

Dear Sir/Madam,

The FD Centre have circa 100 Finance directors across the UK and act as Finance Director for circa 300 UK SMEs. The combined turnover of these businesses is circa £1.5bn. These will all be in the 10-250 employee category in your SME report.

In my opinion the existing report was far too simplistic and one dimensional. I also think that the terms of reference are flawed. My initial comments are below:-

- Terms of Reference
 - The banks actively compete with each other regarding businesses in excess of £10m turnover and have proper working capital funding requirements. The problem relates to smaller businesses.
 - None of the banks care about smaller SMEs. The collusion or anti-competitive behaviour actual relates to the fact that every bank uses a similar approach to risk assessment and policy setting that effectively punishes smaller SMEs. This actually governs the banks approach to demanding security from customers and appetite to lend and not pricing.
 - Banks refusal to promote schemes put forward by government to support the SME segment. This is systematic failure and also government failure.
- Other observations
 - Banks need to understand that they are assessing the risk of lending money to a management team and their ability to run a business successfully in their sector. The whole risk assessment systems in banks have been based on financial parameters, asset values and sector risk. The reason for this is that it's easier for the banks to automate the risk assessment process and de-skill the relationship management team. The result is that tough sectors of the market which are as important to the local economy do not get supported by their banks even when the management team are good. The old fashioned bank manager who used to assess the "whites of the eyes" of the entrepreneur has gone. This makes all banks basically homogenous with little or no differentiation and gives the customer no choice.
 - SMEs want a personal relationship with their bank. Most banks provide a relationship manager but the majority of our SME clients will have experienced 2-5 changes in relationship manager in the last 5 years. They simply stop bothering trying to build a relationship.
 - The banks do not understand that it's THEIR JOB to lend money to SMEs to fund working capital requirements eg stock debtors less creditors. They never start any relationship based on that premise and this mind set underpins the whole retail banking problem. They should start every request for working capital funding with "yes" the question is how much will it cost.
 - SMEs want their banks to appreciate that it's the bank that needs to earn the respect of the businesses. Why should a business deposit their money with a bank. Without those deposits, the banks cannot operate at all. The banks treat their customers with contempt and take their loyalty for granted. The only reason why SMEs don't move is because they trust the other banks even less because they don't know them. Banks talk a lot about forming trusting relationships with their customers but thats not what they do – they want their customers to trust them but they never really demonstrate that they trust their customers. They will only lend money to an SME if they can secure it against the owners house. That's not trust. When an SME reaches £10m turnover, the banks suddenly change their tune.

- We work almost exclusively with ambitious SMEs. These are the engine of growth for the UK. When we approach the banks for funding, they expect to be given £ for £ security against any borrowings and to charge a fortune for the privilege. In all honesty until a business reaches £10m turnover, SME business owners are treated by the banks like stupid teenagers that have to be on a tight leash. I recently approached HSBC to switch the banking of an SME Dentist who had been in business for 8 years and built up a niche practice specialising in high end surgery and phobic patients. Without even seeing the balance sheet or trading history, they said they would need a personal guarantee from the business owner if they were going to provide any borrowings. Therefore PGs are a pre-requisite.
- The banks don't want to use the EFG scheme and you have to bully them into providing these.

If you are interested in finding out what banking is really like, I think you should interview all 100 of our FDs.

Kind regards

James Nicholson-Smith
Group Product Director
The FD Centre Limited

