



## Scale up to level up - Report Launch Webinar Summary

7th September 5pm - 6pm

### Speakers:

- Kevin Hollinrake MP, Conservative, Co-Chair of the APPG on Fair Business Banking
- Lord Holmes, Vice-Chair of the APPG on Fair Business Banking
- Joe Ahern, Senior Consultant at WPI Economics
- Patrick Magee, CCO of the British Business Bank
- Mike Conroy, Director of Commercial Finance at UK Finance
- Dame Teresa Graham, Chair of the UK Finance SME Advisory Board
- Theodora Hadjimichael, CEO of Responsible Finance
- Tony Greenham, Director of the Mutual Banks Association

### Key themes:

- There are clear regional differences in the difficulties SMEs face in accessing finance with businesses outside of the South East struggling to obtain funding, receive support and grow their business.
- Unlocking dormant funds such as pension funds is viewed to be a feasible solution to fund alternative lenders, however the UK's patient capital ecosystem needs to be improved to make the most of the added funds.
- Alternative lenders and challenger banks have been praised for providing alternative financing options to SMEs across the country, however a lack of finance for these lenders means they are struggling to meet demand.
- Disproportionate regulation for alternative lenders and challenger banks make it difficult for these types of lenders to compete with the big four, decreasing the number of opportunities they can provide for SMEs across the country.
- Recommendations from the report, in particular easing the finance application process, improving financing for lenders and levelling up, were widely welcomed.

Please find the full report [here](#).

**A full summary of the webinar is below**

### **Introduction of the report by Kevin Hollinrake MP and Joe Ahern from WPI Economics**

- Kevin Hollinrake MP (KH) began this session by drawing attention to the 73% of SMEs that would rather grow more slowly than borrow from banks, emphasising trust issues within the sector. Following the Global Financial Crisis, lending from commercial banks to SMEs reduced by 25% in the UK, meanwhile, in Germany, lending by nonprofit lenders increased by 25%, highlighting the importance of a diverse financial market. As the only G7 country without a nonprofit lending network, KH reiterated the need for regulatory competition, improving liquidity through dormant assets and encouraging access to information for SMEs on alternative financing options.
- Joe Ahern (JA), Senior Consultant for WPI Economics and author of the report, explained this report aims to bring together previous work to centre the role of finance for SMEs in the Government's levelling up agenda. The banking sector showed great flexibility and adaptation during the course of the pandemic and these qualities can and should be used in levelling up the British economy with a focus on SME finance.

### **Levelling up**

- Lord Holmes (CH) argued that we can only build back better from the pandemic if we can level up the whole country, for which there is a need for financial fluidity to improve lines of credit and provide employment across local areas.
- Patrick Magee (PM) agreed with the need to level up, as shown by the British Business Bank's (BBB) Northern Powerhouse Investment Fund and Angel Fund. PM was pleased to hear the positive comments about the BBB in the report but recognises there is still work to be done.
- Dame Teresa Graham (DT) discussed the issues she has seen first hand faced by SMEs trying to access equity outside of the South East. The issues that underpin this regional inequality come down to infrastructure and skills, increasing the need for training to help businesses take on finance and grow effectively.

### **Unlocking dormant funds and using it as patient capital**

- PM said the BBB is keen to do more on getting pension funds into venture capital as this is an ideal way to improve the access of finance for SMEs.
- CH agreed we need to improve the patient capital ecosystem. The UK has both the understanding and the finance, it is just not unlocked and thoroughly deployed across the SME sector.
- DT emphasised the importance of unlocking money in pension funds in 'any way possible'.

### **Challenger banks and alternative lending**

- Theodora Hadjimichael (TH) noted the importance of this report, particularly around increasing access to funding for alternative lenders such as CDFIs to allow them to scale up and increase economic opportunities across the country. She outlined the benefits of alternative lenders which tend to utilise soft information e.g. knowledge of the local economy, the type of management of the company and the potential of the company (not just data from previous business bank accounts). This allows SMEs to be judged more accurately when applying for finance.
- PM recognised the report's comments about extending the Term Funding Scheme to alternative finance providers and explained that while challenger banks made great strides prior to the pandemic, they have since struggled for funding.
- Mike Conroy (MC) noted the increase in numbers of challenger banks in the lending market over the last decade and the subsequent benefits this has had on SME finance, levelling up and diversity. However, MC argued that the interest imposed with the Bounce Back Loan Scheme meant that some challenger banks

found it difficult to compete and provide finance. He was therefore pleased to see the recommendations about addressing the supply funding gap for challenger banks and alternative lenders.

- Tony Greenham (TG) discussed the importance of more choice for small businesses in the business lending market, and argued regional mutual banks are here to show big banks that with a different model they are still able - and want - to compete.
- KH emphasised the role of greater diversity of lending options in de-risking the sector as a more robust market means that systemic risk would be mitigated during any financial crises.

### **Disproportionate regulation for alternative lenders and challenger banks**

- MC noted UK Finance's challenger bank members have been frustrated for many years attempting to compete with big banks due to the costs of funds and requirements placed on them being too great. He argued more thought should be given to easing the burden on challenger banks. While MC believes Government understands this issue, this is not translated into a tangible difference.
- DT agreed there is disproportionate regulation for alternative lenders and challenger banks, and that creating more regulatory freedom is vital to increasing competition in the market. DT said we need to look at more proportional regulation and potentially deregulation right across the space to provide SMEs with a level playing field, now that we have left the European Union.
- CH argued that there is a need for a revisited regulation framework that powers and enables SME passion, knowledge and power.

### **Next steps moving forward**

- TG's final thought was to not lose sight of the different levels of levelling up, it's not just different geographical regions that are disproportionately affected but groups of people and different sectors within these regions, something that regional mutuals and CDFIs can tackle. In order to do this, an appropriate source of funding is necessary to tackle the capital conundrum faced. TG hopes Government pays attention to the recommendations and grasps the economic opportunity at hand.
- TH echoed Tony's comments and said her one ask from the report would be to provide sustainable funding to CDFIs through a first lost fund and long term investment from banks as this is key to unlock levelling up. The alternative is that businesses won't get funding nor the opportunity to innovate and create jobs, emphasising the opportunity Government currently has to define its levelling up policy and use a practical existing vehicle of CDFIs to do it.
- DT wanted to see an overlay of the report with the APPG on Fair Business Banking's Bankers for Net Zero initiative to help SMEs meet their net zero ambitions. As the pandemic highlighted, the banking sector is resilient and experimental, two qualities that can be used in turning the report's recommendations into actions.
- MC applauded all of the report's recommendations but noted his preference towards easing the finance application process to encourage borrowing for growth as businesses need help to understand what lenders require in terms of approving applications. Businesses becoming investment ready should be welcomed by the sector by being given the information of different choices of funding and providers, rather than gravitating towards household names.
- PM pointed to levelling up as his top recommendation citing the number and quality of jobs that could be created, along with the further economic impacts that would have. PM agreed with DT's comments on helping SMEs reach net zero as most SMEs lack the knowledge necessary to reach those targets.
- CH agreed with PM on the importance of levelling up and mentioned this can be aided through unleashing the FinTech firepower of the country and developing the patient capital ecosystem.
- JA argued that while a lot of recommendations have been discussed, the key thing is bringing all of it together in the Government levelling up White Paper.



#### Useful documents

- APPG on Fair Business Banking and WPI Economics - [Scale up to level up](#)
- UK Finance - [Understanding SME Finance and Regional Difference](#)
- Oxford Review of Economic Policy by Paul Collier and Colin Mayer - [Reforming the UK financial system to promote regional development in post-COVID Britain](#)



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