



FUNDING THE FUTURE: MAINTAINING A DIVERSE CREDIT MARKET

The UK has a uniquely diverse credit market. Asset finance, hire purchase, leasing and second charge mortgages are all a key part of this funding mix. Small independent non-bank providers also play a particularly important role in the lending market, especially where they provide funding to small and medium-sized enterprises (SMEs), or provide credit to underserved groups including non-prime customers.

By embracing flexibility, agility, and a willingness to provide funding to underserved customer groups, the UK's diverse credit market supports economic growth, fosters entrepreneurialism, and bolsters financial inclusion.

During the last credit crunch, the OECD identified that "*SMEs have long been heavily reliant on traditional bank finance, but especially the crisis has shown that it is therefore necessary to broaden the range of financing instruments available to SMEs and entrepreneurs to improve their financing*"¹ The UK should build on this to support this sector more directly.

We call on the Government to introduce three new policies to support the UK's diverse credit market and help them in turn support the customers that rely on their services. These are:

- Establish a **Business Growth Guarantee Scheme**
- Establish an **Investor Guarantee Scheme** for non-banks
- **More support for the British Business Bank (BBB)** to help them deliver support for SMEs

¹ OECD / Wehinger, G. (2014) SMEs and the credit crunch: Current financing difficulties, policy measures and a review of literature.



Business Growth Guarantee Scheme

The British Business Bank's (BBB) various support schemes: Enterprise Finance Guarantee Asset Finance Variant, Coronavirus Business Interruption Loan Scheme (CBILs) and temporary Recovery Loan Scheme (RLS) have all supported FLA asset finance members in providing finance to small business.

When RLS expires in 2024, we want to see a permanent scheme established. This would provide our members with certainty and allow long-term planning with their customers: mainly small and medium-sized businesses. A Business Growth Guarantee Scheme would be modelled on the previous schemes. Our expectation is that the guarantee percentage would change. However, retaining the removal of the cap and the assignment of guarantee is critical to the success of the scheme.

Investor Guarantee Scheme

In the event of a future credit crisis, lenders will need rapid access to liquidity beyond support schemes such as the Recovery Loan Scheme (RLS) and the Enterprise Finance Guarantee (EFG) schemes. These schemes play an important role in helping business get access to finance but can be reinforced by a liquidity solution which can support small lenders.

To ensure we avoid a liquidity freeze in the future, we want to see an Investor Guarantee Scheme (IGS) established. IGS would only be activated in times of a crisis. It would be time limited with reasonable risk-sharing for both the exchequer and the funders. It would be available to investors of small business and consumer non-bank lenders.

With the assignment of guarantee under CBILs, the government set the precedent for guaranteeing the wholesale funder or investor. Unlike assignment, IGS would directly guarantee finance that an investor is providing to lenders.

More support for the British Business Bank (BBB)

The BBB plays a crucial role in supporting the growth and success of SMEs and scale ups in the United Kingdom. Its guarantee schemes have helped to support scale-ups and SMEs that might otherwise struggle to access finance. Its products have also enabled non-bank funders to deliver asset finance products to businesses that might otherwise have overlooked hire purchase and leasing as options to fund the acquisition of equipment.

To ensure it has the necessary resources and tools to effectively support SMEs and growing businesses, we believe **the BBB's remit should be reviewed with a view to expanding its offering**. This review should aim to provide the BBB with increased funding to bolster its cash reserves, allowing it to scale up its operations, deploy its products more quickly, and provide greater financial support to SMEs.



The review should also explore how to make greater use of non-bank funders. It would consider what additional scope exists to leverage the ability of these funders to support businesses. The BBB already works closely with many non-bank funders but, with more funding, has the potential to offer an even greater range of products and services to support businesses.

By expanding their existing work with work with non-bank funders, the BBB can diversify its product offerings and tap into the expertise and innovation of non-bank funders to better cater to the unique financing needs of SMEs. This strategic review and expansion of the BBB's remit will create a more robust and inclusive ecosystem, ensuring that SMEs have access to a broader range of financial resources, driving their growth and fostering a resilient and thriving economy.

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 the twelve months to November 2022, FLA members provided £148 billion of new finance to UK businesses and households, £50 billion of which helped consumers and businesses buy new and used cars, including over 84% of private car registrations. £115 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £33 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of the UK investment in machinery, equipment and purchased software in the UK last year.