Regulatory Policy Committee

The Small and Medium Sized Business (Finance Platforms) Regulations

Lead department	HM Treasury
Summary of measure	Required designated banks to pass on details of SME applicants which do not meet the lending requirements to private sector finance platforms. These platforms could then match referred businesses to an alternative credit provider.
Submission type	Post-implementation review (PIR)
Implementation date	1 January 2016 (review by 1 January 2021)
Department recommendation	Keep
RPC reference	RPC-HMT-5021(1)
Opinion type	Formal
Date of issue	25 November 2020

RPC opinion

Rating[1]	RPC opinion
Fit for purpose	For a very low impact measure, the PIR provides proportionate evidence and analysis to justify the department's recommendation to keep the regulation. However, the PIR could be improved significantly in the areas described below.

[1] The RPC opinion rating is based on whether the evidence in the PIR is sufficiently robust to support the departmental recommendation, as set out in the better regulation framework. The RPC rating will be fit for purpose or not fit for purpose.

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RPC summary

Category	Quality	RPC comments
Recommendation	**Green**	The EANDCB for the measure was £1.16 million. For a very low impact measure, the PIR provides proportionate evidence and sufficient analysis to justify the recommendation to keep the regulation. However, the PIR should be improved significantly in the areas described below.
Monitoring and implementation	**Satisfactory**	The department has undertaken a light touch review for the PIR, which the RPC believes is appropriate. It carried out informal consultation with the main affected agents and stakeholders and considered evidence from published data sources.
Evaluation	**Satisfactory**	The PIR adequately addresses whether the measure has achieved its objectives. It provides useful information on the number of scheme referrals, the number and value of deals approved and the conversion rate for referrals. The PIR also discusses potential improvements to the measure.

Recommendation

The RPC believes the department's recommendation to retain the measure is appropriately supported by evidence and analysis in the PIR, which is proportionate given the scale of the business impacts. The department concludes that no changes to the regulation are required but notes some potential improvements to the measure. Also, it plans to consider whether guidance could improve the scheme's implementation.

The RPC believes the PIR should explain further why the department has not recommended amending the regulations to address the identified improvements. Also, the PIR would also benefit from setting out specific, practical steps that could be taken to implement the identified improvements.

Monitoring and implementation

The department has undertaken a light touch review to monitoring and evaluation, which the RPC believes is appropriate given the very low impact of the measure on businesses. It carried out informal consultation with the main affected agents and stakeholders, including a roundtable with the designated banks and a representative sample of alternative credit providers which covered the vast majority of key Bank Referral Scheme stakeholders. It also considered evidence from published data sources.

The PIR provides summary estimates of business impacts from the original IA. [2] The original IA provided estimates of costs likely to be incurred by the nine designated banks (mainly up-front IT and other transition costs). The PIR would benefit from providing further information on how accurate cost estimates in the original IA have proved to be.

Evaluation

The RPC believes that the PIR adequately addresses whether the measure has achieved its objectives. It provides useful information on the number of scheme referrals and the number and value of deals approved between alternative credit providers and SMEs. The PIR reports 1,695 deals worth a total of £32.9 million, with just under 30,000 referrals (representing a conversion rate of 5.66%).

The department believes it is important to better understand and seek to address why more SMEs do not take up the scheme in the first place, e.g. lack of confidence in the ability to successfully apply for finance after a first rejection. The PIR concludes that further SME education on the schemes' purpose and merits might be helpful. It also notes the measure's effectiveness could be improved by communicating the scheme's benefits to SMEs more effectively and including more accurate data in referrals to the platforms.

[2] https://www.legislation.gov.uk/ukdsi/2015/9780111138939/impacts

Extent to which the policy objectives been achieved

The PIR should provide a comparison against the expectation in the original IA (e.g. of number of referrals) or other benchmarks, in particular the cumulative conversion rate of 5.66 per cent for successful referrals. The PIR would benefit from explaining further why this seemingly low referral rate is a good outcome and why the remaining 94.34 per cent of aplicants were unsuccessful. The PIR could also address how success rates vary between those who initially apply to banks and get referred, those who initially apply to platform lenders and those who initially apply to banks and then make their own applications to alternative lenders.

The PIR could be improved by addressing whether the first rejection exposes fatal flaws in the business plan and, therefore, whether in these circumstances, funding by private sector platform funders might not necessarily be a desirable aim. This could draw on literature suggesting adverse selection problems with platform investment intermediaries.

Unintended consequences

The PIR briefly discusses unintended consequences, noting that these were all identified in the original IA. The PIR should provide further information on rejection rates by alternative finance providers, comparative interest rates and defaults, and how the scale of rejections compares to that originally estimated in the IA.

Evidence to support increased awareness and changes in SME behaviour

The PIR notes that feedback from designated banks, alternative credit providers and finance platforms points to a marked change in behaviour by SMEs. The PIR also suggested that the scheme has made SMEs more aware of alternative credit providers generally, leading to more relationships being built directly with providers even without an initial rejection from a designated bank. The PIR would benefit from providing any existing available evidence to support this assertion, e.g. survey data or views of small business groups.

Other comments

Given the financial challenges for small and medium-sized businesses due to Covid-19, the RPC recommends that the regulations be reviewed sooner than the next statutory five-year point, say, by the end of 2021/22.

For further information, please contact regulatoryenquiries@rpc.gov.uk.