FUNDING THE FUTURE: ACCESS TO FINANCE

In the past, local banks were often the main source of finance for entrepreneurs and business owners, along with the advice and education that helped them prepare their case for funding.

The credit sector has now evolved into a diverse and highly competitive space. New lenders have entered the market and the ability to search online for funding has expanded customers' options – whether the objective is to find keenly priced and more tailored forms of credit, or specialised advice.

However, some businesses still find themselves left behind.

In 2016, mandatory bank referrals (MBRs) were introduced that required banks to refer declined loan applications from SMEs to alternative finance providers. While the intention behind this policy is laudable, it assumes lenders' risk appetite to be the main reason for declining an application when in actual fact it could be that the application itself is flawed or that the business does not have a fundable profile – both of which could be corrected if firms understood the expectations of funders and how to improve their credit profile.

The problem is that the MBR simply cascades applications which, having failed once, are likely to do so again. In fact, 9 out of 10 businesses using the MBR are unable to secure funding through the referral process.

There will undoubtedly be businesses within that cohort which are not ready for finance, but there will also be others that are missing out on opportunities to invest for growth – and we need a system that is smart enough to tell the difference.

Accordingly, we propose that:

- **Businesses should be able to access their credit data more easily.**
- **MBR should be able to be deployed more flexibly.**

Getting businesses “match fit” for funding

Business owners need help to improve their credit profile, and this begins with getting **easy access to the data held on them under the Commercial Credit Data Sharing Scheme (CCDS).** Consumers can readily access their credit file from credit reference agencies and receive tailored advice on improving their credit score. Businesses should be able to do the same.

The limited access to reliable credit data for small and medium sized-enterprises in particular has been recognised as a problem for many years. In fact, ten years on from a Government consultation on this very issue, businesses are still unable to access the full range of data held on them. This means firms are hindered in their ability to make themselves ‘match fit’ for funding.

Understanding the expectations of lenders is a further critical skill for SMEs, and the smaller the firm, the more difficult this may be in terms of available time. AI sources and signposting to existing business support and advice infrastructure can all help businesses demonstrate their credentials as a fundable proposition.

HM Treasury should review the way in which businesses are able to access the data held on them by the CCDS. Businesses, and services operating on their behalf, should be able to easily access this information.

Making MBR more flexible

Instead of simply cascading down referrals which are still likely to fail, funders including banks should be able to deploy the MBR process in a more flexible way, which allows them to access a greater range of services including tailored advice.

For example, there may be alternative approaches or funding opportunities which can be used to support a business. It may be that MBR can be used to leverage alternative funding sources, allow funders to deploy innovative lending products, or be expanded to allow for referral to a wider range of products, advice and services for businesses that cannot access traditional bank funding.

We believe HM Treasury should review the MBR framework with a view to exploring how to make it work more effectively.

Making these changes would support businesses in being successful and ensure the continued success of the UK’s thriving SMEs.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. In 2022, members of the Finance & Leasing Association (FLA) provided £150 billion of new finance to UK businesses and households, £51 billion of which helped consumers and businesses buy new and used cars, including 84% of private new car registrations. £116 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £34 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing almost a third of UK investment in machinery, equipment and purchased software in the UK last year.