Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Small and Medium Enterprise (SME) Credit	
Lead Department/Agency	HM Treasury	
Stage	Final	
IA number	Not provided	
Origin	Domestic	
Expected date of implementation	SNR 9	
Date submitted to RPC	31 March 2014	
RPC Opinion date and reference	29 April 2014	RPC14-HMT-2060
Departmental Assessment		
One-in, Two-out status	Zero Net Cost	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	N/A	
RPC Overall Assessment	**GREEN**	

RPC comments

The IA is fit for purpose. The Department has provided a satisfactory assessment of costs and benefits.

The Department's One-in, Two-Out (OITO) assessment of 'Zero Net Cost' is appropriate. The IA provides sufficient justification that all of the costs of this proposal are in pursuit of increasing competition. As such, it should be scored as 'Zero Net Cost' for OITO purposes, in line with the current Better Regulation Framework Manual (paragraph 1.9.14).

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

"*The SME credit market suffers from significant information asymmetries... The lack of transparent and available credit data raises the costs of credit provision, as lenders are required to undertake additional credit assessments. This can disproportionately affect smaller or newer businesses because a credit rating is determined from information about a business's financial track record.*"

"*At Budget 2013 the Government committed to "investigate options for improving access to SME credit data to make it easier for newer lenders to assess loans to smaller businesses". At Autumn Statement* [2013] *the Government announced that it would consult on proposals to require banks to share information on their SME customers with other lenders through Credit Referencing Agencies (CRAs). This consultation was launched on December 26 [2013] and closed on February 21*

[2014]."

What are the policy objectives and the intended effects?

"*Where the SME in question has given their permission, SME lenders above a certain market share threshold will be required to share credit data with CRAs that collect data on businesses for the purposes of credit scoring. These CRAs will be designated by HM Treasury… the policy is expected to apply to the largest seven SME lenders which account for the vast majority of the SME credit market and as a result the vast majority of the credit data to be shared…There will also be a requirement on CRAs to provide a level playing field in terms of access to that data. The proposed legislation would therefore require that non-bank finance providers will be able to access credit data on a level basis with lenders where the SME in question had given permission.*"

Comments on the robustness of the OITO assessment

The Department explains in the IA that the proposal is in scope of OITO but should be scored as 'Zero Net Cost'. This is because all the costs relate to pro-competitive aspects of the proposal. The Department explains that the current SME credit market is "extremely concentrated", dominated by the largest four banks (holding a market share of approximately 85%), and suffers from significant information asymmetries.

The intention of the proposal is to *"reduce barriers to switching"* to an alternative loan provider, in order to *"stimulate a diversified banking market for SMEs"* to help develop new credit products tailored to SMEs, and *"benefits to Credit Rating Agencies (CRAs)"* by increasing the demand for credit scores and stimulate competition in the CRA market. Overall, the Department expects the measure to result in an increase in competition with an overall economic benefit. The improved availability of credit data to a wider group of lenders is expected to improve the functioning of the market as lenders will have more accurate information to differentiate high and low risk SME borrowers. This should encourage new lenders to enter the market resulting in a positive impact on both the availability and price of credit.

The Committee is satisfied that all of the costs of this proposal are in pursuit of increasing competition. The OITO assessment is therefore consistent with the current Better Regulation Framework Manual as the proposal *"can reasonably be expected to drive economic growth and benefit society"* (paragraph 1.9.14)

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The Department has considered the impact of the proposal on small and micro businesses for lenders and business users of financial services. This assessment is satisfactory.

With regard to lenders, the Department will introduce a threshold, above which lenders must share their SME credit data. Although a decision has yet to be taken by the Department on the threshold, the IA clarifies that no lenders that are micro-businesses will fall inside this threshold, so they will not face any costs associated with the proposal. All lenders will be able to access the data on an equal basis. The Department anticipates that this will have a positive impact on smaller lenders.

The proposal is expected to have a positive, indirect impact on SMEs that seek finance by improving the availability and price of credit to SMEs. The Department expects the proposal to benefit smaller and newer business that have no or limited credit history and are potentially denied access to credit.

Quality of the analysis and evidence presented in the IA

The Department has drawn upon existing research on the SME credit market to explain the reasoning for the proposal and has undertaken sufficient analysis of the costs and benefits expected to result from its implementation.

The Department has monetised transition costs to existing lenders and CRAs in the IA, using estimates provided by these organisations during consultation. The Department's best estimate of the upfront transition cost to business is approximately £14 million as a result of banks, other lenders and CRAs updating their IT systems in order to comply with the requirements for data sharing.

The Department explains that once IT systems are updated, ongoing costs of sharing data by lenders will not be significant, and ongoing costs to CRAs will be minimal and outweighed by the benefits. Discussions with lenders during the consultation supported this view.

The Department's approach to the assessment in the IA appears to be proportionate as any ongoing costs would also be in pursuit of increasing competition and therefore would not affect the 'Zero Net Cost' OITO assessment. The Department also considered whether the proposal would increase the costs to lenders of purchasing scores, or underlying data, from CRAs. However, the Department expects to see an increase in competition in the CRA market, which should produce a downward effect on prices.

Signed **Michael Gibbons,** Chairman