



IMPROVING ACCESS TO
FINANCE FOR UK SME'S



Our Contributors

The Genesis Initiative is a lobbying organisation and is totally reliant on our sponsors and supporters to continue helping SME's across the UK. The production of this report is no exception and would not have been possible without the support of the following and our thanks must go to them for their contributions that helped us in a number of different ways.

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Engineering Industries Association



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Hitachi Capital Business Finance



The Genesis Initiative



"This report highlights that 'awareness' continues to be a major problem and the findings chime with our own research. This revealed that the number one reason that those SME's turned down for finance initially didn't explore other opportunities was not being aware of alternatives (63%). A further 28% didn't want to upset their existing lender."

John Davies
Director Just Cash Flow PLC

Just Cash Flow Plc



League of Angels



Locke Lord



Merchant Money



National Market Traders Federation



Simply Asset Finance



Stormpress Ltd



The Genesis Initiative: Improving the quality of debate for UK SME's

Welcome

Through my relationship with the Genesis Initiative, I have been able to witness the growth and development of SME's funding across the UK since 2010. During the many discussions we have had over this period, we have been able to consider the most appropriate way of conveying an increasingly important message; awareness of the growing choice of lenders to business.

This isn't simply about the growing number of funders that have become available to businesses but also about the access and confidence for small business owners entering this new market. Therefore, by connecting with SME's through the

Chairman's opening

The Genesis Initiative exists to improve the quality of debate on SME's. Since its formation in 1999, it has worked on issues from SME finance to farming, from the film sector to loan guarantees. Genesis is an alliance of 115 trade associations representing SME's and the self-employed, allied with a cross-party Parliamentary and an academic membership. Genesis works to inspire economic reform and high-quality debate. It is nonpartisan, looking at Whitehall and Parliamentary channels to share information and deliver research to key opinion formers in the most persuasive, rather than the loudest way.

The Genesis work programme is focused through the Genesis Senate. Here the member organisations come together to consider major SME issues and to guide the Genesis programme of research and discussion. The Senate meets at least three times during each Parliamentary session. The member organisations represent over 1 million businesses and self-employed business people.

Small business is the backbone of the British economy and when it does well the whole country does well. The role of Genesis, always pushing for potential growth in the SME sector, is underpinned by a "can do" culture.

New jobs, new ideas and new wealth will be created if small businesses are thriving. Genesis

Genesis membership and placing this alongside our deep reach into the lending community arose the opportunity to produce this unique report outlining how our businesses are being funded at the current time.

There is an opportunity for our small business owners to expand their horizons and I hope that the report's findings will greatly assist those looking for investment to increase their accessibility to these new markets.

Anne Marie Morris MP
Member of Parliament for Newton Abbot

works to sustain a business environment that makes this possible.

The Genesis Access to Finance report continues that history of work to back the SME sector. It is based upon the views of those representing some 250,000 businesses, together with some 35 lenders to business completing their own survey mirroring the issues raised by SME's.

This work is a unique opportunity to compare the experience of small business owners alongside that of the new lenders to business that have emerged since the recession. We want to focus on solving the conundrum of bringing greater awareness of and trust in financial opportunities to both potential investees and investors, so to encourage more SME's to invest and grow. This will improve local economies and then contribute to UK growth as the SME sector sees new growth.

Genesis combines entrepreneurial zeal, concentrated research and commitment from experts working on behalf of SME's with support across the both houses of Parliament. We look to continue a powerful contribution to the continued growth of the SME sector within the United Kingdom thus increasing U.K. GDP.

John May
Chairman of The Genesis Initiative

Introduction

When I joined The Genesis Initiative 10 years ago, it was at the very early stages of the emergence of a completely new range of Lenders to Business. At that time I was experiencing first-hand the halving of those prepared to provide lending facilities to UK SME's. Therefore, it became increasingly important that we made sure that our small business owners were aware of this growing choice and that they really could access the finance they needed. Now in 2018 at a remarkable point in our history, the choice has never been wider and this has now matured, but have we made significant enough steps to raise awareness and to make up that shortfall in knowledge amongst UK SME's.

This report sets out to comment on the current position of funding for the 5.4 million small businesses in the UK. We have taken the insight from organisations representing some 250,000 businesses and uniquely combined this together with the experience and views from a wide range of representatives of the business lending and investing community. There is funding out there in abundance and our SME community is searching for investment into their business. This Report from The Genesis Initiative brings the thoughts and the aspirations from both sides of the divide together in one document.

Small businesses were hit especially hard by the recession. Around 85 per cent of business current accounts and 90 per cent of loans to SME's in England and Wales are with the largest banks. The general economic uncertainty alongside the concerns over the treatment of some SME's in the past has helped to add to their reluctance to borrow. We can look at the current reasons, but the statistics tell us that almost two thirds of UK SME's are not willing to fund expansion through borrowing and we want to help improve their confidence in seeking investment for expansion.

Yet, there is now a clear danger that UK businesses could become woefully underfunded at a time when they should be pushing ahead, identifying and chasing down opportunities. There is clearly no lack of financing options, the ability to call on increasing numbers of potential lending solutions and ability to tailor make funding solutions, is more often than not, eminently more suitable than a 'one size fits all' offering that we were all used to in the past.

As the business finance world expands it still has yet to take full advantage of the convenience of Open Banking, but indicators suggest this is changing.

Very recently, news that specialist finance providers and major banks are collaborating to link their data have emerged. We can expect the benefits of these partnerships spreading throughout the industry in the near future. Through education, we want to see business owners approaching their advisers armed with a range of finance options that they have learned about from an Open Banking-enabled service.

Our Report highlights that there has certainly been advances in the awareness of the business borrower of the range of finance available. Whereas we would have seen low level knowledge indicators, this is now moving ever higher, but needs more stimulus. It is also about confidence. The graphical indication that mirrors the fears of both the Lenders and the borrowing community is a real indicator of where further work needs to take place to bring both sides closer together. The responsibility for this does of course lie with both parties, better education on the part of the borrower coupled with more expansive marketing on behalf of the lenders will naturally encourage more investment. This can be facilitated by Government, building upon the excellent work already carried out by the British Business Bank, where an expanded remit using these findings as a guide to grow awareness, provide education, boost confidence and stimulate accessibility to the new business lending community.

In addition, the once-in-a-lifetime distribution through the Capability and Innovation Fund remedies package should kick-start even more innovation in business borrowing and banking. By backing innovative British finance firms and bringing further into being a new financial lending ecosystem of next-generation services, apps and tools, we can really help the small businesses that form the spine of the UK's economy.

Britain's business owners deserve to be satisfied and confident not frustrated and concerned, with their lending service providers. It is only right and will be a benefit for us all. Let us not allow this opportunity to struggle to find its own way forward, we need to encourage and embrace the Access to Finance revolution at the highest possible level and I believe that this report gives us all some strong indicators where we can focus our attention to make a difference and offer a better kind of financial experience.

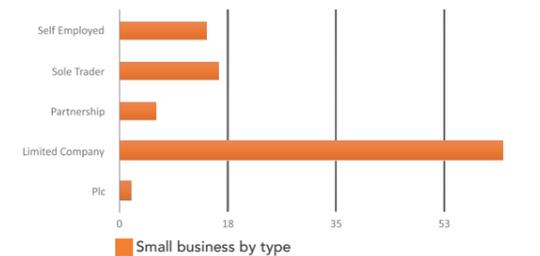
Adam Tyler
Director and Chair of the Access to Finance Committee – The Genesis Initiative,
Executive Chairman – FIBA
& Managing Director - FinancemyBusinessonline

“What businesses are involved in this report and what kind of finance for business are we considering?”

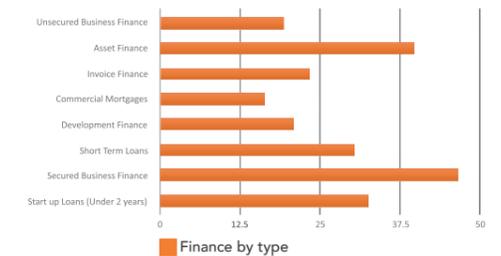
The survey that supports this Access to Finance report is unique in its simplicity that it asks both the SME community as well as the Business Lenders what needs to be done to bring them closer together. The following graphics indicates the types of business surveyed as well as the type of funding that those lenders who are involved can offer to UK small business.

The businesses involved came from differing parts of the SME community with even representation from the Plc sector. Overwhelmingly the responses were from those registered as Limited Companies of both small and medium types along with a large number who are either sole traders or just consider themselves to just simply self-employed. This cross section of businesses has given us an insight across the spectrum even if the number working in partnerships was limited.

Small Business Groups



Business Finance



The lenders who are involved with this report represent the whole spectrum of business lending that is currently available as supported by the above graphic. Since the recession of 2008 we have seen an unprecedented number of new lenders entering the UK business market with numbers of available lenders at an all time high. They are funded in a number of different ways and this has become more sophisticated over time and the competition for customers coupled with a low interest rate environment has meant that the end user, the business owner, should be able to find good value and readily available borrowing facilities.

Therefore all small business owners should to be aware of the types of finance and those who provide these facilities. As we now know what kind of businesses we have had involved in this research and the type of finance available, we can now begin to consider how each side of the equation currently behaves and what can be done to bring the two parties closer together.

Looking at the results of the survey, and also from speaking to our membership, it is obvious that the two parties involved are almost like ships in the night, neither being aware of the possible solution available to them. And from a small business perspective it has to be said that a general lack of knowledge of how these lenders work has led to many questioning their integrity and trustworthiness.

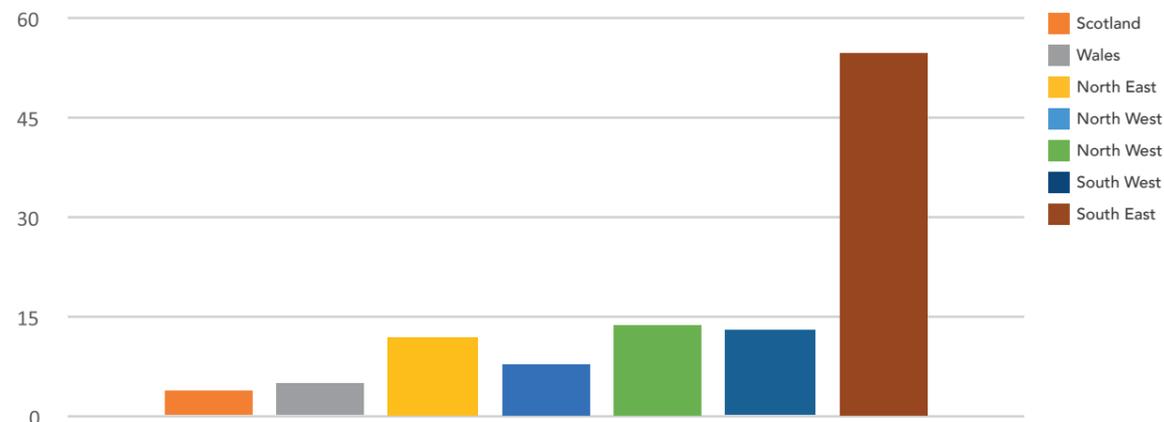
In order to alleviate this problem, we at the NMTF believe that, as a trade association with a membership of in excess of 20,000 micro and small businesses, the Government's help in assuring the respectability and standing of the specialist lenders raising awareness, combined with work between the two parties, would go a long way towards improving the growth of small business in many UK sectors.

Joe Harrison
Chief Executive, National Market Traders Federation

“Which regions does this report cover, from what part of the UK did our businesses respond and where are our Funders looking to lend?”

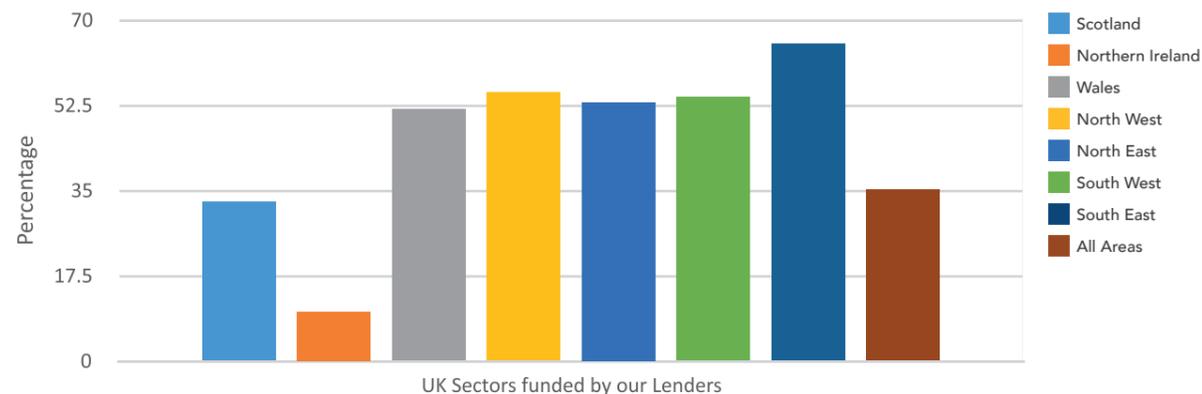
It was also important that we understood where the businesses involved were based. This is a nationwide campaign and our members are based in all regions, but we did get a higher response from those in the South East and unfortunately no respondents from Northern Ireland, but we can look at regional needs in the future in more detail.

UK locations for business in this report



The lenders involved also provide national coverage and the following representation shows not only those regional variations, but those who will lend across the whole of the UK are shown below.

Lenders UK operational Areas



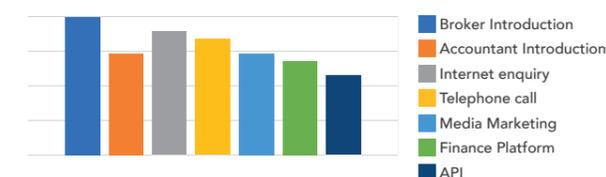
UK Sectors funded by our Lenders

“How do our Lenders to Business view their current interaction with the Small Business community and how can they lead the way in providing more education and confidence to those that are seeking finance?”

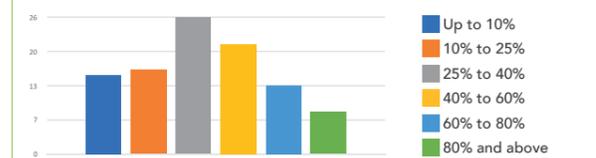
For our lending community new business origination has always been key to their initial break into the market and then strategic alliances will provide the continual deal flow that will keep them in business.

Since 2010 and the unsurpassed growth of new Lenders to business, which have grown to in excess of 300 in that period, it is so important to understand how they are performing. It is equally essential to understand their longevity and that our small business community can recognise that this is now the future lending landscape. Currently, there are many funding sources for our Lenders and this may be from high net worth individuals, crowd-funding, utilising a peer-to-peer platform, hedge funds and of course traditional funding from the High Street and now also from our Challenger banks. If this is to continue as a sustainable method of providing these lenders to our SME's then choice, diversity and a competitive market will remain.

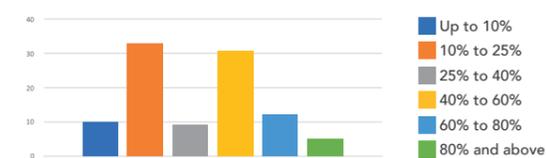
In terms of numbers of your enquiries how does a business approach you for finance?



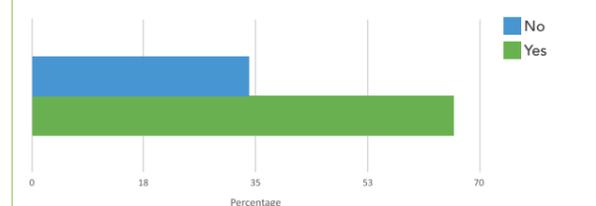
What percentage of your enquiries have approached their High Street bank first?



What percentage of your loans do you agree against the number of enquiries?



Do you market for new business direct from the SME community?



“I feel that on the whole Government is doing an increasingly good job of highlighting non bank finance sources for businesses. The essential problem is that the products available for raising and borrowing money are many and sometimes complex; the sources of finance are manifold, ever changing and not always the best for the customer; individual SME needs, capabilities and situations vary tremendously. Finding the best match is hard work and many small business do not have the time to look very far and the fragmented supply does not generally have the reach to find these customers themselves.

So pulling everything together in one reference point (an aggregator) whilst difficult, is probably the answer. The technical capabilities now exist, but how such a vehicle could or should be funded and advertised seems to be the next subject for deliberation.”

Stephen Bassett
CEO AFPA TRUST

“It is imperative that SME companies are made aware of the funding available to them companies through Alternative Finance companies, who are able to offer competitive rates often with no guarantees up to £150,000. Without access to funding, companies cannot grow their business which then impacts on the growth of the UK economy.”

Karen Finegold
Executive Director, Engineering Industries Association

The journey of a UK Small Business owner looking for finance in late 2018

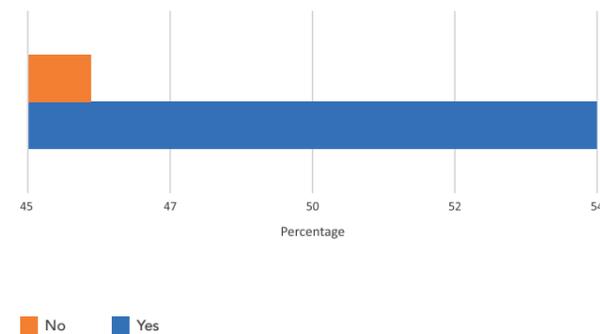
Understanding how a UK SME looked for investment in their business was at the core of our research. If we could see the route they took, then intervention to make for a smoother and more successful outcome would be easier to prescribe. It was also imperative that we know the success and failure rate at the final stage, put very simply did they get the funding they set out to achieve. If not and of course without knowing the full details of their financial status, how can we change that outcome for the better.

There is such a wide range of lenders to business available at this point in time and there is plenty of money in the system for UK businesses that you would like to think that there is a home for most businesses regardless of their status. Therefore, seeing that 42% of those who sought finance and traveled along this journey did not get the investment they needed is disappointing.

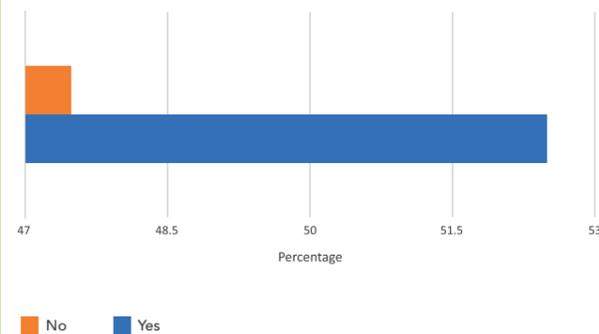
These are business owners who wanted to grow, to employ more staff, buy more stock, invest in new equipment and maybe expand their premises. Will they have the confidence to try again in the future? If we can provide that greater guidance and signposting and help more businesses find the finance they need then their local economy grows and this will feed into the overall UK economy.

Lets see their journey...

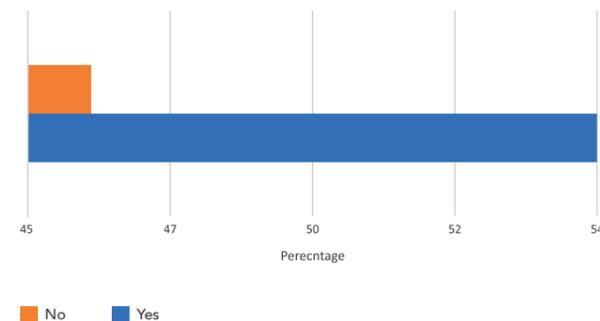
Have you borrowed to fund your business in the last two years?



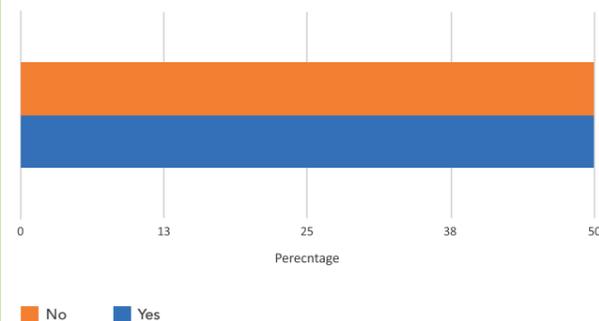
Did you approach your High Street Bank first?



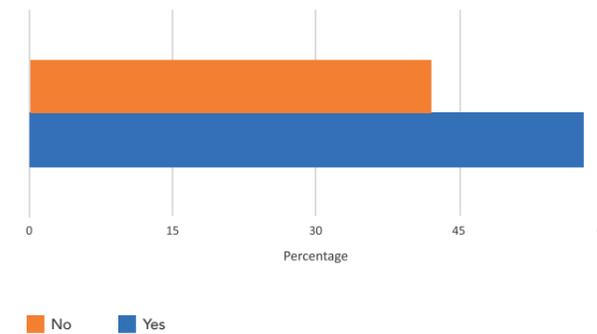
Did you get the funding you required?



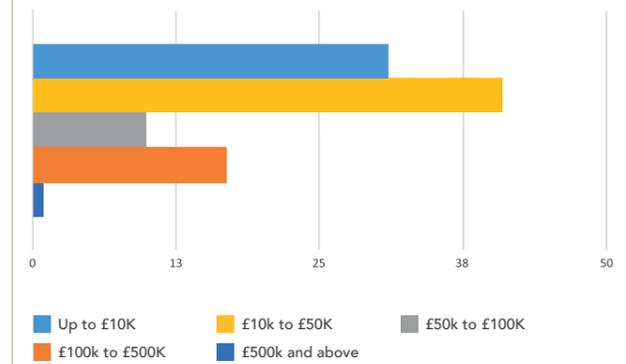
Did you then look elsewhere?



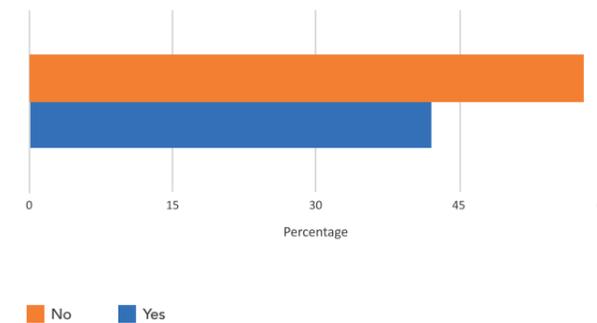
Did you then get the funding you require?



How much did you borrow?



Are you looking to borrow for your business in the next 12 months?



“Access to finance continues to be a key issue for UK SME’s, with nearly 70% suggesting that they would delay growth rather than have to discuss their business plans with financial institutions to raise funds. Our Hitachi Capital British Business Barometer regularly surveys the small business community and is a commitment to ensure their views and issues are heard.

The 2018 research revealed that almost one in two small businesses said they would be unable to grow their business without access to finance. This rises to 86% of companies already struggling to grow. The barometer research shows that over two thirds were dealing with late payment - with the late payment crisis getting so bad for UK small businesses that 17% of business owners say they are forgoing paying themselves a wage so they can pay their staff on time.

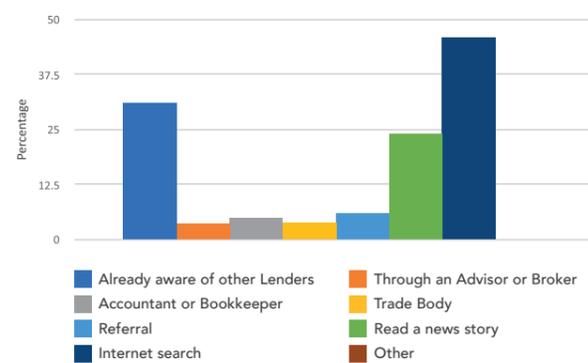
Small businesses are the backbone to our economy and to help them grow and prosper we need to see the industry embrace a more visionary, collaborative and supportive attitude to finance. There cannot be a ‘one size fits all’ approach.”

Gavin Wraith-Carter
Managing Director - Hitachi Capital Business Finance

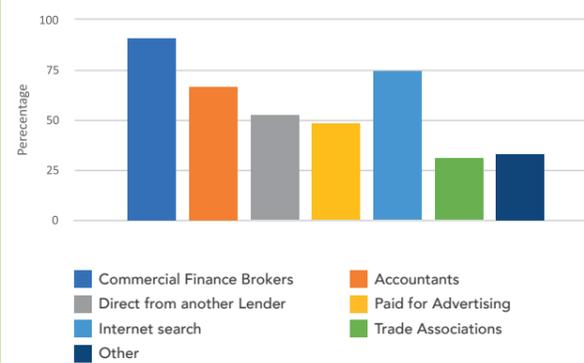
“How does an SME in the UK look for finance once they know that their local High Street Bank cannot help them and what do the specialist Lenders do to assist these businesses find the right kind of finance?”

Once a business borrower begins their search for other lenders, there are similarities in approach but it could be closer, matching the activities of those lending to those looking for finance has to be a key driver in bringing both sides of the divide closer together.

How did you approach your search for other Lenders?



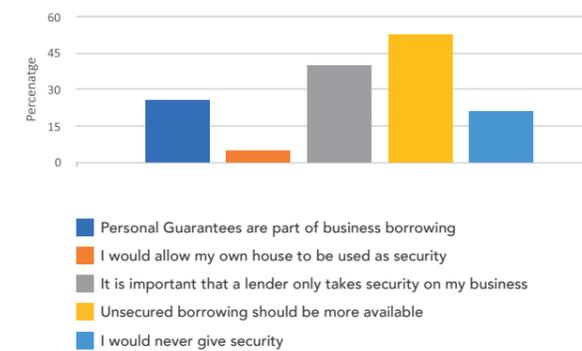
What methods do you use to find new business?



“The question of security for a loan can be a hindrance for a business in their attempt to provide investment for their business. It is very often one of the reasons why a small business owner does not borrow to grow”

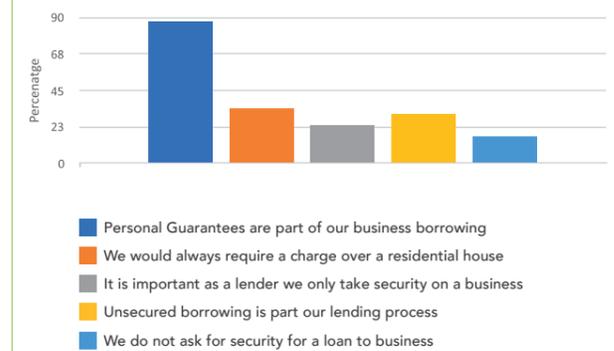
As a small business owner...

If you are asked as an SME to provide security for your loan, how would you respond?



As a lender...

If you consider security to cover a loan, which of the following statements are relevant?



“If 50% of SME’s still don’t seek alternative finance options we can only assume business owners are still not being given the confidence and knowledge to look elsewhere. Maybe its time that more radical action is taken to help small to medium sized businesses to be educated much earlier on in their business life cycle thereby giving them the confidence to approach alternative lenders who can assist with their growth journeys.”

Martine Catton - Chief Operating Officer Catalyst Finance

“This report highlights that ‘awareness’ continues to be a major problem and the findings chime with our own research. This revealed that the number one reason that those SME’s turned down for finance by their existing bank didn’t explore other opportunities was not being aware of alternatives (63%). A further 28% didn’t want to upset their bank.”

John Davies - Director, Just Cash Flow PLC

“In a first amongst membership organisations, the Federation of Small Business appointed Finpoint Limited to improve access to finance for their members. The “FSB Funding Platform” which is operated by Finpoint under a supplier agreement went live in 2018 and is quickly proving a success. The combination of online platform and friendly advice is helping FSB members to compare and conclude the finance option that works best for their business. In the first 9 months the Funding Platform saw hundreds of businesses use it with a significantly greater success rate than had been achieved previously. Naturally, we are extremely delighted to see how our combined offering - of platform and customer service - is positively contributing to the economy by putting money into the hands of hard working small business owners.”

Guy Bridge - Managing Director, Finpoint

“Asset finance lenders provide an important funding line to a wide range of businesses from sole traders through to small to medium size corporations for new and used equipment across a wide range of markets and sectors. This provides SME’s with an invaluable additional source of debt funding over and above their traditional day to day working capital bank facilities. Increasing SME’s awareness and visibility, which is still currently poor, beyond their bank provider is important to ensure that there is no restricted access to funding to allow their business to grow and prosper.”

**Jo Davies
Head of Asset & Consumer Finance Locke Lord (UK) LLP**

“Speaking with our League of Angels partnership base of over 5,000 investors from UK, US to Monaco, it is clear that some SME’s lack the insight or experience to harness both equity as well as debt capital. Their boards need greater strength from their Non Executive Directors to guide Senior Executives to the most cost effective capital solution whilst protecting shareholders. There is a lack of “joined up thinking” with numerous lenders and various crowd based equity platforms but no clear centralised solution where SME’s can compare and contrast debt versus equity offers.

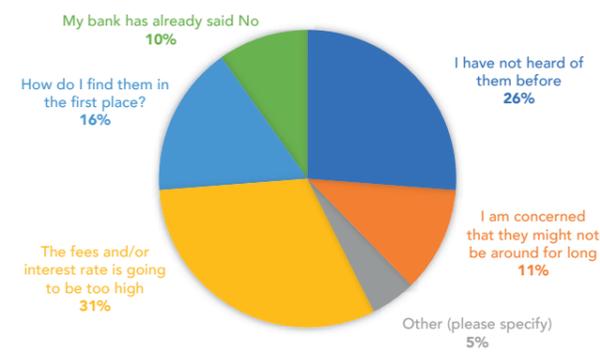
The government should reconsider its Seed Enterprise Investment Scheme to raise the maximum cap from £150K and allow entrepreneurs greater flexibility over the financial instructions offered to SME’s whilst preserving the investor’s tax status.”

**Barney Battles
League of Angels**

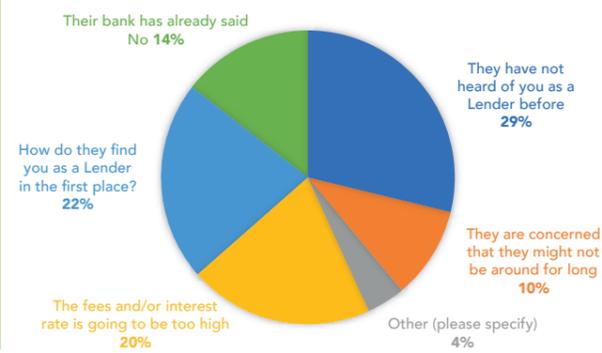
“Why would an SME not want to borrow from a specialist funder to business, the views from both the small business community and those who are providing the lending facilities are unsurprisingly very close in the assessment of the current situation?”

The fears expressed by the SME community are reflected by the concerns of the Lenders to business...

The concerns of an SME...

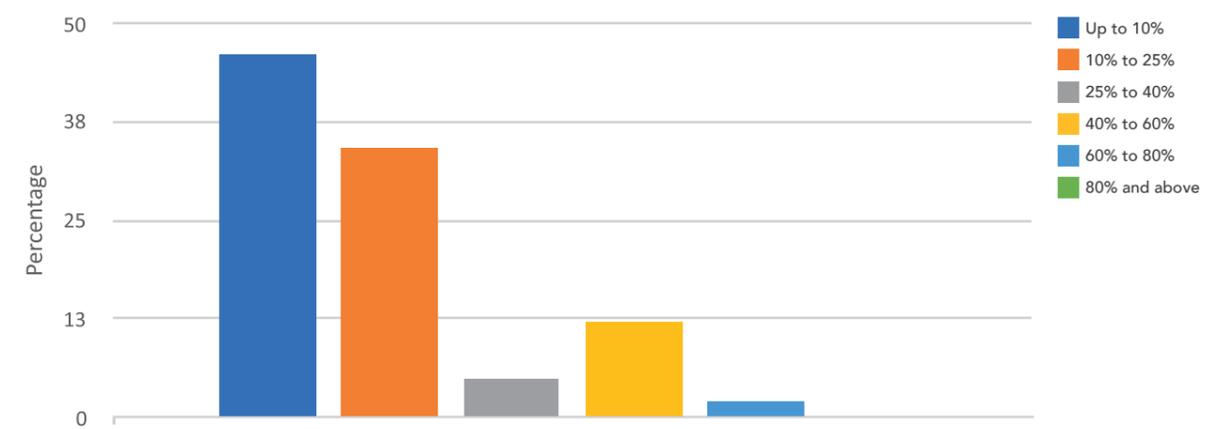


The fears of a lender to business...

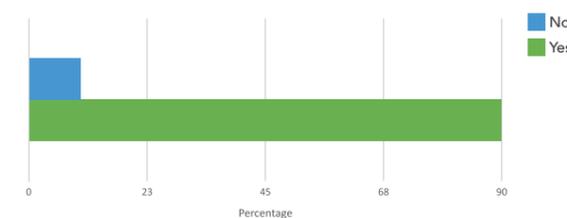


“What about Future investment, how is the current macro climate affecting the appetite of the lending community? Are they going to continue to want to fund our small businesses, what is the current state of awareness out there and how does all of this match the intentions of UK SME over the next 12 months?”

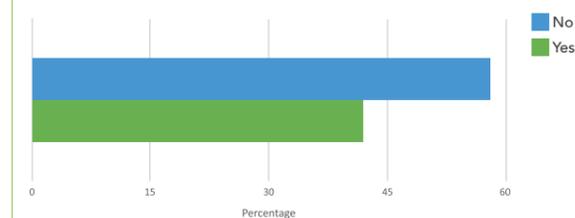
Do you think UK SME's are aware of you as a Lender?



Are you looking to lend more to business in the next 12 months?



Are you looking to borrow for your business in the next 12 months?



“We are very pleased to support the launch of the Genesis SME Access to Finance report. It is very encouraging to see agile lenders who have stepped in and provided SMEs with easy-access finance on flexible terms. It's very important we help small businesses to find the right funding. We need to ensure that most sectors within the SME market are covered and that all clients have the ability to tailor their own products to suit their business. At Merchant Money, we offer commercial business loans and business cash advances up to half a million pounds, we know that unsecured facilities are important for small businesses, so this is made available up to £150,000 unsecured.”

Danny Girnum - Merchant Money

“With the majority of SME's in the country saying they have needed extra funding to finance their business in the last two years, it's troubling that nearly half the businesses were refused money they required to grow or expand their businesses. Most concerning is the fact that one in two of those that were turned away, then subsequently gave up their search for financing- which is likely to have had an adverse effect on a substantial number of them. Unfortunately, this is not surprising. As the survey evidences, SME's seek finance from traditional banks in the first place and have limited awareness of alternatives. However, their traditional sources have closed the door on them more and more often. SME's do not fit the corporate scorecard and it is considered too risky and costly to serve the SME sector. Our experience also shows that SME's are reluctant to seek funding as it is seen as cumbersome and time consuming. The SME community prefers to deal with someone who understands their business, talks their language and gets the job done. At Simply, we aim to fill the gap between the traditional funding and reality at the coal face. We see the value and potential of the SME community and believe in investing in their growth. Our model is tailored to their needs and founded on a deep understanding of the entrepreneurs' challenges. SME's need access to funding to grow, and we want to support their growth and grow with them.”

Mike Randall - Chief Executive Officer, Simply Asset Finance

“We are committed to helping the SME builders, and as such have conducted our own research into these businesses source funding. As per this report, we know that many people are dissuaded to use alternative finance due to a lack of understanding of this market sector – and sometime lack of clarity on how it operates. We are committed to helping and educating our clients, and potential clients, in being honest, transparent and clear with our lending terms. We also ensure our marketing materials are concise and avoid small print and hidden T&C's. We are committed to working with initiatives such as this, and bodies such as FIBA, Genesis, HBF and alike and believe we have a moral obligation to support SME's in particularly - the cornerstone of the housebuilding sector.”

Lynsey Kay
Porter Business Development Director, GoDevelop

“Do you feel as a small business owner that more can be done to provide greater awareness of the Lenders to business that are available?”

A list of all types of lenders with pros and cons would be helpful maybe on Trade Associations websites.

“As I am self employed, I am only ever able to get very expensive funding, even with Base rate at 0.75% the amount charged by loan companies is extortionate and usury.”

“It seems if you are in business on your own you are charged the highest rates and fees which only makes things very much harder, so I feel that small businesses are only ever able to operate in the ‘slow lane’ and have to work ten times harder to get anywhere”

“Finance is very difficult to obtain in my experience which limits our ability to grow.”

“It only takes minutes to undertake internet search.”

“Yes. Government should be preparing to support SME’s much more post-Brexit.”

“Yes. With key information easily accessible with a way of comparing the offering like-for-like. Information tends to be only available upon lengthy application.”

“Definitely, I had no idea that there were specialist Lenders.”

“It would be useful to have information on the options from a trusted source e.g. Trade Association with references from other members who have had experience of the lenders.”

“As an industry we need to help boost the very businesses that are the lifeblood of the UK economy - particularly in the current unsettled climate - not make it harder for them to succeed.”

“Far easier to compare personal loans and finance. Why can’t business lending be the same?”

“Skilled mature people without funds to develop their SME business, because of a lack of finance, should be provided with more awareness of lenders or grants available.”

“I have excellent support from my High Street Bank and as long as my requests make sense I am confident of that I will get funding based on past performance and long term guarantees.”

“Little finance available unless personal guarantees are used.”

“I have used many different channels for funding. Now we are close to being debt free. Many new lenders such are very inflexible and with personal guarantees. These days if we require quick cash for something we use our Paypal account (online business) they can advance monies quickly and repayment is at agreed percentages of the online business.”

“Yes, small business’s are really suffering as costs to comply with all legislations/ requirements & spiraling costs. If we could have been given details of a specialist lender it may have proven helpful.”

“Information is unevenly spread.”

“YES. Good signposting across all SME sectors rather than just speaking amongst themselves with industry chatter.”

“The Government set up the British Business Bank to help fund the alternative market. The Government introduced a system of asking the banks to help SME’s find an alternative lender if they themselves did not wish to make the loan. This is developing very slowly as SME’s are reluctant to offend their main bank.”

“Yes, banks make it very difficult and other options are not advertised well or interest rates are very high.”

“Yes, the lending market is still dominated by the traditional sources.”

“The alternative lending market is expanding but it still has only a relatively small share of the market.”

“Yes, more awareness is needed.”

“Yes. The Government and the Banks should ensure that more information about raising finance and all the different options available is more widely available, including equity investment and loans from business angels.”

