



HM Treasury



Department  
for Business  
Innovation & Skills

# Help to match SMEs rejected for finance with alternative lenders:

summary of responses

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August 2014





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# 1

## Introduction

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**1.1** In March 2014 the government published the consultation *SME finance: help to match SMEs rejected for finance with alternative lenders*. The central question asked by the consultation was whether, and if so how, the government should legislate to create a mandatory process, whereby Small and Medium Sized Enterprises (SMEs) that have been rejected for finance are linked up with other lending opportunities from challenger banks and alternative finance providers. The consultation set out that the government's preferred approach for such a process was through requiring lenders to share details of SMEs they have rejected for finance with a private sector platform or platforms that would help them be linked up with challenger banks and alternative SME finance providers.

**1.2** These proposals look to address a market failure of imperfect information that is impeding SMEs' ability to access the finance they need to grow and compete. Currently, the largest four banks account for over 80% of UK SMEs' main banking relationships<sup>1</sup>, and evidence suggests that the majority of SMEs only approach their main bank for finance, with around 40% giving up their search if they are unsuccessful<sup>2</sup>. A proportion of the SMEs that are rejected by the largest UK lenders are viable businesses, and are rejected simply because they do not meet the risk profiles of the largest banks. The result is a market failure of imperfect information, whereby in many cases challenger banks and other providers of finance are unable to offer finance to smaller businesses because they are not aware of their existence, and SMEs are similarly unaware of the existence of these alternative sources of finance.

**1.3** The proposals are also designed to complement and work in conjunction with the government policy to improve access to SME credit data. The government's approach to this policy is set out in *Improving access to SME credit data: summary of responses*<sup>3</sup>.

**1.4** The consultation *SME finance: help to match SMEs rejected for finance with alternative lenders* ran until 25 April 2014. In addition to asking whether the government should legislate for a mandated process for forwarding rejected SMEs' information, the consultation asked a number of questions regarding how such a system should be implemented, including:

- which lenders and types of finance should be in scope of the requirement to forward rejected SMEs' information
- what information about SMEs should be shared, and what protections should be in place for this information
- views on the government's preferred approach that SMEs' information is forwarded to a private sector platform or platforms
- what criteria the government should use for designating platforms to receive SMEs' information

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<sup>1</sup> [http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.ofc.gov.uk/shared\\_ofc/markets-work/sme-update.pdf](http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.ofc.gov.uk/shared_ofc/markets-work/sme-update.pdf)

<sup>2</sup> <http://british-business-bank.co.uk/wp-content/uploads/2013/10/SME-Journey-Towards-Raising-Finance.pdf>

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/323318/PU1681\\_final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323318/PU1681_final.pdf)

**1.5** The government received over 45 responses to *SME finance: help to match SMEs rejected for finance with alternative lenders*. Respondents included major banks, challenger banks, alternative finance providers, business groups, trade associations, smaller businesses, and other interested parties.

**1.6** Chapter 2 summarises the responses received for each of the questions posed in the consultation, and sets out the government's intended approach on these points.

**1.7** The government welcomes the constructive and valuable contributions made by stakeholders throughout the consultation process.

**1.8** A full list of respondents can be found at Annex A.

## Next steps

**1.9** The government has decided to legislate for a mandatory process in the Small Business, Enterprise and Employment Bill, where SMEs will be forwarded on to platforms that will help them be linked up with alternative lending opportunities. The requirement to forward on SMEs that are rejected for finance will capture the largest UK SME lenders, and the majority of lending to UK SMEs. SMEs' information will be forwarded to private sector platforms that will be designated by the government on the basis of these platforms meeting clear minimum standards that focus on ensuring that SMEs are in control and properly protected throughout the process.

**1.10** Further detailed regulation, including the designation criteria that potential platforms must meet, will be set out in secondary legislation following the passage of the Bill.

## Key themes

**1.11** The government welcomes the widespread support for its proposals to improve access to finance for SMEs from respondents to the consultation.

**1.12** On balance, there was strong overall support for the government's overarching goals and for the proposal of a mandated information sharing process, which many respondents believe will bring greater choice to SMEs and support greater competition in the provision of finance.

**1.13** A number of other key themes emerged in responses to the consultation. These included the importance of ensuring that SMEs have full control over the process and their information. The majority of responses were clear that the information forwarded on SMEs should be kept to a minimum: enough only for alternative lenders to identify possible SME lending opportunities and to begin discussions with those SMEs.

**1.14** Respondents also emphasised the need for SMEs' details to be properly protected when they are forwarded on to a platform. The priority being that businesses' details are only made available to reputable providers of finance and that SMEs cannot be the subject of excessive or dubious approaches by third parties through the platforms. In addition, respondents highlighted the importance that businesses are not at risk of unsolicited credit checks that could damage their credit "footprint". In general, respondents highlighted the importance of platforms adhering to good standards of practice in order to protect the SMEs that use them.



# 2

## Summary of responses

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### Should the government mandate the sharing of SME information?

**2.1** Existing informal and voluntary referral arrangements that banks have in place are limited in scope and have been slow in achieving results. The consultation therefore asked whether the government should address the market failure of imperfect information identified through a more ambitious government intervention.

**Question 1:** 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?

**2.2** Respondents were largely supportive of the government's overarching goals and of the idea of a mandated process to link up SMEs that have been rejected for finance with alternative lending opportunities.

**2.3** Alternative finance providers in particular agreed that a mandated process would improve smaller businesses' options and chances for securing finance, but noted the importance of SMEs providing consent for their information to be shared. Larger lenders highlighted that there are risks associated with forwarding on unviable businesses.

**2.4** Business groups similarly asserted that such a process would be a positive step provided necessary safeguards were in place to ensure SMEs were protected against the risks related to their information being shared with a third parties.

### Government response:

**2.5** Given the wide support from respondents for a mandated process, and the evidence suggesting existing referrals arrangements are not having a significant enough impact, the government will proceed with a legislative intervention. The government recognises the need to ensure that SMEs are in control of how their information is shared, and for this information to be properly protected. The proposals will be implemented with these considerations at the forefront.

**2.6** The government intends to legislate for these proposals through the Small Business, Enterprise and Employment Bill later in the year.

### Which parts of the market should be covered?

**2.7** The consultation highlighted that it may not be appropriate to mandate that all providers of SME credit forward on details of SMEs they reject for finance. This is due to the fact that the large UK banks are, in most cases, the first port of call for SMEs looking for finance, and also in recognition that such a requirement would have disproportionate compliance costs for smaller firms, with potential negative consequences for competition.

**Question 2:** 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?

**2.8** The majority of respondents suggested that only large SME credit providers should be within the scope of a mandatory process, due to the disproportionate administrative burdens that would fall to smaller providers of SME credit.

**2.9** This view was firmly held by alternative providers, who argued that the process should be optional for smaller SME lenders but mandatory for the largest players in the market.

**2.10** Business groups noted the benefit of the requirement being applied to a wide range of SME credit providers, but also recognised the concerns regarding compliance costs for smaller lenders. A number of respondents suggested that the proposal could include a market share threshold, or could be introduced through a phased approach, with the largest SME lenders being captured initially and other lenders brought in over time.

**2.11** Responses from large banks argued that all SME credit providers should be in the scope of the process in order to create a level playing field.

### **Government response:**

**2.12** The government considers that it would not be appropriate to require all SME credit providers to forward on details of SMEs they reject for finance, as the disproportionate burdens this would cause for smaller SME credit providers could impede their ability to effectively compete.

**2.13** The government therefore intends to set the threshold at a level that captures the largest UK SME lenders, and majority of SME lending by stock of lending. As detailed in the consultation, these proposals are designed to complement the government's policy to improve access to SME credit data. It is therefore intended that the same SME lenders will be in scope for both requirements: to share information on SMEs they reject for finance; and to share credit data on their smaller business customers with other lenders through Credit Reference Agencies.

### **When should information be shared?**

**2.14** The consultation document highlighted that if the government were to mandate that lenders forward on details of SMEs they reject for finance, such a process would need to adequately mitigate associated risks around data sharing, including addressing privacy and security considerations.

**Question 3:** Do you agree that information about rejected SME loans should only be shared where an SME gives its permission?

**Question 4:** Do you think there should be additional protections in place to secure the data about rejected SME loans and what form would these take?

**2.15** The vast majority of respondents considered it essential that SMEs' details should only be shared with their express approval. Respondents also felt there should be additional protections to secure SME data, emphasising the need for confidentiality and privacy to ensure that SMEs on platforms are not subject to unnecessary and unwanted marketing, as well as unsolicited credit checks.

**2.16** Responses emphasised the importance of SMEs maintaining control of their data once it is passed onto platforms. Suggestions included that SMEs should be able to request that their data is withdrawn from platforms, and that the data should self-delete after a set time period.

**2.17** Business groups highlighted that SME data shared through platforms should only be used for the stated purposes (as set out in the consultation), treated in accordance with the Data

Protection Act (DPA), and that there should be thorough oversight and penalties for breach of these rules.

## **Government response:**

**2.18** The government agrees that SMEs' information should only be shared with platforms with their express consent. The details of SMEs that are rejected for finance will therefore only be shared with platforms once an SME has given its consent.

**2.19** The government also agrees that it is essential SMEs are able to maintain control over how their data is used, and are suitably protected throughout the process.

**2.20** In order to protect SMEs from unwanted, excessive or dubious approaches by third parties – as well as unsolicited credit checks – it is clear that designated platforms would need to manage communication between borrowers and lenders. SMEs that are forwarded on to platforms will have their details anonymised in the first instance, with lenders only be able to see key information that would allow them to make an initial assessment of whether an SME may be a potential lending opportunity. If a lender wishes to explore a lending opportunity with a business, it would need to make contact through the platform and request consent to see that business's contact details and begin a direct dialogue.

## **What information should be shared?**

**2.21** The consultation document highlighted the importance that any information provided – potentially alongside credit data from the Credit Reference Agencies – enables alternative finance providers to reach an informed decision about whether they are able to offer SMEs finance. The government proposed that this information would therefore need to include as a minimum, reference to the SME's name, business type and loan request parameters.

**Question 5:** 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?

**2.22** The majority of respondents agreed that information about SMEs should be limited in scope, and that there should be a number of key fields that the SME is required to provide. Respondents that chose to specify the fields of information largely suggested they should be limited to:

- the business name, address, and contact details
- the amount of finance requested
- the type of finance requested
- the business legal structure

**2.23** A number of alternative finance providers suggested that SMEs should have the option to input additional information, and it was noted by both larger and challenger banks that the information should not include the reason for decline. The Information Commissioner's Office (ICO) similarly highlighted that risks could arise from the original lenders adding additional information to the file, such as decisions and views on the business. The ICO also highlighted risks regarding the potential impact of inaccurate or incomplete data, which could be problematic.

## Government response:

**2.24** The government agrees that the information shared on SMEs as part of the process should be limited to key information about the business. The goal is not that lenders receive detailed enough information to make a credit assessment, but rather enough information to determine whether they wish to contact a business to begin discussions over possible financing. This measure is designed to complement the government's SME Credit Data policy: where an alternative lender does wish to begin a more detailed assessment of a business located through platform, it will also be able to attain credit data from the business's main bank via designated Credit Reference Agencies.

**2.25** In addition to the fields of information listed above, the government considers it may also be appropriate to include the following fields to help alternative lenders initially determine whether they may wish to lend to forwarded SMEs:

- how many months/years of trading revenue the SME has
- the date by which the SME needs finance

**2.26** To ensure that SMEs are properly protected, platforms will need to ensure that forwarded SMEs' names, addresses, and contact details are not initially visible to alternative lenders. Platforms will therefore take responsibility for allowing alternative lenders to make first contact with SMEs through the platform in order to request SMEs' contact details. This will ensure SMEs retain control over the process, and cannot be contacted by alternative lenders outside of platforms without first giving their consent.

### What types of finance should be in scope?

**2.27** The consultation document highlighted that it is necessary to consider which types of finance applications should be part of a mandatory SME information sharing process. It set out the government's view that as a minimum, applications for SME business loans should be covered. However, the government also wanted to consider whether other types of business finance application should be eligible.

**Question 6:** 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.

**2.28** Most respondents were of the view that the types of finance applications in scope of the process should be much wider than just loans.

**2.29** Large banks and alternative lenders in particular held this view. Large banks noted the types of finance application in scope should be wider to reflect that some SMEs will simply ask "for finance" rather than a specific product, and that others may apply for the wrong type of facility.

**2.30** Banks also highlighted that there should be exceptions where SMEs are not required to be forwarded on by lenders, including when a business does not pass anti-money laundering checks, or where its existing lending is already subject to formal demand, or legal proceedings.

**2.31** Additional products specifically mentioned included:

- invoice discounting/factoring
- asset Finance
- trade Finance

**2.32** There were a mixture of views from business groups, businesses, and trade bodies. Some felt that the products in scope should be wider, whilst others suggested only overdrafts and term loans should be included at the outset, with other products added over time.

### **Government response:**

**2.33** The government agrees that the lending products in scope of the mandatory process should be wider than just loans. The government will look to capture all SME lending products offered by large banks to ensure that all SMEs that are rejected for finance by the largest UK SME lenders are given the option to benefit from this policy.

**2.34** The government considers it is appropriate to include a minimum threshold for the amount of borrowing an SME applies for, with amounts lower than the threshold outside scope of the process. This is in recognition of the administrative costs that will fall to large lenders as a result of the requirement to share information on SMEs they reject for finance. The threshold will however be set at a low level: a mandated process as envisaged by the government will likely reduce the cost of originating SME finance products, and consequently make lending smaller amounts a more viable proposition for alternative lenders. It is important that positive market developments such as this are not impeded.

**2.35** The government agrees that there are instances where it will not be appropriate to forward on information on SMEs that have been rejected for finance. This policy will look to mirror the same exemptions that apply for the Appeals Process as instituted by the independent appeals reviewer Professor Russel Griggs OBE<sup>1</sup>. For example, where a lender has been prevented from offering finance to an SME due to anti-money laundering regulations.

**2.36** Businesses that are rejected on the basis that they are deemed unviable by the lender to which they applied will be in scope of the mandatory process, as other lenders with different risk appetites to the large banks may still wish to offer finance. However, in all cases it will be up to the business itself to decide whether to have its information shared with platforms.

### **How should information be shared?**

**2.37** The consultation document highlighted that if the government legislated to require that the major banks must share information about rejected SME loan applications, it would be important to decide how.

**2.38** The consultation also set out the government's preferred approach to this process: that information would be provided to private sector platforms designated by HM Treasury on advice of the British Business Bank, and that platforms would be designated based on a defined set of criteria. Further, the consultation set out that the government envisaged that one or more private sector companies would provide the platforms, and that a market would develop between platforms competing for business based on the service they offer.

**Question 7:** 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?

**Question 8:** What factors would promote the development of a market of competing platforms?

**Question 9:** 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?

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<sup>1</sup> [http://www.betterbusinessfinance.co.uk/images/pdfs/Annual\\_Report\\_2014\\_Year\\_3\\_Final.pdf](http://www.betterbusinessfinance.co.uk/images/pdfs/Annual_Report_2014_Year_3_Final.pdf)

**Question 10: What criteria should be used for designating platforms? How should ongoing adherence to these criteria be monitored?**

**2.39** Most respondents felt that a mandatory process to share SME information with platforms should work alongside existing referrals arrangements that banks have in place.

**2.40** Respondents highlighted the importance that SMEs are not subject to a complicated or confusing customer journey, as well the importance of platforms adhering to good standards of practice in order to protect the SMEs that use them. A number of respondents felt that a single platform would help ensure a more straightforward SME customer journey. Others suggested that a government built platform would help ensure that good standards of practice were adhered to.

**2.41** Many respondents acknowledged that an alternative approach would be to ensure that SMEs are protected through a system of rules governing the operation and use of private sector platforms. There would then be a central role for government in enforcing these rules by putting in place an adequate system of oversight.

**2.42** Large and challenger banks, as well as alternative lenders, noted that oversight for lenders meeting the requirement to share information on SMEs they reject should be proportionate, but that this role would most appropriately sit with the Financial Conduct Authority (FCA). Business groups and businesses similarly note that the FCA should have a role in overseeing this part of the process.

**Government response:**

**2.43** The government agrees that a mandatory process to share SME information with platforms should be complementary to existing referrals arrangements. It is important that SMEs are given a wide range of options for how they wish to progress their search for finance if rejected by their main bank.

**2.44** The government also agrees that SMEs' information must only be shared with platforms that meet good standards of practice, and that suitably protect SMEs that choose to have their information forwarded. Although one way to achieve these standards would be for government to create a platform itself, the government does not consider this to be appropriate when the private sector is able and well placed to provide a solution.

**2.45** The government remains of the view that allowing the private sector to develop multiple competing platforms – allowing for competition to drive up the standards and quality of the service that is offered by these platforms – is a more suitable approach. In order to avoid entrenching the position of the first mover to become a designated platform, the government intends that SMEs will, with their permission, be registered on to all designated private sector platforms.

**2.46** However, the government recognises that a large number of platforms could potentially become cumbersome and confusing for SMEs. Therefore the government intends to review this approach periodically with a view to ensuring SMEs have a manageable customer journey through the process.

**2.47** In addition to relying on competitive pressures to drive up standards, the government considers it important there is a system of designation for platforms to ensure SMEs are properly protected. All platforms that meet certain minimum standards will be eligible for designation by HM Treasury on advice of the British Business Bank. These minimum standards will include:

- data protection – platforms will need to adequately protect SMEs' information so they are not subject to excessive or misleading approaches by third parties, or to unsolicited credit checks;
- fair access – platforms will need to allow fair access to all SME lenders that agree to terms and conditions regarding appropriate treatment of SMEs contacted through the platform; and
- accountability for alternative lenders in the platform – the government expects the platforms to expel any lenders which fail to comply with the terms and conditions they sign up to when joining the platform.

**2.48** HM Treasury will have the power to de-designate platforms that fail to adhere on an ongoing basis to the designation criteria. The FCA will have proportionate regulatory oversight of the process. This will include oversight of banks requirement to comply with their obligations to share information with platforms, and oversight of designated platforms' requirement give fair access to lenders.

### **Who will be able to access this information?**

**2.49** The consultation document sought views on whether the information on rejected SME loan applications should be made available to all providers of SME credit, and whether it should also be available to intermediaries such as commercial finance brokers, accountants and advisers.

**Question 11:** Do you agree that all of the information that is made available should be accessible to all providers of SME credit? Do you agree that the information should also be available to commercial finance brokers, accountants and advisers?

**Question 12:** 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?

**2.50** Respondents to the consultation had mixed views on how wide the access to shared SMEs' information should be.

**2.51** Many alternative providers felt that the information should only be available to direct providers of SME credit on the basis that a key benefit platforms would provide is disintermediation.

**2.52** Larger banks on the other hand suggested that intermediaries could be allowed access, but noted that it would be imperative SMEs that had been forwarded to platforms were able to clearly understand the options being presented to them, i.e. whether they were being contacted by a direct lending opportunity, or an intermediary. This view was similarly held by many businesses groups that responded to the consultation.

**2.53** Regarding any additional requirements or restrictions needed to protect SMEs, respondents reiterated the need for clear designation criteria to ensure high standards of operation by platforms, as well a robust oversight regime for the process. It was also highlighted that small business should be able to have recourse against platforms through the Financial Ombudsman Service.

### **Government response:**

**2.54** The government recognises that the question of whether intermediaries should be within scope of the platforms for rejected SMEs is finely balanced. On the one hand, platforms will help smaller businesses be linked up with alternative lending opportunities, and in that regard, serve

as an alternative to an intermediary. However, the government recognises the benefits of giving SMEs the widest range of opportunities, and that in particular cases, some form of advice or support may be more appropriate for a business than borrowing. The government therefore intends that platforms will be able to exercise discretion over whether they grant intermediaries access, and that intermediaries will not be included within platforms' fair access requirement (as will be detailed in the government's designation criteria). The government's designation criteria will also require platforms to clearly notify SMEs when it is an intermediary that wishes to contact them, and not a lender.

**2.55** The government will ensure that SMEs using designated platforms are properly protected through a robust designation criteria and oversight regime. This includes provision for sole traders and micro businesses to have recourse to the Financial Ombudsman Service when dealing with designated platforms.





# List of respondents

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|  |  |
|--|--|
| Aldermore  | Funding Options  |
| Aon Risk Solutions   | HSBC   |
| The Arts Council   | ICAEW  |
| The Asset Based Finance Association                        | The Information Commissioner's Office                  |
| The Association of Accounting Technicians                  | The Institute of Chartered Accountants in Scotland     |
| The Association of Investment Companies                    | The Institute for Credit Management                    |
| Boost Capital  | The Leasing Foundation                                 |
| The British Bankers' Association                           | Lloyds Bank  |
| The British Chambers of Commerce                           | Lynheath Limited                                       |
| The British Exporters Association                          | Market Invoice   |
| The British Marine Federation                              | The Mid Yorkshire Chamber of Commerce                  |
| The British Private Equity and Venture Capital Association | The National Association of Commercial Finance Brokers |
| Clifton Asset Management                                   | The National Federation of Retail Newsagents           |
| Close Brothers   | The Peer2Peer Finance Association                      |
| The Community Development Finance Association              | Platform Black   |
| The Confederation of British Industry                      | ResPublica   |
| Conister Bank  | Royal Bank of Scotland                                 |
| Coventry and Warwickshire Chamber of Commerce              | Santander  |
| Everline   | Stanbury Chameleon                                     |
| The Federation of Master Builders                          | Tech UK  |
| The Federation of Small Businesses                         | Tees Valley Unlimited                                  |
| The Finance and Leasing Association                        | WLP  |
| Fleximise  | Workspace  |
| The Forum for Private Business                             |  |
| Funding Circle   |  |



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