this inquiry is widely welcomed as we enter the recovery phase of the Pandemic.
- The fundamental orientation around big banks in the UK business lending market prevents the government from achieving its levelling up agenda.
- CDFIs small presence in the UK has already shown how they can fill funding gaps, provide economic opportunities, increase competition and reduce regional disparities. However, in order for CDFIs to reach their potential and create more change, more funding must be allocated or provided.
- Given the constantly increasing number of options in the market and SMEs' lack of knowledge regarding financing options, there needs to be more sophisticated access to financial information for business.
- The benefits of regional mutual banks, increase competition, create economic opportunities in local communities and build relationships with members, would significantly aid the UK's levelling up agenda. However, Competition Law prevents mutuals from working together to reach economies of scale and organise the distribution of their capital.

A full summary of the roundtable is below

*This event was held under Chatham House Rules and individual bullets may relate to comments made by individual attendees and therefore don't reflect the shared view of those that are present.

Financing SMEs in the Business Lending Market - Current Context

- As the economy moves into the recovery phase from the Pandemic, and given the British Business Bank's hard work to get SMEs through the crisis, it is increasingly important to provide equal opportunities for all SMEs.
- Big banks tend to lend primarily to big businesses because they rely on financial information such as balance sheets, credit scores and cashflow, information that SMEs struggle to supply. With a transferable and accessible credit file, SMEs would be able to move between banks more easily, increasing competition and making funding more accessible.
- The UK lending market for SMEs has a fundamental orientation around the big banks and it has been recognised that this is a systemic legacy foundational challenge that needs to be fixed to provide a more level playing field for alternative finance providers.
- SME financing options have diversified and competition has increased since the Global Financial Crisis due to the FinTech revolution. While non-bank lenders provide 30% of funding to SMEs, seeing this percentage increase through the expansion of the BBB's work and increased focus on a regional basis would be welcomed.
- In order to achieve net zero by 2050, the whole economy must play their role, but SMEs will struggle to do so without adequate funding.

Community Development Financial Institutions (CDFIs)

- CDFIs play an important role in helping SMEs and those less knowledgeable of the financial sector find the right financing through support and relationships with clients.
- Recently CDFIs have made a significant impact in supporting start-ups through collaboration with the British Business Bank, a scheme that all individuals are keen to see expand and progress.
- Discussions on changing the concentration of types of banks in the UK financial sector in the future emphasise the desire to work with CDFIs to fill gaps and increase their presence across the UK.
- Attention was brought to the US's reliance on CDFIs and a relationship-based approach to fill the gap that big banks do not finance and fund SMEs that otherwise wouldn't get funding.
- In order to allow CDFIs to increase their scale, an increase in the allocation of funds is vital.

Awareness of Borrowing Opportunities

- Information asymmetries exist with SMEs not being aware of financing options and struggling to identify who the best finance provider is for their specific needs, discouraging borrowing or leading to the wrong type of funding.
- Given the constantly increasing number of options in the market, there needs to be more sophisticated access to financial information for businesses. The information has to find the person rather than the person finding the information.
- The British Business Bank has played an important role, especially in the Pandemic, being a centre of expertise on financing options, producing research on key areas to keep businesses informed and creating the Finance Hub, an electronic platform to inform SMEs of financing options.

Regional Mutual Banks and the impact of Competition Law

- Regional Mutual Banks were recognised to have the potential of increasing competition in the banking sector, addressing regional disparities, creating economic opportunities in local communities, building relationships with members and bringing a different attitude to the sector as an institute that isn't profit-maximising.
- Lending rates of mutuals has been proven to be less volatile than other financial institutions, providing stability during recession, despite this, the UK is the only G7 country without a network of mutuals.

- Regional mutual banks say Competition Law disallows mutuals from working together to achieve economies of scale, reduce administrative costs and organise operations to reach more areas in need of financing.
- Potential solutions to the barriers Competition Law creates is to legislate to provide licenses for mutuals to operate in certain regions effectively allocate mutuals across the country. Another solution would be to discuss the potential of an Exclusion Order from the Government for regional mutual banks.

Open Banking

- Open banking was praised as a success story for innovation in the banking sector following the increase of efficiency and inclusiveness it provides. However, there are still areas for improvement.
- To increase the efficiency of customers moving between banks, the idea of a transferable electronic file on customers' financial history was suggested as a progression of open banking. This would have further benefits such as banks improving services to retain customers, creating a more competitive market and providing customers with more options.
- Despite worries regarding the move away from in-person relationships, there was confidence that a balance between the two can be found, making the most of and encouraging digital innovation working alongside human interaction.

Regional Disparities

- The UK has the worst regional disparities in North-West Europe and it is key that the banking sector and the Government continue their work in levelling up the country.
- A key solution is regional specialisation in banking to unlock additional lending that cannot be delivered by traditional banking models due to a lack of local knowledge and a move away from banking-relationships.
- The work of the British Business Bank to tackle regional disparities was widely applauded and there is interest to develop this work by collaborating with more alternative lenders such as CDFIs and regional mutual banks.

Other areas of discussion

- The attitude of SMEs towards lending is worrying, many SMEs would prefer to grow slowly without borrowing than quickly with borrowing, highlighting a key area in the economy that is not reaching its potential. This attitude is due to a lack of knowledge and trust following the Great Financial Crisis.
- Lending to minority-led SMEs is significantly lower than other businesses, emphasising the need for more diverse portfolios and changing investment teams to represent the country's diversity.
- While it was disappointing to see that Tide bank was unable to offer Pay as You Grow during the Pandemic, and caused SMEs to question the security of challenger banks, Tide was a rare exception and it would be misleading to characterise the alternative lending market as a sector unable to adapt to change.
- There were worries that the recovery loan scheme so far has not been as successful as initially thought, however it was reassured that as time progresses and Government support from the pandemic ends, the RLS should see similar take up and success as BBLS and CBLS.



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