

Matching SMEs rejected for finance with alternative lenders

Barclays' response to HMT consultation



Executive summary

Barclays is pleased to respond to this consultation on matching SMEs rejected for finance with alternative lenders.

In our submissions to the government's policy work on behalf of small businesses, Barclays has emphasised our belief that the UK's business funding environment would be improved by greater diversity of funding models.

We believe that the proposals in this consultation have the potential to make a contribution to addressing these difficulties, subject to specific changes to ensure maximum effectiveness and targeting.

Our proposals are based on three central observations:

- **Duty of care** – it is important that companies for whom additional lending would create significant risks are not encouraged to take on inappropriate or unaffordable debt.
- **Additionality** – signposting mechanisms and platforms must be additional to, rather than replace, existing post-decline networks.
- **Targeting** – differing banks have differing mechanisms for managing the appeals and signposting process. This policy should allow banks flexibility to target interventions in the context of their customer base, local relationships and wider policies to maximise their impact.

In this context we support the central proposal for a mandatory signposting obligation for all regulated providers of finance, and additionally a new central platform to which businesses could be added either following a declined application or directly, without a prior application.

However, we do not support mandatory referrals. We discuss the reasons for this below.

Q1) Do you agree that the government should create a mandatory process, as outlined above, to help match SMEs that are seeking finance with credit providers who are looking to offer finance?

- Barclays supports a mandatory sign posting process, requiring banks to provide customers who are declined for a loan with information about appropriate alternative providers of finance, or where appropriate, information on how to join a central platform.
- Although different banks will have differing systems, providers will have the ability to provide information on potential alternative finance sources as part of the post-declined conversation.
- It is important to note that applications are sometimes declined for reasons related to fraud or other legal concerns. Lenders who decline an application may be able to share these reasons with potential alternative funders and cannot be held responsible for any negative outcomes if alternative providers proceed with finance.
- Equally, it is important to note that the most common reason for a loan being declined is affordability. In some instances, a bank may be signposting a customer to an alternative provider, potentially at a higher cost, when it is that bank's opinion that the company would be placed into difficulty by the cost of repayments. This concern is enhanced if the bank has existing secured lending with the customer, such that in the event of the business failing as a result of the new lending, the existing bank may be required to take control of that business's assets.
- It is therefore important that banks offer and clear assessment to the customer of the wisdom of seeking alternative providers as part of a mandatory signposting process. In any instance, it is important that the signposting obligation be mandatory to ensure that lenders are not put at legal or reputational risk from an additional requirement to make judgments about whether a customer should or should not be signposted to alternatives.

- Banks and other participants in these proposals cannot be held responsible for events following signposting. We are not in a position to monitor the suitability of specific providers, or funding decisions, and indeed in many instances our professional opinion may be that a customer would be unwise to consider additional finance in any case. It must be the responsibility of the customer, the regulator and the proposed alternative provider to ensure that any further decisions are appropriate, as would be the case under any other circumstances.
- We do not support a mandatory referrals process, for three major reasons.
 - **First**, we would in practice need to create a list of preferred providers, which may exclude new entrants and innovators from the market, stifling competition.
 - **Second**, in instances where we believe additional lending remains inappropriate for a customer, we would consider it to be irresponsible to refer them to another specific provider of finance, given the risk that the customer may pose to that provider
 - **Third**, relationship managers and telephony colleagues may not be skilled to make formal recommendations of appropriate alternative forms of finance. A signposting process would allow bank employees to simply make information available to a customer.

Q2) Should any requirement to share information on rejected loans apply to all SME credit providers or should there be exemptions for smaller providers and/or providers without a banking licence?

- It is important that customers of all providers have the same rights. We therefore support this requirement applying to all regulated providers of finance to SMEs, including credit.

Q3) Do you agree that information about rejected SME loans should only be shared where an SME gives its permission?

- Yes.

Q4) Do you think there should be additional protections in place to secure the data about rejected SME loans and what form would these take?

- Many customers may not wish to be associated with a list of declined customers, due to real or perceived risk to their credit rating. It is therefore important that data is only shared with the permission of the customer, as part of a signposting procedure.

Q5) What information do you think banks rejecting SME applications for finance should be required to provide? Do you agree that this should include information about the SME's name, business type, and loan request parameters?

- We propose that information provided be standardized across the industry and limited to - name and form of business; application date, size and type of loan; and reason for the decline. This could then be read in the context of the wider data information provisions set out in the Government's parallel work on SME credit data.
- We understand these proposals to relate to formally declined applications. In some instances a customer's relationship manager may in addition suggest the newly established platforms as part of a less formal conversation about business and financing strategy, but it would be inappropriate and difficult to implement a formal signposting requirement for these information discussions.

Q6) Do you think there other types of finance applications that should be included in addition to SME business loan applications? If you think other types of finance applications should be included, please supply the reasons for your answer.

- We believe that this proposal should exclude declined applications for very short term lending, bridging finance and short term overdrafts.

Q7) Do you agree that information about SMEs rejected for finance should be referred on to private sector platforms? If you agree, how would this work alongside existing private sector referral arrangements?

- We would support the creation of a private sector platform for customers declined lending. We believe that these should represent an alternative target of signposting, and should not supersede local relationships and market insights where those avenues are more appropriate for a customer.

Q8) What factors would promote the development of a market of competing platforms?

- We note that in conceptually similar platforms such as capital markets trading venues, consolidated pools of issuers and investors have been associated with greater informational efficiency. The Government may therefore consider that a single or limited number of platforms would be more suitable than a highly fragmented market.
- The venue should be open to all businesses seeking finance, rather than simply declined customers, in order to reduce any potential stigma associated with participation. This would also be another positive intervention to increase competition in the initial application stage.
- The British Business Bank could usefully play a role in developing a central platform.

Q9) If you agree that rejected loan information should be referred (to a platform, or somewhere else), how do you think compliance with this requirement should be reported and then enforced?

- We would encourage the Government to adopt a light touch approach to this question. We do not believe formal legal sanctions to be appropriate. We also expect that participation in these proposals would be forthcoming from major providers without the need for onerous regulatory oversight.

Q10) What criteria should be used for designating platforms? How should ongoing adherence to these criteria be monitored?

- We do not feel well placed to answer this question.

Q11) Do you agree that all of the information that is made available should be accessible to all providers of SME credit?

- We would support this subject to controls on the use of the information and the SME giving permission.

Q12) Are any additional protections and reporting requirements or restrictions needed to ensure SMEs are protected from issues such as poor advice, malpractice and mis-selling?

- We believe that existing requirements on providers of finance may prove sufficient, but encourage the regulator to monitor these new platforms to establish whether there are other associated risks.

For further information, please contact:

Allen Simpson
Vice President
Public Policy and Government Relations
02071162953
allen.simpson@barclays.com