

## **HMT and DBT Call for Evidence Access to Finance**

### **UK Finance Response**

8 May 2025

#### **About UK Finance**

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the government's commitment to supporting the UK's 5.5 million small and medium-sized enterprises (SMEs), with a focus on economic growth and innovation. Below is UK Finance's response to the Department of Business and Trade and HM Treasury's **call for evidence** which demonstrates how our members are supporting small business access to finance across the UK.

Our response is based on the data and evidence UK Finance collects from its members as well as independent sources, such as the SME Finance Monitor and Bank of England data.

Some questions were specifically targeted at businesses. We have only responded to those questions where we have useful evidence.

If you have any questions relating to this response, please contact Jennifer Tankard, Principal, Commercial Finance, at **[jennifer.tankard@ukfinance.org.uk](mailto:jennifer.tankard@ukfinance.org.uk)**.

#### **Executive Summary**

Banks and finance providers have the capacity and willingness to support new and existing viable SME customers, with a wide range of finance providers specialising in support for these businesses. Our members report robust competition for new business, and funding options for SMEs have never been more diverse, with a wide range of finance providers and products available.

Sources of business support and advice have rapidly expanded alongside the growth of business finance providers and products. Our members have developed innovative examples of good practice in tools and activities to support business customers. But while this wide range of providers, products, support and advice demonstrates healthy competition, it has also made the finance ecosystem harder for SMEs to navigate. Many struggle to navigate to the right advice at the right time to support access to finance decisions.

Gross lending is currently constrained due to demand from viable businesses rather than supply. Over the last few years, SMEs have faced a wide range of economic shocks, including the impact of Covid-19, the UK's departure from the European Union, and the ongoing war in Ukraine, as well as rising energy costs and supply chain disruptions. Many businesses have successfully pivoted to respond to these challenges, and some have benefited from arising opportunities. However, many others have either struggled or postponed decisions on investment and growth.

Access to finance is one of many factors that supports business viability and growth. The broader business environment including the strength of the economy, business confidence, tax levels, infrastructure and access to skills and labour all play an important role in influencing business confidence and willingness to take on external finance in all its forms.

SMEs have around £270 billion available in deposit and business bank accounts, compared to the stock of SME lending on loans and overdrafts of £180bn. 29% of SMEs hold more than £10k in credit balances. In addition, invoice finance and asset-based lending members report headroom within current facilities for client businesses of all sizes, including SMEs. These figures suggest that the overall SME market is liquid, with funds available to invest should SMEs wish to do so.

While constrained demand is the key access to finance issue, there are also some important supply issues. Since the financial crisis in 2008 / 09, financial services regulation has grown significantly evolving in a piecemeal fashion. This, together with the need for lenders to hold larger amounts of capital, has made it harder to lend to riskier businesses.

This response defines SMEs as businesses with an annual turnover of up to £25 million, in line with the Bank of England's definition. It is important to note that different types of SMEs have very different experiences. Location, size, structure and sector all shape the challenges and opportunities they face.

## **Recommendations**

We are pleased to contribute evidence-based recommendations to help shape a more robust SME financing ecosystem for viable businesses.

### **i. Growth Guarantee Scheme (GGS)**

We welcome the recent announcement from the government of increased funding for both the Growth Guarantee Scheme (GGS) and UK Export Finance facilities.

However, the GGS is still subject to certain constraints. Estimates from lenders of how much they could grow their GGS lending, in the absence of current scheme constraints, range from 25% to more than 100%.

Lenders' allocations are typically smaller than under predecessor schemes, meaning that some lenders have had to limit the number of customers to whom they can lend and/or cap the loan amount being offered. Whilst the announcement last month (to expand GGS by £500m to support British businesses impacted by tariffs) was welcome, a more general increase in GGS's budget is needed.

Additionally, current scheme limits, such as a £2 million cap on loan sizes under the scheme, and the maximum six-year loan terms where for non-GGS lending many lenders offer longer repayment terms, also constrain the ability of the GGS to fully meet demand.

Furthermore, as the scheme is due to expire in March 2026, we recommend putting it on a long-term footing alongside a general increase to GGS's budget. This would enhance the parameters of the support it can offer and presents an opportunity for viable SMEs to secure finance to support their growth.

## **ii. Regulatory environment**

In recent years, the regulatory framework for financial services in the UK has become more complex. Multiple regulators and public bodies now have remits that touch the sector, but no single body has overarching responsibility. There has also been a growth in the number of codes and charters applicable to SME lending, increasing the compliance burden for firms.

Less complex and layered regulation, striking a better balance between risk, financial stability and customer protection, would encourage banks to devote more of their resources to growth-driving activities, helping to further support business lending. It is critical to finalise and implement reforms aimed at bringing more proportionality to the capital regime.

## **iii. Personal Guarantees**

Our evidence shows that any regulatory change to personal guarantees (PGs) would restrict, rather than support, SME access to finance. However, we are committed to working with members to improving awareness of the value that PGs can unlock, as well as the potential implications of when a PG has been called in, to improve understanding and dispel myths.

#### **iv. Business support and advice**

We welcome the Government's decision to launch the Business Growth Service, which should focus on providing a one stop shop for business support and advice while also tackling fragmentation. The Service needs to be supported by a comprehensive awareness raising campaign with SMEs and a plan for driving traffic to the service.

#### **v. Underserved markets**

There is now a considerable body of evidence setting out the challenges faced by certain market segments, including female, ethnic minority and disabled entrepreneurs. Many lenders have put in place a wide range of targeted activities to support these groups and others, including armed forces veterans.

It is essential that government gives lenders the space and time to demonstrate the impact of these activities, rather than implementing a range of competing compliance requirements that have the potential to confuse business customers and divert firms from these activities.

### **Questions**

#### **1. What is your experience of seeking debt finance? Please specify the type of debt finance you are referring to.**

Banks and finance providers have the capacity and willingness to support new and existing viable SME customers. A key development in recent years has been the increasing diversity in the SME Finance market, across both provider type and finance type with 60% of new lending by value now done outside of high street banks.<sup>1</sup> Consequently, there is robust competition for new business.

Debt finance is one of a wide range of products available to SMEs. There are many other products that may be more appropriate depending on the size of business and purpose of funding.

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<sup>1</sup> BBB [Small Business Finance Markets 2024/25](#) report

For credit worthy SMEs, the challenge is one of demand rather than supply (see Question 4). Many SMEs are making use of Commercial Credit Brokers who have good market knowledge that enables them to obtain the best price, product and structure for their SME customers. According to the NACFB 2024 annual impact report, NACFB Members facilitated £26.5 billion of the UK's £38 billion broker-led SME lending market in 2024, with lenders relying on intermediaries for 67% of SME finance transactions on average. However, 61% of this facilitated lending related to property finance, and 24% for Leasing and Asset Finance. Business Finance (working capital, acquisitions and unsecured lending) was 15%.

New channels for seeking funding using technology and innovation, such as on-line eligibility tools, are also transforming the ease of SMEs to shop around and compare options when looking for external finance. Lenders provide a wide range of channels for business engagement, including telephony, digital channels and relationship managers for some SME cohorts. The speed and ease of loan applications has significantly improved in recent years.

A notable feature of market has been a significant fall in overdraft lending, which was 31% of SME bank lending in 1998 and 5% today, according to analysis by **Allica Bank**.<sup>2</sup> There are many potential reasons, including a preference for structured lending compared with pre-financial crisis risk appetite, the increase in new lenders that do not offer business current accounts and the rise of alternative product solutions such as asset based finance and merchant advances. Demand may also be a factor, as only 7% of SMEs are considering making an application for overdraft finance in the next 12 months.<sup>3</sup>

### **Trends in funding through invoice finance and asset-based lending (IF/ABL) since 2019**

In addition to lending by commercial banking members, at the close of Quarter 4 2024, UK Finance's IF/ABL members were advancing £21.5 billion (amounts outstanding) to just over 33,000 client businesses in the UK through invoice finance and asset-based lending (IF/ABL). Businesses supported through these products had a combined turnover of over £313 billion in 2024. This figure was marginally down on the record £315.5 billion of client sales supported during 2023.

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<sup>2</sup> Allica Bank [A long run analysis of SME Finance trends and policy levers](#) (April 2025)

<sup>3</sup> BBB [Small Business Finance Markets 2025](#) report

Overall, UK businesses supported by these products enjoyed a relatively strong recovery following the pandemic. The slowing of economic activity during the lockdown periods had seen client turnover reduce to £245 billion during 2020, with funds-in-use dropping to around £14 billion at the close of the year. This saw significant levels of funding unused within existing client facilities, as working capital requirements were suppressed through a combination of general economic slow-down and the ready availability of government-backed lending through the guaranteed schemes, and other fiscal interventions.

The re-opening of the economy during 2021 saw some strengthening in client turnover to around £275 billion, with advances recovering to stand at just under £17.5 billion at the close of the year. The recovery gained real momentum during 2022, with advances returning to £21 billion at the end of the year and client turnover of £313.6 billion supported across the 12 months rising to the record of £315.5 billion in 2023.

The recovery in total amounts advanced and client turnover has not been matched by numbers of clients using the products, however, with businesses supported by UK Finance's IF/ABL members continuing to trend marginally down year-on-year from the heights of over 40,000 supported across 2016,17,18, and the strong and steady growth seen from the global financial crisis to that period. At the same time the average size of business using these products has increased from £6.7 million in 2015 to £9.4 million turnover in 2024. There has been a 23% drop in the number of SMEs using the products, but a 31% increase in the number of larger corporates using the products over the same period.

The reasons for these trends are likely a combination of demand and supply. For smaller businesses seeking smaller amounts of funding on a more transactional basis, the finance options and providers available have expanded significantly over the last twenty years. This has been driven by a period of technological change and digitisation coinciding with an unusually benign period of monetary policy which has seen significant quantum of finance from outside the traditional banking system seeking a home, also combined with ready availability from government-backed lending over the last five years.

Invoice finance and asset-based lending have always been distinguished from traditional bank lending products by being inherently relationship-based. They are provided on the basis of an understanding of the underlying strength of and prospects for a business, including the strength of their debtor book, rather than short-term financials.

The degree of 'commoditisation' seen in some segments of the lending market for smaller businesses has had an impact on the ability of these providers to compete for smaller clients. Nonetheless, IF/ABL providers still supply over £8 billion at any moment in time to 30,000 SME businesses, with the 'original' invoice finance product, disclosed factoring, remaining an important product for over 10,000 businesses and with many IF/ABL providers continuing to focus on these key segments

### **Looking forward**

The provision of funding through invoice finance, where the core 'asset' against which funding is provided will be the client businesses' debtor book (so the funds owed by the clients' business customers, as represented by the invoices outstanding) is linked to payment practices within the real economy. The sector exists to support businesses that supply goods or services to other businesses on credit terms, providing them with the working capital they need to bridge the gap between doing the work and being paid for it. Invoice finance can help client businesses manage the risks of 'late' and extended payment, and other poor payment practices, but should not be seen as a solution for it. Nor should it be seen as an alternative to procuring businesses treating their supply chains fairly.

In these respects, the access to finance and payment practices agendas should be seen as complementary. Government has previously recognised the impact of certain contractual practices imposed by large businesses on their smaller suppliers in restricting the finance options available to those businesses, taking targeted and proportionate actions to nullify the impact of contractual clauses that seek to 'ban the assignment' of the debts that arise under certain contracts between certain-sized entities through the **Business Contract Terms (Assignment of Receivables) Regulations 2018**.

There are other types of contractual and cultural practices that have the impact of passing risk down supply chains and can restrict the ability of smaller businesses, in particular, from accessing appropriate types of finance. These include pay-when-paid and unlimited liquidated damages clauses.

In addition, E-invoicing should make the provision of invoice finance more secure and easier in many circumstances and, in combination with the Assignment of Receivables Regulations, if implemented effectively may allow finance providers to provide more finance to smaller businesses against their invoices in future. UK Finance looks forward to contributing to the parallel DBT and HMRC consultation on implementing e-invoicing in the UK.

We encourage government to continue to approach the access to finance and payment practices agendas as two sides of the same coin.

**2. What has your experience been of using a commercial finance broker?**

Not relevant to UK Finance.

**3. How could the Business Growth Service best encourage business finance readiness, including signposting and facilitating access to appropriate financing options at the right time?**

We know that many SMEs lack the skills and knowledge they need to navigate to the right type of finance at the right point in their business journey. Recent research from the **Money Advice Trust** highlighted that 2 in 5 Business Debtline clients did not feel confident navigating their business finances and only 1 in 10 Business Debtline clients said they had used any of the government-funded business support helplines. This comes as the SME Finance Monitor found fewer SMEs are taking professional advice than five years ago. As the range of business finance providers and products has grown, the finance ecosystem has become harder for SMEs to navigate.

While there is a considerable range of business support and advice available from a range of different organisations, it remains fragmented, and trust remains an issue amongst SMEs.

We welcome the Government's decision to launch the Business Growth Service, which should focus on providing a one stop shop for business support and advice while also tackling fragmentation. We would recommend that it references or signposts all forms of available support, including support provided by the British Business Bank and lenders, not just government support.

Its launch should also be supported by a wide-ranging awareness-raising campaign targeted at SMEs and a plan for directing traffic to the service. The Business Growth Service should align with the British Business Bank's Power of Partnership work, which also seeks to provide a one stop shop of business support and advice. It should also align with work underway by HM Treasury on reviewing the loan referral scheme, which is considering how to direct businesses to sources of advice.

#### **4. Do you believe that there are any barriers to demand for debt finance? If so, what are the main barriers?**

Research has indicated that there are barriers to business demand for debt finance, many of which are compounded.

Recent SME Finance Monitor data shows that for SMEs in H2 2024 higher costs, and the economic climate remained the key future barriers to business, alongside political uncertainty. The proportion citing cash flow/ late payment as an issue has also increased again.

#### **A challenging economic environment**

All businesses continue to navigate a challenging and uncertain economic environment.

In recent years, SMEs have had to respond to the impact of the UK's departure from the EU, Covid-19, and the war on Ukraine. These events have also significantly disrupted supply chains, fuelled inflation and resulted in rising interest rates. While some of these factors, such as interest rates and inflation have stabilised, new factors, such as changing USA tariffs all create a climate of economic uncertainty which discourages SMEs from seeking debt finance.

As cost increases accelerated in 2022, UK Finance data saw an increase in overdraft applications and in IF/ABL advances for firms needing to manage cashflow.<sup>4</sup> This indicates that there was some demand in response to the economic climate, but this was likely more reflective of short-term working capital challenges rather of a longer-term change in the mix of finance.

The UK economy grew in the first half of 2024, rebounding from the brief recession at the end of 2023. However, this was short lived, with zero growth between July and September, and only picking up slightly in the last three months of 2024. In Q1 2025, UK business sentiment has generally deteriorated, due to global economic factors.

In 2024, the **SME Finance Monitor** found that one in five SMEs described themselves as 'struggling' and 31% saw the economic climate as a major future barrier (higher than pre-pandemic levels).<sup>5</sup>

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<sup>4</sup> UK Finance [Business Finance Review](#) 2022 Q3

<sup>5</sup> SME Finance Monitor [Mid-year Update Q2 2024](#) p. 6 & 8.

Unsurprisingly, therefore, in recent years there has been less of a demand for and only a modest growth in gross lending to SMEs by main high street banks, consistent with muted recovery in business investment.<sup>6</sup>

These issues are further exacerbated by uncertain and complex fiscal policy, particularly relevant for smaller businesses who often lack the resource to address new and complex changes. Recent data from **Shawbrook** found that 42% of SMEs in the UK feel the incoming NIC hikes are going to negatively impact them, while a third (33%) said that the Autumn Budget last year would make them have to increase the price of their goods or services.

The ICAEW's Q1 2025 **Business Confidence Monitor** (BCM) reported that Business sentiment turned negative for the first time in over two years, falling to -3.0, the lowest reading since Q4 2022. Concern about the tax burden reached unprecedented levels across all sectors, a new record for the survey and a considerable increase on the previous all-time high in Q4 2024. This was also three times higher than the historic average and a seven-fold increase over the past four years.

More recently, the April 2025 **ONS Business Insights and Conditions Survey** (BICS) highlights declining demand for goods and services as the primary concern for 16.5% of UK businesses, though this is an improvement on the 19.4% seen a year ago. Tax concerns remain a primary issue for another 14.8% of UK business respondents, due to rising staff costs following the April increase in employers' National Insurance contributions (NICs) and the minimum wage increase. Although CPI inflation rate eased to 2.8% in March, global trade matters have renewed inflationary and competitive concerns while changes to international tariffs are causing economic uncertainty affecting business turnover for 28.6% of respondents. Another **ONS survey** indicates that 32% of businesses are concerned about supply chains, with 53% identifying increased costs of materials due to delays.

### **Covid legacy**

The Covid pandemic saw a dramatic increase in the level of borrowing taken on by SMEs, primarily though not exclusively, underpinned by the government-backed lending schemes launched because of the pandemic.

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<sup>6</sup> For more see: UK Finance [Business Finance Review](#) 2024 Q3 p. 5.

Many of these SMEs had not previously used external finance. The levels of borrowing taken on during that period, and the legacy of borrowing that needs to be repaid, combined with other factors such as levels of deferred or unpaid tax, continue to be significant considerations for SME businesses. Ongoing repayments dampen both SME demand for debt and impact affordability.

There are also downstream impacts to consider, related to government policy for the Covid Loan Schemes. A borrower from the Bounce Back Loans Scheme, for example, who may have defaulted (for *bona fide* credit reasons) and has gone through a recovery journey with some debt outstanding, cannot yet have that debt written off by the lender. This will have an impact upon business turnaround and scope for forward investment.

### **Business profile and accessibility of finance**

Micro businesses are the least likely to use finance, with only 42% of SMEs with 0 employees reporting using any external finance in Q4 2024 compared with 55% of SMEs with 10-49 employees.<sup>7</sup> Smaller SMEs generally have lower acceptance rates, reasons for which include typically lower credit profiles, the increased probability of default and a lower capability to service additional debt. Moreover, younger and high-growth businesses often lack the tangible assets required for traditional debt finance, limiting their growth opportunities (see Questions 12 and 13 for more on intangible assets).

The diversity of finance options as well as diversity of providers (for example smaller, challenger and specialist banks have the agility to tailor solutions to meet the needs of harder to reach SMEs) is an important part of ensuring SMEs get the right type of funding for their needs.

Underserved communities may face additional barriers when accessing finance due to a lack of tailored support and systemic inequalities within the financial ecosystem. For example, the Government's Help to Grow scheme had an eligibility criteria of staffing levels of > 5 employees which disqualified many women-led businesses (WLBs), which are typically smaller than their male counterparts. Please see Questions 20 and 21 for more details on underserved markets.

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<sup>7</sup> SME Finance Monitor [Q4 2024](#) p. 99.

## **Perceptions and financial education**

Many SMEs believe that debt finance is too expensive, and the application process overly complex and time-consuming, particularly in smaller businesses with lower-margins and limited administrative capacity. This perception also stems from a reluctance to take on risk, a lack of understanding of the strategic value of external finance and the different financial products available. Meanwhile, past rejections and negative experiences with financial institutions leads to hesitancy among SMEs to apply for finance, creating a cycle of underinvestment and stalling growth.

For those SMEs that do apply for finance, gaps in financial literacy among UK business owners can hinder their own ability to assess their financial health, navigate application processes and provide acceptable security for loans. Limited awareness of financing options and digital exclusion further compound this issue. SMEs often lack awareness of the lending options that would best suit their business needs.

Business education is essential to help SMEs navigate the types of finance available, how to articulate their funding need and how to prepare a business plan, for example.

- 5. Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent?**
- **In your view, how can these barriers best be addressed?**
  - **Are there examples of support and advice frameworks in other jurisdictions you believe could benefit the UK?**

Please refer to the points made in response to Question 4.

There is no lack of information or sources of support and advice for SMEs. The challenge is that there is a significant amount, provided by a wide range of organisations, including financial service organisations. SMEs struggle to navigate their way to the right information at the right time and often find it inaccessible. This means SMEs may start looking for finance too late to consider all finance options and at a point where they might not have all relevant information in place, for example a clear business plan and cashflow forecast.

The Money Advice Trust research found that a lack of skills and confidence holds small businesses back. Among those who were not confident managing their business finances, one in five (18%) said they had delayed business growth or investment opportunities because of this. One in ten (11%) micro-traders looking to grow their business identified their lack of skills or confidence managing business finances as a key barrier to growth.

Many SMEs are unaware of the diverse range of financing options available, including alternative finance providers, government-backed schemes, and financial products that would meet their specific needs. They may default to familiar options, such as credit cards, without exploring more suitable solutions. SME Finance Monitor data showed that in Q1 2025, credit cards remained the most common form of finance at 18%, followed by leasing/ HP at 13%, overdrafts at 12% and loans at 6%.

Low financial literacy means many businesses find loan application processes complicated and financial jargon daunting, leading to discouragement and abandonment of the process. Without a strong understanding of financial principles, business owners may struggle to accurately assess their businesses financial health or project future cash flows. This can cause businesses to underestimate the borrowing they need or overlook viable financing options or apply too late for finance. The downstream impact of past SME actions may not be well known by owners, and this may negatively affect their chances of accessing finance. For example, businesses that unknowingly misuse their overdraft or miss bill repayments without recognising the financial consequences.

Many smaller businesses lack the digital skills necessary to effectively research financing options, complete online applications, or manage their finances using digital tools. The digital skills gap further compounds the challenges posed by limited financial literacy. Reliable internet access and appropriate digital devices are essential for accessing online financial information and services. However, significant disparities persist across the UK, with some businesses lacking the necessary technological infrastructure. This is especially true for rural enterprises.

Many financial service organisations provide a range of support and advice including targeted activities such as investment readiness and mentoring schemes. For example:

- NatWest's partnership with **Digital Boost**, a platform which connects individuals with mentors via unlimited one-to-one conversations tailored to their needs, free of charge.

- Santander's **Breakthrough** programme organises multiple in-person and digital events to support SMEs.
- Bibby Financial Services' **Knowledge Hub** provides a wide range of information and advice.
- **Lloyds Bank Academy** offers financial and digital training through on-line services.
- Barclays **Eagle Labs** incubates, inspires and educates UK founders, startups and scaleup.
- HSBC has recently launched a **Small Business Growth Programme**, designed to help SMEs get started, build financial health and resilience, and grow.

Potential solutions could include:

**More consultative support, collateral and tools:** Relationship managers or similar points of contact from financial institutions are well versed in explaining the full set of products and financing options to suit a business's needs. However, as more finance is accessed via digital channels, emphasis should be placed on ensuring SMEs can seek guidance on finance options. For example, improved and smarter digital journeys, tools and calculators in the application process, as well as educational materials and resources on financial products before entering into the application process

**For future business owners (schools):** Mandating financial education at primary and secondary levels, with increased funding for teacher training, would equip future entrepreneurs with the foundational knowledge they need. By equipping future business owners with a solid understanding of financial concepts, they can make informed decisions and view debt as a strategic tool rather than a weakness.

**Education programmes:** Financial literacy could be integrated into business training schemes and sectoral support events to equip SME owners with the skills needed on how to effectively grow their business and manage debt effectively.

**Targeted underserved business community initiatives:** Focusing on initiatives that promote financial inclusion and literacy programmes for underserved business communities (see more below).

**Bridging the digital divide:** Strengthening the interplay of digital and financial inclusion programmes by promoting the use of accounting software and digital tools, enabling SMEs to maintain accurate financial records, effectively manage cash flow and demonstrate credit worthiness

## 6. Why are some small businesses permanent non-borrowers?

The subset of Small and Medium sized businesses (SMEs) defined as 'Permanent non-borrowers' (PNBs) are those not using external finance and showing no inclination to do so. At year-end 2024, the overall percentage of SMEs that met the definition of a PNB was 35%. Overall, SMEs remained less likely to be a PNB than to use external finance (45%), although this does include those with COVID loans so this may change in the future.

There are notable differences by size and industry:

- Zero employee SMEs are most likely to be PNBs (38%)
- SMEs with 1-9 or 10-49 employees are more likely to be using finance than be a PNB.
- 150-249 employee businesses are as likely to be using finance as they are to be PNBs.
- Businesses that are fully international or are in Hospitality or Agriculture are more likely to use finance. Health is the outlier with more PNBs than users of finance.
- 40% of SMEs are happy to borrow to grow. This proportion increased in the latter half of 2024 and is now slightly above levels typically seen in recent years.<sup>8</sup>

Many micro enterprises use their own human and intellectual capital rather than physical capital to provide services to customers. Meanwhile, early-stage businesses, that are not in a position to borrow, may have access to raised funds and other alternative forms of finance.

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<sup>8</sup> SME Finance Monitor [Q4 2024](#)

The SME Finance Monitor continues to report caution in using external finance, with around 70% of businesses preferring to accept slower growth to taking on debt. 65% of those say they wish to be self-reliant. This is supported by Bank of England data, which found that around 75% of businesses agreed with the statement: ‘I would like my business to pay down debt/ be debt free’.<sup>9</sup> Anecdotally, members report that many SMEs pride themselves on being self-sufficient and financially independent. Taking on debt might be seen as a failure to manage finances effectively. SMEs don’t always recognise the strategic value of borrowing or working capital management of cashflow and some worry debt conditions may affect their control and decision-making power.

Survey evidence points to risk aversion as the main driver behind the lack of investment for smaller businesses and reluctance to borrow. The proportion seeing cash flow/late payment as an issue has also increased.<sup>10</sup>

In addition, the economic climate and political uncertainty are key issues impacting on SMEs appetite for external finance (as detailed above).

The reluctance to borrow for some businesses can be explained by ‘pecking order’ theory, which postulates that businesses will prefer to finance their needs internally, using the cheapest form of finance, before turning to external sources such as debt. SMEs have around £270 billion available in deposit and business bank accounts, compared to the stock of SME lending on loans and overdrafts of £180bn.<sup>11</sup> 29% of SMEs hold more than £10k in credit balances.<sup>12</sup> These figures suggest that the overall SME market is liquid, with funds available to invest should SMEs wish to deploy these resources.

- **Should this be considered a problem?**

Whether this is a problem simply depends on the context. Not all businesses need to borrow. Startups or cash rich businesses, for example, may choose not to access debt finance products. It is not necessarily helpful to equate PNBs with the supply of finance to SMEs, or lack thereof.

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<sup>9</sup> Bank of England [Quarterly Bulletin 2024](#)

<sup>10</sup> SME Finance Monitor [Q4 2024](#)

<sup>11</sup> Bank of England [Bankstats Tables](#)

<sup>12</sup> SME Finance Monitor [Q4 2024](#)

There is an issue if there are viable businesses that want external finance but cannot access it, or there is misinformation and a lack of recognition of the strategic value of borrowing. These cases may result in economic inertia and a lack of growth ambition in the UK.

There are economic consequences associated with risk aversion and reluctance to invest that may present in PNBs. Smaller businesses tend to invest less than larger businesses relative to their turnover. Business investment in the UK has been low for some time, particularly since the global financial crisis. The UK has had the lowest share of investment as a percentage of GDP among G7 countries for 24 out of the last 30 years. The UK ranked 28 out of 31 OECD countries for investment in 2022. Evidence shows that the lack of investment in capital is a key reason for the UK's productivity gap with countries such as France and Germany.<sup>13</sup>

- **How can policy intervention support small businesses in this category, who have ambitions to grow, to seek finance?**

SME's need support and encouragement to grow and invest. From a policy perspective, government has consistently sought to intervene with supply-side debt and equity solutions but has focused less on demand-side stagnation. This is seen through measures such as the British Business Bank's Investment Funds, Start Up Loans, Government Loan Schemes, the Bank Referral Scheme and mandated Credit Data Sharing.

Government should consider:

- Tackling demand side failures and levels of discouragement, which are contributing to UK SME underinvestment, through improved business finance support to upskill entrepreneurs' financial management and credit readiness. Business support is currently fragmented and difficult to navigate.
- Addressing the lack of awareness and underutilisation of external sources to support growth and access to finance, including the availability of different lending products and the choice of market providers. Public and private partnerships, for example, can work together to raise awareness about the strategic potential of borrowing in a responsible manner.

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<sup>13</sup> British Business Bank Small Business Finance Markets 2024/25

- Empowering the British Business Bank (BBB) to stimulate demand through targeted interventions. The BBB's Power of Partnership (PoP) project, if developed and enhanced as a one stop resource for SMEs, could help to build financial confidence by providing diagnostic, triage and educational resources.
- DBT and HMT should ensure that the BBB has sufficient resource to support SME growth and to ensure funding schemes are adequately funded over the long term.
- We welcome the government plans to consult on the Bank Referral and Commercial Credit Data Sharing schemes. It is important that these schemes support access to finance for SMEs without imposing additional costs on lenders that could result in higher costs for business customers.
- Policies like guarantee schemes and targeted support that promote lower-cost lending products can encourage cautious SMEs or those outside the scope of traditional lending to explore borrowing opportunities, and more SMEs to increase borrowing in a controlled but growth-oriented manner. These schemes can be targeted to achieve a certain type of growth, for example, to accelerate green growth or high potential technology startups.

### **Other developments in accessing finance**

#### **7. What factors do you consider when selecting finance provider(s)?**

Not relevant to UK Finance.

#### **8. Are there sources of support or advice, or both, that you use to access finance? To what extent do these meet your needs?**

Not relevant to UK Finance.

**9. In your view, what would help to encourage the volume of small business lending in the UK?**

Please see points made in response to Question 5.

The Growth Guarantee Scheme (GGS), administered by the British Business Bank, supported more than £250m of finance to smaller businesses between July and November 2024, with 96% of facilities provided to businesses with fewer than 50 employees.

However, the GGS is subject to funding constraints. Estimates from lenders of how much they could grow their GGS lending, in the absence of current funding constraints, range from 25% to more than 100%.

In particular, lenders' allocations are typically smaller than under predecessor schemes, meaning that some lenders have had to limit the number of customers to whom they can lend and/ or cap the loan amount being offered. Whilst the announcement last month (to expand GGS by £500m to support British businesses impacted by tariffs) was welcome, a more general increase in GGS's budget is needed.

Additionally, current scheme limits, such as a £2 million cap on loan sizes under the scheme, and the maximum six-year loan terms where for non-GGS lending many lenders offer longer repayment terms, also constrain the ability of the GGS to fully meet demand. These funding constraints are impacting on the growth potential of SMEs and should be revisited.

With the scheme due to expire in March 2026, we recommend putting the scheme on a long-term footing with an increase to its total budget to avoid creating uncertainty about its future, enhance the parameters of the support it can offer and to enable lenders to support more businesses.

**10. Do you have experience or knowledge of successful lending market interventions in other jurisdictions that have helped meet an identified debt market gap?**

Australia's Research and Development Tax Incentive offers a tax offset for companies conducting eligible Research and Development (R&D) activities to encourage investment in R&D to help companies to grow and innovate. For R&D entities with aggregated turnover of less than \$20 million, the refundable R&D tax offset is on corporate tax rate plus an 18.5% premium.

The main aims are to boost competitiveness and improve productivity across the Australian economy by encouraging industry to conduct R&D that may not otherwise have been conducted, improving the incentive for smaller firms to undertake R&D, providing business with more predictable, less complex support.

International best practices also include initiatives that identify SMEs with high growth potential and provide them with support to unlock this potential over time

For example, a Canadian study has showed that the most effective way to support SMEs is by pairing financial support with advisory services. The Canadian **Growth Driver Program** run by the Business Development Bank of Canada (BDC) provides companies across all sectors with management training, networking, and other tailored services. A team of highly experienced advisers work with businesses to assess their needs and identify solutions, including a multi-year growth and management plan, as well as targeted support for CEOs and leadership teams.

Programmes such as this could include building financial skills and other capabilities, such as strategic planning, digital, marketing, and leadership, providing advice and mentoring from subject matter experts and facilitating business introductions and networking opportunities.

Some countries have a specific focus on midsize companies, employing a robust selection process, targeting specific groups and tailoring solutions to their requirements and partnering with the private sector.

Other countries that are often cited as 'small business friendly' include Sweden, Estonia, France, Ireland, Malaysia and Singapore.

## **11. What role do personal guarantees (PGs) play when seeking debt finance?**

### **Background – Why lenders take personal guarantees (PGs)**

In law, a limited company has a legal personality separate and independent from the identity of its shareholders. Any rights, obligations or liabilities of a company are separate from those of its shareholders. The latter are responsible only to the extent of their capital contributions, known as "limited liability".

Unlike sole traders and partnerships, where individuals are personally liable for any debts or liabilities they incur, a limited company business owner, typically the director(s), can walk away from their company's debts, even though they may have personal funds or assets to enable repayment of the borrowing they have incurred, or have other means of repayment.

Therefore, providing a loan to a limited company without a PG transfers the risk of loss to the lender.

Directors can also liquidate a company and continue to trade the business through a newly registered or existing company. Assets can be purchased from the insolvent company through a pre-pack liquidation.

By giving a PG, the guarantor(s) demonstrates to a lender that they have confidence in the business and are willing to make a personal commitment to working with the lender to repay the credit provided to the company.

The PG provides the bank with recourse to the business owners if the business defaults on its obligations to the bank. Arguably, the existence of a PG also encourages a greater degree of responsible decision making.

A business owner stands to benefit from the business profits and earnings, whereas the lender is providing a specific amount of funding for a finite return. If the business is a success, the business owner may gain significantly while the lender only receives the same defined return on their funds. It would be perverse to expect the lender to take more of the downside risk by restricting the use of PGs, when they do not stand to gain in the same way from the upside. To do so, would be to confuse debt financing with equity financing.

### **Current practice**

PGs are a long-standing feature of the commercial lending market, both in the UK and internationally. PGs play an important role in enabling the continued flow of lending to SMEs, because PGs reduce the expected loss by providing a personal and tangible commitment to the success of the business and repayment of debt obligations. Clearly there are sensitivities where a guarantor's home has been used as security under a PG in circumstances where that guarantee may be called in, although it should be noted that the vast majority of PGs are unsecured by personal assets.

Many lenders are clear that without PGs they would not be able to provide the same levels of finance and the reduction in the supply of finance to limited companies would be material. At least some of those lenders willing to provide finance without a PG would likely have to charge a higher interest rate due to the greater risk of default and loss.

In considering the approach taken by commercial finance providers to PGs, it is also important to note the approach taken elsewhere in the wider economy. They are commonly used outside of financial services by suppliers and landlords for similar reasons. Likewise, with similar intent, the British Business Bank Start Up Loan Scheme does not lend to limited companies but provides loans to the directors in their personal capacity, because of the risks associated with lending to new companies. Further afield, PGs are also used to support government-backed lending, for example Small Business Administration loans in the USA.

We also note consultation by HMRC on proposals for the taking of PGs from company directors with respect to unpaid tax debts.<sup>14</sup> The reintroduction of HMRC's status as a preferential creditor in the hierarchy of creditors, moving ahead of floating charge holders, has also created a greater need to obtain PGs, as lenders are less likely to receive any returns as either floating charge or unsecured creditors in an insolvency process. PGs are more widely used as a result.

The role of PGs in mitigating fraud should also be noted. The shield of limited liability plays an important role in fostering entrepreneurialism but can be abused. A PG can help to remind individual directors of the potential costs of defrauding creditors and others. Indeed, lenders have noted that when PGs were reintroduced to the Government's Recovery Loan Scheme, there was a significant drop in instances of fraud (ultimately helping to limit calls on the Government's guarantee of these facilities).

To support our response to this question, we have undertaken a specific data collection exercise with our commercial lending members, receiving information from 17 lenders, who together represent around 50% of the market, regarding their approach to PGs.

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<sup>14</sup> [Call for evidence: modernising tax debt collection from non-paying businesses - GOV.UK](https://www.gov.uk/government/call-for-evidence/modernising-tax-debt-collection-from-non-paying-businesses)

Respondents included all major high street lenders, as well as challenger and smaller banks. Where the data points referenced below refer to stock figures (e.g. the number of facilities) these are as of 31 December 2024. Where the data points referenced below refer to flows (e.g. the number of PGs called-in over a period of time), these apply to the period December 2022 – December 2024.

We have also referred to information contained in the SME Finance Monitor and the Business Opinion Omnibus surveys and other relevant sources.

For the reasons set out below, supported by the data points we have provided in response to this question, we believe that any legislative or regulatory change to personal guarantees would restrict, rather than support, SME access to finance. As we set out below, given the amount of lending that PGs help to unlock at the smaller end of the market, such changes would have a disproportionate impact on lower value lending.

**Data (over a period of at least 12 months and no more than 36 months) on:**

- (i) the nature and/or size of lending for which a PG is required**
- (ii) the typical borrower characteristics where a PG is required**
- (iii) the proportion of lending to limited companies where a PG is used.**

The approach to requesting PGs will vary between lenders. Depending on the lender, the guarantee will typically be requested based on either a) the risk assessment of the product or portfolio-level lending proposition and/or b) a customer-specific risk profile which may take into account such factors, among others, as the availability of tangible security, borrower credit scores and director risk profile.

PGs are often used where businesses may not have a trading record, capital or assets to use as security and which therefore represent a higher lending risk. In these circumstances, PGs can help these businesses to access finance that they might otherwise not be able to obtain.

The data we have gathered from our members indicates that across limited companies, sole traders, partnerships and LLPs, there is a total of 1,891,344 facilities, made up of loans (including Bounce Back Loans) and overdrafts. The majority of these facilities are for limited companies (1,153,618) followed by sole traders (539,720), partnerships (191,669) and LLPs (6,337).

The fact that PGs are commonly sought in respect of lending to limited companies is borne out by the data we have received from members and reflects the nature of personal liability for limited company business owners. The data show that of the total number of facilities with a PG in place (390,786), the vast majority (384,004) relate to limited company facilities. The proportion of limited company facilities where a PG is in place is therefore around 33%.

The typical profile of business where PGs are requested, can also be seen from the number of limited company facilities with a PG split by different value bands. We use this metric as an indicator of the size of the businesses:

<b>Total number of limited company facilities with a personal guarantee, by facility value</b>	<b>#</b>	<b>%</b>
£1 - £20,000	213,118	55.50%
£20,000 - £50,000	102,641	26.73%
£50,000- £100,000	27,053	7.04%
Over £100,000	41,192	10.73%

The SME Finance Monitor also provides some helpful analysis of the business demographics of those that have given a PG. These businesses are:

- Slightly more likely to have employees (59% v 55% with no PG);
- Seen across all sectors, but slightly less likely to be in Construction (15% v 19%) and slightly more likely to be in Property/Business Services (31% v 27%);
- More likely to have a worse than average risk rating, potentially linked to their age (47% v 37% with no PG);

- More likely to be a younger SME (33% trading for up to 5 years v 24% that have not given a guarantee and 55% trading for 10+ years v 63%);
- Slightly more likely to have a younger owner/MD (49% under 50 v 41% with no PG) and to have someone qualified in charge of the finances (47% v 42% with no PG).

The use of PGs should also be seen in the context of the significant increase in the number of incorporations over recent years. In 2012/13 there were 2,857,254 companies on the company register, rising to 5,116,743 in 2023/24.<sup>15</sup>

The number of limited companies in the UK has risen more rapidly than sole traders over the period from 2010 to 2023. Specifically, the number of companies increased by 62% while the number of sole proprietorships grew by 14%. This suggests a shift towards incorporated businesses within the UK economy.

Of the 2.06 million companies registered for VAT or PAYE in 2024, 44.0% are single employee limited companies.

The use of PGs in the context of these effectively ‘zero employee’ companies can in some ways be seen as replicating the nature of the business owners’ liability as would have historically been the case for this cohort if they were set up as sole trader businesses.

- **data (over a period of at least 12 months and no more than 36 months) on the extent to which the requirement for a PG has prevented an SME taking up credit when it has been offered to them (and the relative importance to other factors, such as overall loan cost)**

The data presented in response to the previous question demonstrates that far from discouraging borrowing, their prevalence underlines the vital role they play in enabling lending to SMEs and that many business owners are willing to give them.

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<sup>15</sup> HMG [Official Statistics Incorporated companies in the UK October to December 2024](#)

To the extent that SMEs are currently more cautious about taking on additional finance, the data suggests that the economic climate and political uncertainty are the most important factors behind such caution.

Relatively subdued demand for finance from SMEs also reflects the longer-term norm of many (over one third) SMEs being permanent non-borrowers.

The SME Finance Monitor has also shown little change over the last ten years in the proportion of business owners who had been “would be seekers” of finance (SMEs that anticipate that if a need for finance were to arise something would stop them applying). These are SMEs that would have applied for external finance but were deterred by factors like the process of borrowing or discouragement.

Less than 3% of SMEs were classified as would be seekers between 2015 and 2022, rising to 5% 2024. This data suggests that PGs are not having a major impact in discouraging would be applicants.

The SME Finance Monitor also reports that 43% of future would be seekers cite the current economic climate as their main reason for not applying; a figure that rises to 52% when combined with those who were also worried about the performance of their business in the current climate. The key economic change to make them consider borrowing would be lower interest rates, followed by a more certain economic outlook. PGs are not cited as a reason.

Between Q3 2019 and Q4 2022 less than 2% of offers of finance were declined by SMEs. This figure is currently 10%. Based on SME Finance Monitor data, this is driven primarily by the higher costs of borrowing as opposed to a reluctance to give PGs or other forms of security.

It is also important to consider the impact of PGs on SME attitudes to risk, finance and growth. The latest SME Finance Monitor identified key differences between those SMEs that have given a PG and those that have not. These findings indicate that PGs do not appear to have a negative effect on the approach guarantors take running their business, with guarantors:

- More likely to have identified a need for funding (and for that to be for business development purposes) and to have gone on to apply for it.
- Much more likely to say they are happy to use finance to grow.
- Much more likely both to want to be bigger and to be prepared to take risks to be successful.

- More likely to have both innovated and to be planning to innovate.
- As likely to have grown and more likely to be planning to grow (and more likely to have grown/plan to grow by 20%+ and more likely to have achieved scale up growth).

### **Customer preferences**

It is also important to note customer preferences in respect of PGs. Some members have indicated to us that where they have offered borrowers a choice between PG-backed lending or non-PG-backed lending, with a lower or higher interest rate respectively, as many as 4 out of 5 SMEs chose cheaper borrowing. We believe this is indicative of customers' preferences in the commercial finance market more generally.

In addition, one of members has also highlighted their own data on loan offer uptake, which shows loans where they ask for PG having slightly higher uptake than loans without, i.e. the presence of a PG does not seem to be deterring customers in the main.

- **evidence on the role PGs play in credit provision, including the extent to which the requirement for a PG has enabled access to credit by SMEs**

When looking at the role of PGs in credit provision, it is important to note that facilities with PGs typically see fewer defaults and lower losses, as compared to facilities without PGs. As such, the presence of a PG means that the risk to a lender that the customer defaults is lower, while the likely loss on the facility if the customer defaults is also lower. The role that PGs can play in unlocking access to finance is clear.

This can be seen from analysis provided by one of our members, a major high street lender, who compared the performance of a sample of their book of unsecured lending *without* personal liability with the equivalent sample of unsecured lending where there *is* personal liability. We believe this analysis is reflective of wider industry.

Their analysis indicates that unsecured lending without personal liability is around 2.5x more likely to flow into significant arrears than equivalent lending where there is personal liability. Therefore, if PGs were not taken, it is expected that this would ultimately require significantly higher impairment inputs into pricing and would reduce the level of lending in segments where they currently utilise PGs.

- **evidence of the extent to which issues relating to the calling of PGs have been experienced, what these were and where in the lifecycle of the loan these have arisen – please specify when this occurred**

While PGs play an important role in the commercial lending market, lenders never intend to rely on them as the primary source of repayment – they are only ever used as a secondary provision in the unfortunate event that a business is unable to meet its repayment obligations. Lenders are mindful of the impact that calling in a PG can have and will only do so when all other options have been explored with the borrower prior to issuing a formal repayment demand.

When a repayment demand is issued to a guarantor, although lenders retain the right to seek the full guarantee amount, guarantors are treated fairly at all times and lenders will wherever possible work with the guarantor(s) to agree an acceptable repayment plan or proposal. This will be based on their affordability and other relevant factors. The use of insolvency proceedings will typically be a last resort after having explored all reasonable options.

Lenders do, however, reserve the right to take immediate action to seek repayment under the guarantee, including in, but not limited to, cases where it may be necessary to meet legal, contractual or regulatory obligations or due to deceit, fraud or dishonest acts, etc, on the part of the guarantor, director or shareholder.

In the majority of cases, the borrower and guarantor are likely to be one and the same, as most PGs are provided by a director or shareholder of the company, who has direct involvement in the running of the company. In this regard, most guarantors will already be aware of the company's circumstances, prior the issuing of a formal repayment demand.

Crucially, called-in does not equate to enforcement or legal action and involves discussing and agreeing a payment plan as noted above. To illustrate this point, from the data we collected, lenders called in an average of c.15,700 PGs a year, with c.7,500 paid off fully/in-part by the business or guarantor(s), c.500 liabilities were written-off, and c.240 were subject to legal action to recover the debt from the guarantor. To note, not all PGs that are called in progress to an immediate outcome as it takes some time for discussions to be had with the guarantor and agreements to be reached about the repayment of the debt.

We note there are sensitivities where a guarantor's home has been used as security under a PG in circumstances where that guarantee may be called in, although it should be noted that the vast majority of PGs are unsupported by tangible security.

As noted above, all other options will be explored before this point is reached and due legal process needs to be undertaken to enable any property or goods to be repossessed. Indeed, to repossess a residential property due to a PG, a lender must first establish the debt and pursue legal action through the court system. They need to demonstrate they have followed the required pre-action protocol, including contacting the guarantor and exploring alternative solutions.

From the data we collected there are a relatively small number of PGs with charges over residential property (c.3,470), which includes principal private residences and properties owned as part of a portfolio. **Over the December 2022 - December 2024 period, only two principal private residences have been repossessed by the data respondents.**

While our data shows that repossessions are rare, the guarantor's asset base helps to ensure a constructive dialogue with the lender around solutions for repaying the debt. Given that a principle private residence is often the only significant asset the guarantor has, without it in play, a guarantor could be less willing to meet their obligations, undermining the very purpose of the guarantee.

For those guarantors, or prospective guarantors, who are concerned about the potential impact of their PG being called in, PG insurance is available to mitigate this impact.

### **Regulatory protections**

Where guarantors are unhappy with their lender's approach to calling in a PG, they can complain to the lender. From the responses to our data request, we are able to get a sense of the scale of this issue. On average across all 17 respondents, complaints relating to PGs, where a complaint involves a PG but is not necessarily about the guarantee specifically, account for 0.36% of business related complaints.

Should guarantors remain unhappy at the outcome of their lender's complaints process, they are then able to raise the issue with the Financial Ombudsman Service (FOS) which can investigate complaints related to PG provided for a business loan, where the guarantee was given for a micro-enterprise or small business, and the guarantee was provided on or after April 1, 2019.

The FCA's Feedback Statement FS23/5, 'Findings of review of rules extending SME access to the Financial Ombudsman Service'<sup>16</sup>, published data relating to PG complaints reviewed by the FOS. 95 cases were resolved on merit between 2019 and 2023. The uphold rate varies by year ranging from 19% in 2022/23 to 50% in 2020/21.

More generally, our members are committed to acting to deliver fair outcomes for business borrowers and guarantors. As per their Consumer Duty obligations, firms are required to act in good faith towards customers, to avoid causing them foreseeable harm, and to enable and support them to pursue their financial objectives.

### **Industry commitments**

The discussions we have had with our members indicate that they take considerable care to ensure that PGs are taken when appropriate and prospective guarantors are encouraged to carefully consider the implications of agreeing the guarantee. All of the members we have spoken to recommend that independent legal advice is obtained in all cases, and in certain circumstances, this is a mandatory requirement.

Notwithstanding the above, instances where communications between lenders and guarantors have not met expectations have been highlighted in the media over recent years.

UK Finance therefore engaged with members to understand where communications in respect of the use of PGs can be improved. **As a result of this engagement, in October 2024 we produced a set of commitments around lenders' use of PGs which reflect where existing practice can be strengthened or clarified.**

We believe these commitments demonstrate that the commercial finance industry takes this matter seriously and maintains a proportionate approach to the taking of PGs.

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<sup>16</sup> FCA [FS23/5: Review of rules extending SME access to the FOS](#)

Of particular relevance to this question are the commitments which specifically address issues around communications between lenders and guarantors, which set out that supporting lenders will:

“...provide guarantors, on a periodic basis, with a reminder that the guarantee they have provided is still current and to contact their lender if they wish to discuss their guarantee. This statement will also remind guarantors of any requirement to engage with their lender to discuss any relevant change in their circumstances and to notify their lender of any changes in their contact information.

“...keep policies and processes regarding personal guarantees under regular review to ensure they are as efficient and effective as possible and reflect current best practice.”

It is also important that prospective guarantors are clear about the implications of providing a PG. To this end, the commitments also set out that supporting lenders will:

“...always [at a minimum] recommend prospective guarantors obtain independent legal advice before signing a personal guarantee.

“...provide all prospective guarantors with, or signpost to, generic information about personal guarantees. This will be in the form of online content that UK Finance will produce on behalf of the industry, or lenders’ own similar material. This non-exhaustive information will include reference to the rationale for personal guarantees and their role in enabling lending to businesses, relevant key terms, and will stress the importance of early engagement with lenders when issues arise. It will also provide information on the routes available to individuals to raise complaints about personal guarantees.”

**We are due to publish online content about PGs in the form of a briefing document shortly.** We hope this will go some way to improving awareness of the value that PGs can unlock, as well as what the potential implications can be when a PG has been called in.

## 12. In your experience, what are the barriers to borrowing to finance intangible investments relative to tangible investments?

It is important that the banking sector plays its part in providing both support and financing to knowledge-based businesses, in order to support the growing role of intangible assets as a driver of innovation, economic growth and investments in skills and enterprise. Industry recognises that, at present, these businesses can struggle to be bank financed. While most banks lend to intellectual property (IP) rich companies, SMEs can find it difficult to *leverage* their IP assets to secure commercial loans.<sup>17</sup>

Lending against an IP asset value can prove more challenging for a range of factors, Challenges lending to IP-rich firms include:

- Capital requirements - used to ensure banks have sufficient capital to resist financial shocks, but regulation prevents IP from qualifying, making it more expensive for banks to lend against IP assets.
- Secondary markets - there are no established liquidity market for asset disposal in the event of default.
- Accounting - IP and other intangibles are often 'hidden' in financial reporting, limiting data available to investors.
- Valuation - IP valuation in the UK is a relatively small and niche market, with issues related to cost, complexity and confidence. There would be value in an acceptable IP valuation methodology being agreed.
- Awareness - firms can face difficulties identifying and communicating the value of their IP. Because of this they often don't see the value of registering IP with trademarks or patents and don't feel able to defend their IP, if it is copied or stolen.

UK Finance engages with the Intellectual Property Office (IPO) on a regular basis to discuss access to finance for intellectual property (IP) rich SMEs. In 2018, the British Business Bank (BBB) and IPO published a [report](#) on using IP to access debt finance.

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<sup>17</sup> IP rights are means to control, protect, and extract value from investment into intangibles

The report identified:

- Firms with registered IP (patents, trademarks, and designs) are associated with lower rates of default and default-related loss. An analysis of borrowers in Government's flagship debt guarantee scheme found firms with patents had a 60% lower default rate compared to the whole loan portfolio. Lower default rates broadly held across sector, firm size, age of business, and ticket size.
- A specific financing gap for IP growth loans at £68-354m per annum (*2018 figures*). This figure covers firms which own *registered* IP, cannot access bank loans, and seek loans up to £2m in ticket size. It excludes (a) firms which can access finance but could see reduced borrowing costs via IP-backed loans and (b) firms relying heavily on unregistered rights (such creative and tech sectors).

The evidence suggests that an increased focus on IP could help lenders lean into the UK's most innovative and high growth SMEs, such as helping to inform credit risk even where IP value itself is not used as loan collateral.

A 2024 report on the **UK's IP-backed finance landscape** by the World Intellectual Property Organization (WIPO) found that UK banks are engaging with IP backed lending and debt is becoming available at an earlier stage to these growth businesses who need it most.

The report identified regulatory and non-regulatory barriers to mainstream use of IP to raise business finance, including accounting standards, financial regulations and attitudinal issues. It also set out international good practice.

Some lenders are already working to address these issues. **NatWest** has a unique lending proposition to enable business to leverage the value of IP. It considers whether it could raise funding by using a firm's qualifying IP assets as collateral if borrowing needs cannot be met through conventional security criteria. The bank will use valuations provided by the specialist IP evaluation company **Inngot** to identify and evaluate relevant assets which could be taken as security for loans.

**HSBC** has a specific Growth Fund that looks to help high-growth tech firms to take off through Growth Lending, with a £350m pool of assets to support high-growth, loss-making tech scale-ups that are supported by strong equity backing, have a proven sales track record, and a clear path to profitability. They have deployed 50% of these funds into businesses that would otherwise not have secured financing. All these businesses have substantial IP.

Global initiatives:

- **WIPO (UN IP agency):** launched a workstream focused on promoting intangible asset finance.
- **International Accounting Standards Board (IASB):** launched work to review accounting standard on intangibles.
- **OECD Council on SME Financing:** recommends strengthening SME access to bank loans via consideration of IP as collateral.

It should also be noted that amongst other measures designed to enhance access to finance, the new regime for the taking of security over business assets that are subject to Scots law, introduced by the Moveable Transactions (Scotland) Act 2023, creates a new type of fixed security (a 'statutory pledge') that can be taken over a range of both tangible and non-tangible assets. This includes over certain types of intellectual property. The regime and the accompanying new security registers (the Register of Statutory Pledges and the Register of Assignations) have recently gone live. It will be interesting to review the impact of these changes in due course.

### **13. What is the experience of businesses seeking to use intangible assets as collateral for borrowing?**

See response to question 12.

High growth businesses generally own few tangible assets but can be rich in IP and intangible assets. These businesses can find it difficult to use their assets as collateral to secure growth funding, especially when compared with firms holding more conventional assets. This has led to a growth funding gap for fast-growing, asset-light businesses which is estimated to be as much as £15 billion annually.<sup>18</sup>

Intangible asset purchases would be classified as unsecured borrowing unless the borrower had existing collateral to pledge. Lenders may have a limited appetite to lend on an unsecured basis to SME, often due to a lack of security or clarity of cashflow.

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<sup>18</sup> **Scale Up Institute. The Future of Growth Capital Report. 2020**

#### **14. Do you believe that regulatory change has affected business lending? If so, how?**

Businesses themselves are subject to a significant amount of regulatory change, which undoubtedly impacts on business sentiments and demand for finance. In this section we have focused on the regulatory framework applicable to lenders.

Since the financial crisis, there has understandably been a move to reduce, or even eliminate, risks for consumers, directly and indirectly as tax payers, and small and medium enterprises (SMEs) and other segments. The financial crisis precipitated reforms to the structure of banks (e.g. resolution and recovery planning), their capital and liquidity requirements (e.g. Basel II and III standards, countercyclical and other capital buffers, leverage ratio, Liquidity Coverage Ratio or “LCR”) and the conduct of their employees (e.g. senior managers and certification regime). The UK’s regulatory approach has often gone beyond other countries with additional layers of reforms. For example, through the ringfencing regime and the Consumer Duty.

Meanwhile over the same period, the regulatory framework for financial services in the UK has become more complex. Multiple regulators and public bodies now have remit that touch the sector, but no single body has overarching responsibility. There has also been a growth in the number of codes and charters applicable to SME lending, increasing the compliance burden for firms.

Less complex and layered regulation, striking a better balance between risk, financial stability and customer protection, would encourage banks to devote more of their resources to growth-driving activities, helping to further support business lending.

#### **Prudential regulation**

It is critical to finalise and implement reforms aimed at bringing more proportionality to the capital regime including delivering further reform of capital requirements for banks of all sizes so that these requirements better reflect the level of risk in the system, to help boost lending to UK businesses, including by:

- ▶ Assuming the UK will proceed with Basel 3.1 reforms as set out in the **Prudential Regulation Authority (PRA)’s second policy statement** (published September 2024), we recommend:
  - ▶ Providing clarity on the Pillar 2A adjustment intended to offset the removal of the SME support factor. The SME support factor has been vital in underpinning a thriving and competitive SME finance market.

It is therefore critical that the Pillar 2A offset is adequate to balance out the removal of the SME support factor. The PRA has indicated that it will be adequate but, until the details of this are set out and consulted on, there are concerns this may not be possible for those firms that currently hold relatively little Pillar 2A capital. Depending on the frequency of determining the adjustment, there is also a risk of significant lag between advancing the SME loan and applying the adjustment.

- ▶ Increasing the outdated threshold defining a retail SME for prudential regulation purposes which was set at c. £880k in 2004 (simple GDP indexation to 2025 would increase the threshold to nearer £2 million). Increasing the threshold would allow more lending to SMEs to qualify for retail treatment benefitting from lower risk weighting, which would be more appropriate given the characteristics of these smaller SMEs.
- ▶ Providing clarity on the approach to determining the risk weighting of residential and commercial elements for mixed use/semi-commercial property and exposures secured on multiple properties.
- ▶ Finalising the Small Domestic Deposit Takers Regime (SDDT) - a proposed simplified capital regime for smaller banks and building societies. Many of our smaller members believe that the SDDT proposals, as consulted on, will increase the capital requirements for small firms, impacting their ability to grow. We are therefore not confident that, as currently proposed, the SDDT proposals support the PRA's secondary competitiveness objective or the Government's focus on economic growth. Key changes that are required are:
  - ▶ **SME exposures:** all exposures to counterparties which satisfy the definition of SME or SME Corporate (regardless of whether they are secured or unsecured), as set out in PS9/24, should attract the retail add-on of 1%.
  - ▶ **Operational risk:** a firm's total assets should be adjusted to exclude those assets that are not operational risk sensitive, and bucketing should be based on the effectiveness of a firm's approach to operational risk management

- ▶ **Capital buffers:** The PRA proposes to introduce a new, non-cyclical Single Capital Buffer (SCB), floored at 3.5%. Whilst we welcome this simplification, we challenge<sup>19</sup> the PRA's implicit requirement that an SDDT firm should be subject to the counter-cyclical buffer (CCyB), particularly as stress-testing for SDDT firms will be based on non-cyclical scenarios. The component of the SCB ascribable to the CCyB should therefore be removed, reducing the SCB by 1% – the current effective level of the UK's CCyB (after the removal of the P2A offset introduced when the CCyB was increased to the cycle-neutral 2% in 2020) – to 2.5%. If unchanged, capital requirements for lenders who sign up to the SDDT regime will be larger than required or necessary.
- ▶ The PRA should ensure that the final SDDT rules enable small firms to grow and support the economy.
- ▶ Introducing a new and proportionate **Intermediate Capital Regime** for firms that are larger than the criteria for SDDT regime but smaller and simpler than systemic firms subject to international regimes.
- ▶ Speeding up the transition journey for firms seeking to move from standardised or hybrid capital weights to the Internal Ratings-Based (IRB) approach.
- ▶ Modifying the minimum requirement for own funds and eligible liabilities (MREL) regime so the thresholds at which requirements apply reflect improvements in capital and resolution regimes, are indexed and reviewed periodically, and exclude cash reserves held at central banks; the regime differentiates between different business models; and use of transactional thresholds ceases, given innovations in digital banking and changing customer behaviours.
- ▶ Re-examining the current policy to hold the countercyclical capital buffer rate at 2% given that it is at the higher end of international practice. A measured reduction in the buffer could support lending without creating financial stability risk.

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<sup>19</sup> [See our response to the PRA's consultation CP 7/24](#)

- ▶ Re-examining the proposal to retire the refined approach to Pillar 2A, as set out in the PRA's **consultation paper on Streamlining the Pillar 2A capital framework** (September 2024) which we are concerned will subject low risk and well-managed firms to additional capital requirements, thereby increasing the significant differential between the IRB and standardised approach and further reducing the competitiveness of firms on the standardised approach. The refined approach should be retained and reformed.
- ▶ Removing the Pillar 2A UK-only lending add on of 1.33%. This penalises banks that only lend in the UK which runs counter to the Government's economic growth agenda. To support geographic diversity and levelling-up, we recommend that the PRA measure intra-UK lending geographic concentration instead.
- ▶ Leverage ratio reform: Firms' holdings of gilts should be excluded from the Leverage Ratio (LR) total exposure measure. UK banks hold proportionately less of their liquid asset buffer in domestic government bonds than in other jurisdictions, with LR requirements being a significant constraint; making this change would create an enlarged market for gilts, improving liquidity and pricing. The Financial Policy Committee should also make permanent the current but long-standing exemption of cash reserves held at the Bank of England from the LR calculation. These reforms would enable firms to increase their lending to SMEs and other customers.
- ▶ Remove cliff edges in capital, leverage and liquidity regimes: In its recent leverage ratio (LR) consultation the PRA proposes increasing the LR retail deposits threshold from £50bn to £70bn based on GDP increase since 2016. We welcome this (although only a handful of firms will be beneficially impacted by the change) but recommend that all thresholds in the PRA's Rulebook should be regularly assessed and increased in line with a suitable measure, such as GDP growth. Significant thresholds include: MREL – asset and transaction accounts; Ring-fencing (if not retired fully); OSII capital buffers. There are upwards of 50 thresholds.

## **Conduct regulation**

There are also a number of key conduct regulation recommendations that we believe are necessary to ensure and improve SME access to finance:

The regulatory perimeter for business lending should not be expanded. Any increase in regulation risks increasing the cost of finance, limiting product availability, dampening competition and innovation in the marketplace and ultimately reducing the availability of finance for businesses.

The Consumer Credit Act 1974 (CCA) (which applies to some business lending – see below) is outdated and in pressing need of reform. Its prescriptive requirements discourage some lending to business customers.

Further proliferation of codes and charters applicable to SME lending should be avoided to limit the compliance burden on financial services firms and a patchwork of protections that is very difficult for customers to understand.

Consumer Duty should be integrated in a way that complements the FCA's secondary competitiveness and growth objective (SCGO).

The FCA's ongoing reform of its rules following the implementation of Consumer Duty should take into account that Consumer Duty and MCOB and CONC sourcebooks (and related guidance) apply to in-scope business lending. The FCA's rules and guidance are almost exclusively framed from the consumer perspective. This can give rise to difficulties where firms are seeking to interpret and apply the FCA's rules and guidance to dealings with business customers.

We previously supported an expansion to the Financial Ombudsman Service (FOS)'s jurisdiction in 2019, which raised the threshold from micro-enterprise to include all businesses with an annual turnover up to £6.5 million and fewer than 50 employees or a balance sheet below £5 million. More recently we advocated for FOS's jurisdiction to be expanded further to align to the current Companies House definition for Small Companies (broadly those with annual turnover up to £10.2 million, and balance sheet up to £5 million or up to 50 employees). This change would allow access to FOS for over 99% of SMEs including those previously eligible for the Business Banking Resolution Service (BBRS) which is now closed to new complaints.

That said, FOS is in urgent need of reform to bring an end to its behaviour as a de-facto regulator and require it to apply relevant law and regulations as well as FCA rules and guidance. We welcome the review announced by HMT in this regard.

## **Reform of the Consumer Credit Act**

Lending up to £25,000 to sole traders, small partnerships and unincorporated associations is regulated under the Consumer Credit Act 1974 (CCA) and Consumer Credit sourcebook (CONC) chapter of the Financial Conduct Authority (FCA) Handbook. These rules are outdated and in pressing need of reform.

Whilst many lenders provide CCA regulated lending to business customers, prescriptive CCA requirements do discourage some lenders. A number of lenders, including new market entrants, start business lending from a minimum of £25,001 to avoid the burdens and inappropriate constraints of CCA regulated lending. For example, a number of lenders did not offer Coronavirus Business Interruption Loan Scheme (CBILS) facilities of £25,000 or less which left some of the smallest businesses unable to access the finance they urgently needed at the start of the pandemic, and led to the introduction of the Bounce Back Loan Scheme (BBLs) which was only able to overcome this because the CCA regime was largely disapplied at origination for BBLs loans that would otherwise have been within the CCA.

UK Finance is advocating for HM Treasury to undertake an ambitious reform of the consumer credit regime which is over 50 years old. Key changes we are advocating for include the following:

- Removing prescriptive and duplicative pre- and post-contractual information requirements and replacing with flexible minimum disclosure requirements. Current requirements are considered inappropriate and conflict with Consumer Duty.
- Reforming the sanctions regime which is unduly strict and unique to consumer credit.
- Removing “unfair relationship” provisions.

## **Consumer Duty**

Consumer Duty, introduced by the FCA in 2023, has brought about a fundamental shift in how firms operate, setting higher standards of consumer protection across financial services and requiring firms to put their customers’ needs first, leading to improved consumer outcomes. It has been incredibly resource-intensive for firms to implement.

The Duty applies to all regulated lending, including lending up to £25,000 to sole traders (small partnerships, etc), and some lenders have opted to voluntarily apply it to non-regulated business lending for reasons including the costs of deploying and maintaining potentially differing journeys, communications and support across different customer cohorts.

That said, SME businesses, particularly limited companies, are fundamentally different to retail customers. UK Finance has already noted its reservations that (where applicable) Consumer Duty expectations for business customers should not just be a direct extension of those for retail customers, given the differences in the market.

The FCA recently published **plans** to further review and simplify requirements of Consumer Duty. It is also positive to see the FCA citing supporting growth and the competitiveness of UK financial services as a key priority in its recently published **Five Year Strategy**. We have recommended that the FCA set up a working group, with industry input, to consider how the regulator can ensure the Consumer Duty is integrated in a way that complements the SCGO and does not exacerbate financial exclusion.

### **Alternative lending and business models**

#### **15. Have you worked with a non-bank lender, such as a Community Development Finance Institution (CDFI), to secure finance? If so, what has been your experience?**

It should be noted that UK Finance has a number of non-bank lenders within its Commercial Finance membership although these are primarily invoice finance and asset-based lending providers and/or technology driven lenders. Non-bank lenders play a key role in supporting businesses of all sizes, particularly SMEs.

Specifically regarding CDFIs, data from Responsible Finance shows that CDFIs now operate at 31 times the scale they did in 2003, when the sector lent £9.2 million. In 2023 their lending hit a record high of £287 million. Enterprise Lending CDFIs (ELCDFI) play a small but valuable part in the SME funding landscape, with around 30 CDFIs providing lending to small businesses and social enterprises. These CDFIs lent £102m in 2023, a 26% increase on 2022, helping over 4,500 start-ups and established small businesses.

ELCDFIs play a role in supporting viable business propositions declined for commercial finance or discouraged from approaching traditional providers. Despite many positive developments in SME financing, some types of lending propositions are less easy to finance, notably start-ups, early stage and first-time borrowers.

This growth in CDFI lending demonstrates the need and value CDFIs offer to individuals, businesses and social enterprises that find it challenging to access mainstream finance. The **Responsible Finance Impact Report** 2024 provides a detailed review of the contribution made by the sector, particularly in support of underserved communities.

Banking and finance institutions provide considerable support to the CDFI sector, either directly to align with the objectives of the funder or via the Dormant Assets Act 2008-2022, and the funding made to Better Society Capital (see more detail below).

The Bank Referral Scheme (BRS) is currently unattractive to ELCDFIs due to the commercial costs of contracting with a government designated lender. HM Treasury should ensure that CDFIs are not excluded when considering enhancements to the Bank Referral Scheme (BRS) in 2025.

**16. Do you believe there to be any barriers to the adoption of cooperative and mutual models by finance providers? If so, what are they?**

- **How could these barriers be overcome?**
- **What would greater adoption of these alternative models offer to businesses?**

Not relevant to UK Finance.

**17. Are there alternative approaches in other jurisdictions that could address gaps and difficulties experienced by smaller businesses seeking finance in the UK? If so, please provide specific examples.**

- **What are the characteristics of those approaches that make them distinct from the current UK model?**

Not relevant to UK Finance.

**18. Should the government implement policy measures to stimulate more competition in provision of finance? If so, what could this include?**

The Government and regulators previously introduced competition stimulation-measures such as the SME Banking Undertakings, the Retail Banking Market Investigation remedies, and the RBS State Aid Alternative Remedies Package. We have welcomed the Competition and Markets Authority's review of old undertakings and would encourage a review of the Retail Banking Order Remedies.

Overall, competition in the SME finance market has significantly increased in recent years. Importantly, over the past decade post the Global Financial Crisis, a thriving SME challenger and smaller bank sector has developed in the UK, helping to broaden SME access to finance. British Business Bank data showed that of the £62.1bn of gross lending to smaller businesses in 2024, £37.3bn was provided by challenger and specialist banks. Their share of gross lending (60% – a figure that has doubled over the last decade) exceeded that of the big five UK banks for the fourth year in a row, up from 59% in 2023 and the highest on record. Whilst this growth in choice is positive, we have also seen a modest widening in loan spreads as market expectations about the pace of Base Rate reductions has moderated.

However, the overall regulatory atmosphere being one of caution, and the need for firms to grapple with new requirements such as the removal of the SME supporting factor under Basel 3.1, may create challenges for business lending.

As we have laid out in our response to Question 14, the complexity and uncertainty of financial regulation, and the risk-aversion this creates among firms, undermines competition and choice. We would therefore reiterate our recommendations on regulatory reform under Question 14.

Policy changes to free up capital that supports SME lending would increase availability of funding and stimulate pricing competition. Furthermore, policy change that supports specialist lenders focussed on SMEs could be particularly impactful due to their highly tailored propositions designed to meet the often more complex needs of SMEs.

It is also important that regulation is not looked at in isolation in the UK. Almost all decisions, such as divergence from EU or US rules, have their trade-offs for internationally operating firms. A lack of interaction or interoperability between regimes can produce additional costs for firms.

As noted in [our response to HM Treasury's call for evidence on the Financial Services Growth and Competitiveness Strategy](#), embedding the PRA and FCA's secondary competitiveness and growth objective (SCGO) and extending it to other parts of the regulatory landscape would have an important role to play in this regard. It was therefore encouraging to see the FCA cite supporting growth and the competitiveness of UK financial services as a key priority in its recently published [Five Year Strategy](#). The regulators' primary objectives will always take precedence over their other priorities, so it is inevitable that their ability to deliver on the secondary objective will be constrained at times.

While the sector is realistic about this and understands that the stability provided by the primary objectives are a foundation for competitiveness and growth, we want to see the regulators demonstrating that the secondary objective is leading to tangible changes in policy outcomes. The regulators' cost benefit analyses (CBAs) are a suitable place for them to demonstrate how they have considered the SCGO, and we would support such an approach. The new CBA panel should provide additional scrutiny of the regulators' approach. We recommend the regulators, with encouragement from government, to increase the number of policy issues overseen by the panel over time.

### **19. How can the CDFI sector be supported more effectively?**

Many of the high street banks already provide considerable support to the UK's CDFI sector.

Four of the mainstream banks in the UK already support the CDFI sector through their shareholding in Better Society Capital, into which they have contributed £200m in equity for a collective interest of 31.5%.

Lloyds is the lead investor in the new £62m Community Investment Enterprise Fund (CIEF) launched in March 2024 and aimed at helping small businesses across England and Wales that traditional banks often cannot serve. By supporting three CDFI's, the CIEF investment could potentially support approximately 800 SMEs and create around 10.5k jobs (based on an average loan size of £75k).

There were significant steps taken in 2024 to further progress the aim of supporting the sector to significantly increase the levels of CDFI lending to SMEs in communities across the UK, including:

- The £150 million via the British Business Bank's Community Enable Funding programme (CEF) supported by DBT.
- £4 million of support via the JPMorgan Chase's building Foundations Accelerating Growth Programme.

It is important to increase funding to boost the supply of business finance, but there is also an existing need which has to be addressed in parallel to increase referral rates into CDFI's. A large proportion of CDFI referrals are routed through brokers who charge fees so lower rates cannot be passed on to the business. Efficiency improvements to CDFIs are also required via capacity release, process design and increased awareness raising.

Some specific actions to more effectively support the sector include:

- The creation of a government endorsed CDFI register would support borrowers and lenders in finding an appropriate CDFI. To enable the sector to continue to grow and release funds to support more business owners it would be beneficial for a formal mechanism to be introduced to allow an efficient referral from banks into CDFIs and conversely CDFIs back into banks when their business has grown and may then be eligible for bank financing.
- The continued provision of the Growth Guarantee Scheme to CDFIs on equivalent terms.
- The continued availability of Community Investment Tax Relief to investors in CDFIs.
- Appropriate lending structures offering market standard terms that can help crowd-in private finance at scale, typically through the provision of junior capital.
- Better public awareness of the role of CDFIs in supporting SMEs who may not be able to secure credit via mainstream lenders.

## **20. To what extent does the UK's current lending environment meet the finance needs of under-served entrepreneurs?**

All our members are committed to supporting underserved markets through financial and non-financial measures. They have developed a wide range of targeted initiatives and work with representative bodies to support the start-up and growth of viable businesses across the UK.

It should be noted, however, that the challenges vary across underserved groups and there is not a one size fits all solution.

Lenders do not differentiate between business customers based on individual characteristics (gender, disability and ethnicity) in their lending decisions. However, lenders recognise that some 'underserved entrepreneurs' or market segments face more unique challenges than others when securing debt finance.

Over the last decade, the sector, working with key partners such as universities have built up a considerable body of evidence about these market segments and the challenges and opportunities they face as they start and grow their businesses. This research has been accompanied by the development and roll out of a wide range of targeted initiatives and activities to develop business skills and improve investment readiness.

Research has shown that breaking down barriers that underserved entrepreneurs face could generate substantial economic growth. **The Rose Review** highlighted that up to £250 billion could be added to the UK economy if women started and scaled businesses at the same rate as men. Similarly, **The Lilac Review** estimates that £230 billion could be unlocked by ensuring equal opportunities for disabled entrepreneurs who currently account for approximately 25% of the nation's 5.5 million small businesses, but only 8.6% of total small business turnover. The **Centre for Research in Ethnic Minority Entrepreneurship** (CRÈME) found that ethnic minority businesses could contribute £100bn to the UK economy (up from £25bn) if access to "finance, networks and quality business support was improved".

Many of the barriers faced by underserved business owner groups, such as access and knowledge of funding, cost and flexibility of funding solutions, market opportunities, mirror those encountered by others. But there are additional barriers that underserved groups face often amplified by structural inequalities and systemic biases.

## **Women-led businesses**

In recent years, female-led businesses have remained mostly stable. In 2024, 19.1% of UK's active companies were female-led, compared with 20.1% in 2023 and 2022, according to the [Gender Index](#).

WLBs are less likely to apply for external finance and, when doing so, apply for smaller amounts with historically lower approval rates than men-led businesses (MLBs). The 2024 Investing in Women Code report found the average loan to women was £104k and to men £198k.

Although, approval rates are similar - with 60% of finance applications made by WLBs approved compared to 59% of MLBs - only 12% of loan applications come from women.<sup>20</sup> The Gender Index reported only 14.2% of female-led companies accessed secured debt in 2024, compared to 61.1% of male-led companies. Research has indicated a number of related factors could be behind these differences, including that WLBs have a higher awareness of risk, involved in less capital-intensive industries and are generally younger and smaller, with lower turnover than MLBs.

The [Rose Review of Female Entrepreneurship](#) (2019) provided a comprehensive overview of the barriers women face pursuing entrepreneurialism including access to finance; access to networks, markets and mentoring; and childcare and family responsibilities. The more recent HM Government [Women-Led High-Growth Enterprise Taskforce Report](#) (2024) confirmed women face multiple barriers in the entrepreneurial sphere, many of which are compounded. In 2024, the [Invest in Women Taskforce](#) was formed to continue to highlight the challenges female founders faced, with a particular focus on address disparity in equity investment. These differences in access to finance are not unique to the UK, recent research by the [European Investment Fund](#) highlights 'the existence of a credit gender gap in Europe'.

In addition, perceived bias or anticipated rejection can deter female founders from seeking finance. The Bibby Financial Services SME Confidence Tracker Q1 2024 found that 48% of women SME leaders believe it is more difficult for women to access external finance than it is for men, and 66% said that high-street sources were less likely to lend to them today, compared to 57% of men.<sup>21</sup>

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<sup>20</sup> [Investing in Women Code Annual Report](#) (2024) Debt Finance p. 17.

<sup>21</sup> See [Bibby Financial Services SME Confidence Tracker](#)

Meanwhile, a survey conducted by YouGov on behalf of HSBC UK in September 2024 found 18% of women said they were not comfortable asking for finance and a further 16% said they were comfortable asking for finance but that they found it was difficult to be accepted.<sup>22</sup>

Likewise, research conducted by Firefish in 2020 on behalf of Barclays Business found that, when it comes to starting and/ or growing their business, women are turning to the lending options that feel most familiar to them and therefore safest, such as borrowing money from family or using a credit card, whilst loans are often seen as a last resort. A lack of confidence may be holding female founders back.

To this end, the industry has heavily invested in supporting women led businesses by providing guidance and targeted activities, such as networking events, mentoring and investment readiness sessions.

### **Ethnic Minority Businesses (EMBs)**

The BVA BDRC **Ethnic Minority Business Report** (March 2021) commissioned by UK Finance found that EMBs on average are ambitious, report high growth rates, and innovate more than non-ethnic minority SMEs. EMBs report greater interest in funding growth through debt, but apply in similar proportions to non-ethnic firms, and use external finance in line with the SME average.

However, the 2022 **Time to Change** report commissioned by NatWest found that, although ethnic minorities in the UK are consistently more entrepreneurial than the population generally, they are less likely to operate established or mature firms that generate stable income.

There are other deep-rooted socio-economic factors that serve to impede and disadvantage EMBs. Research points to the detachment of EMBs from mainstream business support networks and call on the need for greater mentoring to provide advice and industry contacts. Economic background and pre-existing pay gaps can also affect business outcomes as those with lower household incomes often have less resource and capital to begin with. As a result, they can struggle to support their business in periods of economic downturn and may not have access to established networks for advice. The British Business Bank's **Small Business Finance Markets Report** (March 2022) has more data on these issues.

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<sup>22</sup> See [HSBC](#) Lack of access to finance holding back women in business

Other research includes Lloyds **Black, British. In Businesses & Proud** 2021, the British Business Bank (Small Business Finance Markets **2024** and **2023**) and the SME Finance Monitor (Ethnic Minority Businesses **2023** and **2020**). We believe exploring and building on this body of evidence and better signposting of support and advice would be the most effective way to address ongoing challenges for EMBs.

### **Disabled-led businesses**

Work is ongoing on **The Lilac Review**, looking into the challenges and opportunities faced by Disabled founders. This follows the **Disability and Entrepreneurship report**, launched by Small Business Britain in March 2023 in partnership with Lloyds Bank which Disabled entrepreneurs face barriers to start and grow businesses, such as higher start-up costs and challenges accessing funding and support. Over half of Disabled founders said they had no external support when starting up, 72% lacked appropriate role models to guide them and 55% received no financial support.

The banking and finance industry understands the importance of supporting entrepreneurs with disabilities and improving access to finance to all underserved markets.

### **Calls for additional data**

There have been a number of calls for lenders to collect data on business customer characteristics. The Investing in Women Code requires signatories to collect data on lending broken down by gender. However, this has proved increasingly challenging for the following reasons:

- Increasing numbers of business customers choose not to share this information.
- Limited companies may have a number of directors. While you can get a sense of the proportion of directors that are male or female you can not get a sense of how influential individual directors are in running the business.
- Due to the number of permanent non borrowers and the growth of challenger and specialist banks, the data only covers a small proportion of the market.

It is likely these issues would be the same or amplified for disabled and ethnic minority entrepreneurs. There are also more structural issues around definitions for these groups as well as concerns that data collection would fuel discouragement.

For these reasons we would recommend that any data collection approaches are developed and managed by government. Data could be collected through HMRC, ONS or Companies House. This would give a more comprehensive data set which would not fuel discouragement as it would be de-linked from applications for bank products and services.

## **21. What could encourage under-served entrepreneurs to apply for loans to support business growth?**

### **Women-led businesses**

While entrepreneurialism offers many women independence and balance, female founders face difficulties accessing business networks, support and guidance that help unlock funding or business development opportunities. Only 5% of women entrepreneurs have a mentor compared to 12% of men.<sup>23</sup>

Networks and mentorship access are therefore important for WLBs business growth and funding, providing knowledge, support, and critical access to business readiness and development. Improving network access is key to helping female business leaders in particular to overcome barriers, building confidence, expanding funding opportunities, and creating new business connections.

As well as improved guidance, networking and education, research has shown that women would benefit from more flexible lending products, for example use of capital repayment holidays to cope with family care needs. Many banks already provide this option and promote it to customers.

For more on what initiatives industry is doing to support WLBs, please see UK Finance's [response](#) to the Women and Equalities Committee's Call for Evidence on Female Entrepreneurship (2025). Further case studies can also be found in the [2024](#) and [2023](#) Investing in Women Code Annual Data Collection Report.

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<sup>23</sup> See [HSBC](#) Lack of access to finance holding back women in business

## **Ethnic Minority Businesses (EMBs)**

Tackling trust and discouragement has been identified as a way to encourage EMBs to engage with external finance. Although, in 2023, the **SME Finance Monitor** found EMBs were as likely as their peers to have a high level of trust in their bank (60% v 59% of SMEs overall), members recognise there is an issue for this particular cohort of SMEs and are therefore working to address the low levels of trust, along with pre-existing perceptions of discrimination within the EMB community.

Majority of high street lenders now have in place a range of activities and initiatives to support EMBs, developed in consultation with ethnic minority representatives. These are clear examples of how the industry maintains investment and support for Black businesses, collaborates across the ecosystem and continues to actively build trust with the community.

The SME Finance Monitor found that EMBs were as likely as their peers to be using any traditional form of external finance (both 37%), however EMBs are less likely to be successful in finance applications. The factors leading to lower success rates of acceptances were similar to other SME cohorts based on risk predictors such as business age, track record and credit histories.<sup>24</sup> Provide ringfenced funding is a possible solution.

Lloyds Bank Foundation, for example, has committed to award 25% of new funding from its main grants programme to charities led by and for Black, Asian and minority ethnic communities.

Research also shows EMBs struggle to access vital networks, contacts and information that are essential to business readiness and starting and scaling businesses. To address these challenges for EMBs, lenders also offer tailored mentoring services, online resource hubs and national events to showcase diverse entrepreneurs, highlighted in the case studies below. They have developed these targeted programmes of support with advice from ethnic minority representative organisations and experts. Barclays, for example, offers a Black Founder Accelerator programme and in the last cohort nearly half of those on the programme were women.

More details of the range of support schemes can be found in UK Finance's report **[Supporting Ethnic Minority Entrepreneurship in the UK](#)**.

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<sup>24</sup> SME Finance Monitor **[Ethnic Minority Businesses](#)** (2023) p.17.

### **Disabled-led Businesses**

Many lenders have already set out commitments to support customers with disabilities. For example, they already have statements of support and available assistance on web sites, e.g. some of our members are members of the **Business Disability Forum** and have achieved the Advanced level in the **Mental Health Accessible Programme** delivered by Money and Mental Health Policy Institute.

Lenders are already expected to provide customers with characteristics of vulnerability with an appropriate level of care in light of those characteristics. The FCA's Guidance for firms on the fair treatment of vulnerable customers (**Vulnerability Guidance**) sets expectations on what firms should do to comply with their obligations under our Principles for Businesses, and the FCA's **Consumer Duty** ("the Duty") builds on this. Under the Duty firms are required to deliver good outcomes for consumers, including vulnerable customers or those with diverse needs. Many firms are already going beyond the requirements of the Consumer Duty.

Members are already considering the needs of customers with characteristics of vulnerability in their product and service design. Our members already use inclusive design principles in products and services including in physical spaces used by customers, in their approach to customer communications, and in their portfolio of customer products. Examples from members range from, but not limited to, installing branches with fixed and portable hearing loops, wheelchair access, sensory rooms, braille rail and appropriate toilet facilities, in addition to disability accessibility training for colleagues and working with external parties in inclusive design.

Similar to WLBs, disabled founders would also benefit from flexible financing products – 59% of disabled entrepreneurs fear taking on debt in part due to health constraints preventing them from feeling able to commit to regular repayments

### **22. Are there any other groups under-served in access to finance that should be considered beyond those discussed in this call for evidence?**

No two customers, or customer groups, are the same and banks need to have bespoke programmes and initiatives to support businesses of all shapes, sizes and sectors.

There are now a range of different Codes and Charters in place to support different market segments, hosted by different organisations. This proliferation has the potential to create more confusion for business owners, especially those with intersectional interests. We would recommend that rather than DBT committing to further Codes, consideration is given to consolidation of existing Codes with a view to ensuring Code requirements are relevant to all underserved markets.

Better signposting of support and advice initiatives would be more effective, for example, and it remains important that banks produce case studies of successful entrepreneurs to enable their stories to inspire others from similar backgrounds and lived experiences.

**23. What role could banks and other financial institutions play in improving access to finance for under-served groups through CDFIs?**

Please see our response to Question 16.

**24. In order better understand the lending outcomes of different groups, would you be willing to disclose information such as your gender, ethnicity and whether you have a disability to your lender?**

As a delivery partner of the Investing in Women Code, UK Finance collects data from lenders signatories of the Code on a number of lending products provided to businesses, including overdrafts and commercial loans. Now in its fifth year, we continue to see an increase in the proportion of accounts and applications for which it is not possible to ascertain gender from customer records and a higher number of limited companies and partnerships with a combination of male and female directors. In our experience therefore business customers are not enthusiastic about disclosing personal data.

There are considerable challenges for firms if they were asked to complete a data collection exercise on the protected characteristics of their business customers. Banks neither use nor capture data associated with gender, ethnicity and disability and businesses can be confident that any protected characteristic is not a reason for a lending decline. Customer trust concerns would also make it difficult for banks to achieve statistically significant levels of disclosure.

Data collection therefore carries risks of unintended consequences of imperfect and inconsistent data reporting, such as of self-declaration and discouragement.

**25. Do you have experience of any initiatives, either government or private sector-led, that have been or could be beneficial for access to finance for entrepreneurs from under-served groups?**

Many lenders have introduced a wide range of targeted activities for underserved groups, as referenced above.

For more please see:

- [Investing in Women Code Annual Report](#)
- UK Finance's report [Supporting Ethnic Minority Entrepreneurship in the UK](#)