Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Help to Match SMEs Rejected for Finance with Alternative Lenders	
Lead Department/Agency	HM Treasury	
Stage	Final	
IA number	Not provided	
Origin	Domestic	
Expected date of implementation	SNR 10	
Date submitted to RPC	23 March 2015	
RPC Opinion date and reference	29 April 2015	RPC14-HMT-2153(2)
Departmental Assessment		
One-in, Two-out status	IN	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	Zero Net Cost	
RPC Overall Assessment	**GREEN**	

RPC comments

This proposal will require the largest UK banks to refer small and medium sized businesses, whose applications for finance they reject, to designated platforms – as long as the businesses give their permission – thus facilitating contact with potential alternative financers.

The IA is fit for purpose. The Treasury has provided a reasonable assessment of the costs and benefits to business of the proposal. The Treasury identifies costs to the regulator and has provided an assessment of the scale of these costs, which should be included in the overall assessment of costs to business.

The proposal is pro-competition. Therefore, costs of the proposal should be assessed as an IN with zero net cost.

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

"At present the largest four banks account for over 80% of UK small and medium sized enterprises (SME) main banking relationships. Evidence shows that SMEs tend to approach their main bank when seeking finance. Evidence shows that when applicants are declined, a large number of SMEs cancel their plans rather than explore alternative options that may be more suitable. As other finance providers with

different business models may be willing to lend to these SMEs, this represents an informational market failure. Previous voluntary schemes by banks to refer businesses declined for a loan to alternative providers have not resolved this market failure."

What are the policy objectives and the intended effects?

"This measure is designed to work together with the Government's intervention on SME credit data to drive a significant change in the way that SMEs access credit in the UK. As a result of this measure, alternative providers will more easily be able to contact SMEs that are seeking finance and, due to the Government's intervention on credit data, they will be able to quickly and accurately assess credit quality (with the SME's permission) and make a lending decision. Together these measures will drive competition in the SME-lending market, leading to better outcomes for SMEs which have been struggling to access the finance they need from the big banks."

Comments on the robustness of the OITO assessment

The Treasury explains that the proposal is regulatory and will impose a net cost on business of £1.16 million. However, the Treasury explains that the proposal is intended to promote competition. The four largest lenders account for over 80% of the UK SME main banking relationships. A significant proportion of SMEs that approach these banks for finance are rejected, although they may be viable and could benefit from alternative funding sources. Previous voluntary schemes to address information asymmetries and the passing of information from the larger lenders to alternative and challenger banks have not reduced barriers to entry. The proposal should be classified as an IN with zero net cost for OITO purposes as it meets the relevant criteria for a pro-competition measure as set out in the Better regulation Framework Manual. This assessment is reasonable.

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

The proposal increases the scope of regulation on business. A SaMBA is, therefore, required.

The SaMBA is sufficient. The Treasury explains that the proposal is expected to improve access to finance for small and micro businesses, and provide smaller lenders with greater opportunities to lend. The proposal will also introduce requirements only for designated SME lenders – the largest banks that make up the majority of existing SME lending – to make information about SMEs rejected for finance available to private sector platforms. There are unlikely to be any new mandatory costs for small and micro-businesses. Small lenders who opt to join platforms will benefit from an increased range of opportunities. Legislation will ensure that small lenders can access designated platforms on fair terms. The Treasury outlines that it expects the proposal to have a positive, indirect impact on small to medium-size businesses that seek finance.

Quality of the analysis and evidence presented in the IA

The Treasury is proposing to require that the largest UK SME lenders – Royal Bank of Scotland, Barclays, Lloyds Banking Group, HSBC, Santander, Clydesdale and Yorkshire Banks, Bank of Ireland, Allied Irish Bank and Danske Bank – refer small and medium sized businesses they reject for finance to designated platforms that will facilitate contact with potential alternative financers. Referals will only be made where an SME has given its permission.

<u>Costs</u>

The Treasury identifies the main costs of the proposal as follows:

- Costs to designated banks – these are transition costs, mainly additional IT required to collate and transmit the data needed for referral to platforms. The Treasury's best estimate is that this will impose a cost of £6.3 million on the nine designated banks. Designated banks will also incur an ongoing cost of transmitting referrals to designated platforms as well as compliance and transparency costs. The Treasury expects these ongoing costs to be low, a maximum of £0.5 million each year, as it anticipates this will be a highly automated process.
- Costs to designated platforms - the Treasury identifies transition costs to designated platforms that will need to adapt their IT systems to enable them to receive and process data from designated banks, and share the data with SME finance providers that request it. The Treasury's best estimate is of transitional costs of approximately £0.5 million across all designated platforms. Designated platforms will also incur a low level of ongoing costs in the region of £0.2 million each year to send and receive the specified information.
- Costs to finance providers – finance providers will likely have to pay platforms to access business data in order to express interest in providing finance. However, these costs are purely a business to business transfer so the net cost to business is zero.
- The Financial Conduct Authority (FCA) - the Treasury explains that the FCA will also be required to monitor the compliance of designated platforms that will result in an annual fee being imposed on them. The Treasury has provided an assessment of the costs to the FCA that would be recovered from all designated platforms to be approximately £18,750 each year. However, these costs are related to the overall policy in pursuit of competition, and are, therefore, consistent with the zero net cost assessment.

<u>Benefits</u>

The Treasury has not monetised the benefits of the proposal. Finance providers, particularly smaller providers which currently face barriers to entry, will benefit from increased opportunities to compete for smaller business customers. The proposal has the potential to permit approximately 25,000 SMEs to access alternative funding in a more systematic way. The Treasury estimates that this could potentially increase the supply of credit to SMEs by between £1.4 billion and £1.9 billion. The Treasury also estimates that between five and ten designated platforms may be created. Designated platforms will generate profits from commercial relationships with lenders.

Signed	**Michael Gibbons,** Chairman