

UK banks**Smaller businesses offered route to alternative finance**

Scheme will give SMEs rejected by big banks a more diverse range of lending options



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NOVEMBER 1, 2016

Thousands of small businesses that are refused about £4bn in loans by big banks each year will have the chance to join a new scheme connecting them with alternative providers of finance, such as peer-to-peer and online lenders.

The project, being launched on Tuesday, has been described by the government as a vital step in boosting the supply of finance for small business by offering them a more diverse array of lending options, including from new [financial technology](#) start-ups.

A [recent survey](#) by the British Business Bank found that 100,000 small businesses had formal applications for about £4bn of loans rejected annually by the main British lenders.

However, even before [the new scheme](#) was launched there were concerns among some of those involved that the banks could stymie its take-up by insisting on a time-consuming referral process for small businesses they turn down for loans.

The Treasury said last year 324,000 small and medium-sized businesses (SMEs) sought a loan or overdraft and 26 per cent were initially declined by their bank. Only 3 per cent of those rejected by their bank sought alternative options.

“A refusal from a big bank should not be the end of the line for a small business and, thanks to the finance platforms being launched today, now it won’t be,” said Philip Hammond, the chancellor.

The idea was first announced in [the 2014 Budget](#) and was passed into law last year — one of several measures introduced by George Osborne, the former chancellor, to increase competition in banking by drawing on the fast-growing fintech sector.

Eight out of 10 small business loans are provided by the big four banks — [Royal Bank of Scotland](#), [Lloyds Banking Group](#), [Barclays](#) and [HSBC](#) — and seven out of 10 companies seek finance from only one lender. Total bank lending to small business has shrunk in most years since the financial crisis.

The scheme will force banks to ask small businesses they turn down for loans to pass their details to three alternative finance platforms, which will put them in contact with a range of other providers of finance. Keith Morgan, head of the British Business Bank, said the new scheme “has the potential to make a real difference to smaller business finance markets in the UK”.

Peter Behrens, co-founder at RateSetter, a peer-to-peer lender, said: “For some time now, banks have reined in finance available to small and medium-sized businesses and narrowed their lending criteria, and our experience bears this out: we are often approached by sound businesses that have been turned away by banks because they do not fit the banks’ model — not because of creditworthiness.”

The three platforms will be operated by Funding Options, Business Finance Compared and Funding Xchange, which are charged with protecting the anonymity of the referred businesses until requested otherwise.

Conrad Ford, chief executive of Funding Options, warned that some big banks might complicate the process by introducing bureaucratic hurdles. He said: “I have heard that some banks plan to ask small businesses to sign a form and send it back to accept referral to the scheme, while others are planning voice calls to handle the process.

“The government has made it clear that it will be monitoring the volumes of referrals coming from each bank and checking to make sure it is commensurate with their market share. No banking executive wants to be hauled up in front of senior ministers for slowing down the process.”

Mr Ford said fewer than one in 10 of the small businesses that have used Funding Options ended up raising finance through it. Half were turned down by the loan providers and a further fifth rejected the terms they were offered.

Christophe Rieche, chief executive of iwoca, a digital working capital provider to small business, said: “Nobody really knows if it will be a success or a disappointment — I am optimistic — but it relies on banks to refer customers, so we will see.”

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