

Competition in banking: improving access to SME credit data

Barclays' response to HMT consultation



Executive summary

One of the most significant issues facing the UK economy is the extent to which smaller businesses face a funding shortfall. Some commentators have argued that there has been a fundamental reduction in demand from the business community for finance. Others – including business organisations themselves - have strongly argued that many customers experience real difficulties in accessing funding.

It is certainly true that Government data show that in recent years traditional business lending by the high street banks has remained relatively stable with only a seven per cent reduction in the overall stock of loans, which is largely accounted for by natural cyclicalities.

The visible reduction in availability of finance, we believe, is largely accounted for by a fundamental reduction in lending from overseas banks and other peripheral lenders, as captured by the Bank of England's 'LN' data. These lenders have largely taken flight from this market and are not expected to re-establish activities in the UK on a similar scale. Importantly, much of the finance that was provided by these lenders was higher risk, and so Barclays believes that it is unwise – and likely unsuccessful – to look to the traditional lenders to wholly replace this lending.

It is equally true that new entrants into the traditional bank finance market will be constrained by the same regulatory requirements to lend responsibly as existing providers. Therefore, increasing the number of traditional credit providers in the market, while bringing benefits of other kinds, should not be expected to significantly increase the scale of new lending in the UK.

However, we do believe that reducing barriers for both new and non-bank providers of finance to compete in the SME lending market is wholly welcome and we support the proposals set out in this consultation. Our recommendations are intended to improve and enhance the delivery of these goals.

Further detail is below, but we would like to emphasise four principal considerations for the effectively introducing this policy:

- **Reciprocity** - Organisations wishing to access the data should be required to contribute data to it, with this principle to include challenger banks and alternative finance providers. While the major banks will have a greater amount of data to share, it is an important that all providers of finance wishing to access this shared data should provide reciprocal data on their own clients. This principle ensures that customers currently served by alternative lenders and challenger banks benefit equally from these proposals.
- **Standardised and agreed approach** - Data collected and shared should be agreed through an industry working group, and exclude data which is not systematically collected, such as employment data or director information. Not all providers will collect all forms of data, and the agreed standard should aim to include a standardised approach to non-bank data as well.
- **The purpose of use** - Access to data should be limited to where a regulated providers of finance has the express permission from a customer to access data to assess creditworthiness, rather than for the purposes of marketing.
- **Broad access** - Given the importance of widening the range of finance options available, we believe that any regulated provider of finance to an SME should be able to access this data, subject to the principles set out elsewhere. This should include alternative finance providers as well as traditional lenders. It should not however include any companies offering wider services.

Q1) Currently any individual or business has to give its consent for its data to be shared with CRAs. Do you agree that it is important that legislation mandates that data can only be shared where an SME gives its permission?

It is important that controls are in place which protect the data of the SME and avoid this new system becoming used as a marketing database. Therefore, Barclays believes that:

- Data should only be shared with the CRA by a finance institution with the permission of the business, and
- Data should only be shared by the CRA with the permission of the SME, for the specific purposes of supporting lending or wider financing activity.

Q2) Do you agree that the sharing of key indicators of current account performance data should be mandatory?

Barclays supports the principle of mandatory sharing of key indicators of current account performance data for SMEs by banking institutions, with other regulated providers of finance sharing data as appropriate. However, we believe that this principle should be subject to specific controls:

- **Reciprocity** - Organisations wishing to access the data should be required to contribute data to it, with this principle to include challenger banks and alternative finance providers. While the major banks will have a greater amount of data to share, it is an important principle that all providers of finance wishing to access this shared data should provide reciprocal data on their own clients. This principle ensures that customers currently served by alternative lenders and challenger banks benefit equally from these proposals.
- **The nature of the data** – Data fields shared should be agreed through an industry working group, and exclude data which is not systematically collected, such as employment data or director information.
- **The purpose of use** - Access to data should be limited to where there is a legitimate interest in assessing creditworthiness for the SME market.

Q3) Do you also agree that more granular current account data should be shared? If the answer to this is 'yes', do you think this should be as granular as turnover data showing payments in and out of an SMEs account?

We believe that data sharing should be restricted to standard current account data, and for instance include monthly or quarterly aggregate payments information rather than specific disaggregated transactions. Data such as employment data or director information should not be shared, as these data are not systematically captured.

Q4) In addition to taking action on the sharing of business current account data, do you think there is a case for taking action to ensure that all providers of credit share wider credit data on their SME customers with the CRAs? If so can you explain why?

Barclays believes that these proposals should include challenger banks and providers of alternative finance, in order to support the development of a greater diversity of finance and of risk finance in particular. We do however believe that the principal of reciprocity is crucial to ensuring that customers of all providers benefit from these proposals.

We also suggest that the regulator should “have regard” to ensuring the operational efficiency and effectiveness of payment services in the UK, and ensuring that payment systems are open, accountable and transparent.

Q5) If action is taken on the sharing of wider credit data, does there need to be a market share threshold below which a credit provider is exempt from sharing this information? If the answer to this is 'yes', at what level should this be set?

We believe that the principle of reciprocity should apply to all credit providers accessing the data, and therefore do not support an exemption threshold.

Q6) Would it also be helpful to mandate that non-financial information currently shared between SMEs through CRAs must be shared with finance providers?

We believe that information transferred under these proposals should be limited to standard financial information, due to the difficulty in capturing and sharing non-financial data in a uniform way.

Q7) Do you think that credit providers should share data with all of the CRAs or do you think it is enough for the data to be shared with one or more of the CRAs? If your answer is to limit this to one or more CRA, should that CRA be required to share that information with other CRAs?

Barclays believes that it is sufficient for credit providers to share data with those CRAs with whom they have a commercial relationship, subject to them sharing data with at least one institution. The party seeking to access the data could then approach whichever CRA holds the data.

We also believe that this new role for CRAs implies the need to create a market standard for CRA information, where all entities submit data in the same way and to the same criteria across the CRAs, rather than each agency having its own criteria. Additionally, CRAs should be accountable for the quality of data, subject to submitters of data providing consistent data according to a common, agreed template. The purpose of these suggestions is to help users have confidence in the quality and definitions of the data.

Q8) How frequently do you think credit data should be shared?

We believe that data should be shared monthly, as per existing procedures, with the provision for quarterly data in addition.

Q9) What time frame do you think the shared credit data needs to cover? Is data that goes back three months sufficient?

We do not believe this would be sufficient. We support a data set of 12-13 months allowing visibility of performance over a year, and to take account of seasonal variation.

Q10) Do you agree that all of the data that is shared with the CRAs should be made available to all providers of SME credit?

We support symmetrical sharing of information across providers with any regulated provider of SME credit or finance able to access SME credit data, subject to principles set out elsewhere in this submission.

Q11) Do you think that only SME credit providers should be able to access this data?

We believe that any regulated provider of finance to an SME should be able to access this data, subject to the principle of reciprocity and the agreement of the SME to whom the data relates. This should include alternative finance providers as well as traditional lenders. It should not however include any companies offering wider services.

Q12) Do you agree that credit providers should only be able to access this data where the SME has approached it seeking finance and the SME has given that provider permission to access this information? If not, when do you think that credit providers should be able to access this data?

Barclays believes that the defining principle here should be that credit providers are able to access this data when an SME gives them permission to do so. Additionally, the credit provider should be an existing institution, and be accessing the information for the purposes of making a credit decision rather than for the purposes of marketing.

For further information, please contact:

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