

FCA's Call for Input on understanding and improving SMEs' experience of accessing finance

UK Finance Response
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Table of Contents

I.	Introduction	2
II.	Executive Summary	3
III.	Scope of Call for Input and UK Finance Submission.....	3
IV.	Vibrancy and Competitiveness of the SME Finance Market.....	3
V.	Barriers and Challenges Affecting SMEs Access to Finance.....	5
	1. Supply-Side Barriers and Challenges	5
	2. Demand-Side Barriers and Challenges	11
VI.	Sector-Specific Barriers to Finance: Challenges for High-Growth and Strategically Important Industries	15
VII.	Opportunities for Future Regulation to support the provision of SME Finance.....	17

About UK Finance

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

We welcome the opportunity to respond to the Financial Conduct Authority's (FCA) call for input [on understanding and improving SMEs' experience of accessing finance.](#)

I. Introduction

1. Small and medium sized enterprises (SMEs) make a critical contribution to the UK economy, supporting growth, innovation, regional development and employment. The 5.5 million SMEs that make up 99.8% of the UK business population support around 60% of private sector employment and generate over £2.8 trillion in annual turnover. The Government estimates that accelerating SME growth by just one per cent could deliver £320 billion to the UK economy by 2030.¹ Ensuring that these businesses have sustained access to diverse, affordable and competitive sources of finance is therefore central to the UK's broader economic ambitions. UK Finance welcomes the FCA's Call for Input and is pleased to provide evidence, insights and recommendations drawn from across our membership.
2. Over the past decade, the SME finance market has evolved into a highly diversified ecosystem. This diversification is a strength of the UK economy. It has increased competition, improved product choice and enhanced resilience, ensuring that SMEs can access funding through a variety of channels even in periods of macroeconomic volatility.
3. However, the landscape has also become more complex. SMEs often struggle to navigate the expanding choice of products and providers. At the same time, the regulatory environment governing lending to SMEs has become increasingly complex, fragmented and difficult for lenders to operate within. The cumulative impact of this complexity can directly influence the cost and availability of finance to the real economy.
4. The UK's growth ambitions depend on a regulatory environment that is proportionate, promotes innovation, supports competition and delivers clarity for lenders and borrowers alike. Our members remain fully committed to lending to viable SMEs. However, the policy, regulatory and market environment in which they operate materially influences their ability to do so and impacts on their strategic decisions and priorities on the allocation of capital and resources.
5. UK Finance has closely engaged with HM Treasury over recent years on the reform of the Consumer Credit Act (CCA), including in relation to the appropriate regulatory perimeter for business lending and the treatment of specific issues such as personal guarantees. We have set out within this response a summary of our position on such issues. However, many of the challenges highlighted in this response arise from the regulatory framework beyond the FCA's regulatory perimeter or from demand-side factors that are best addressed through measures other than regulation. We nevertheless set these issues out to provide the FCA with relevant context as it considers how best to exercise its responsibilities within its existing regulatory remit.

¹ Department of Business and Trade, [Backing your business: our plan for small and medium sized businesses](#), July 2025

II. Executive Summary

6. This response highlights the key supply- and demand-side factors that shape SMEs' experience of accessing finance. While lenders report strong appetite and capacity to support viable SMEs, their ability to do so is affected by increasing regulatory complexity, overlapping requirements and the cumulative burden of prudential, conduct and reporting obligations. These factors can reduce flexibility, increase costs and disproportionately impact lenders.
7. On the demand side, many SMEs are not actively seeking external finance, with economic uncertainty, low confidence, limited financial capability and persistent information gaps contributing to subdued borrowing intentions. Underserved groups and micro-businesses face additional barriers, including lower financial literacy and more difficulty navigating the market.
8. Specific challenges also arise in segments such as high-growth, asset-light or IP-intensive businesses, where risk, collateral constraints and regulatory calibration limit access to appropriate finance. Defence-related businesses additionally face heightened due-diligence and compliance requirements.
9. The submission identifies opportunities for the FCA to support improved outcomes by ensuring that forthcoming regulatory reforms promote proportionality, reduce duplication and better distinguish between consumer and business lending contexts. Enhancing data-sharing frameworks, avoiding unnecessary expansion of the regulatory perimeter and improving coordination between government, regulators and industry would further help reduce friction and enable viable SMEs to access the finance they need.

III. Scope of Call for Input and UK Finance Submission

10. We note that the FCA has not defined the SMEs to which its call for input relates. We understand however that the FCA wishes to explore SME access to finance issues both within and beyond its regulatory perimeter, with a focus at the micro end. Where we refer to SMEs in this submission, these are defined as businesses with an annual turnover of up to £25 million, in line with the Bank of England's definition, many of which will be limited companies falling outside the FCA regulatory perimeter for lending. Unless otherwise stated, we do not refer specifically to those SMEs falling within the FCA's regulatory perimeter for lending (sole traders, small partnerships and unincorporated bodies) or to micro-enterprises.
11. This submission is focused on loan finance and does not cover equity finance unless otherwise stated.

IV. Vibrancy and Competitiveness of the SME Finance Market

12. The UK's SME finance market is diverse, competitive and resilient, having evolved significantly over the past decade. It comprises a broad ecosystem of traditional banks, challenger and specialist banks, non-bank lenders, fintech providers, and invoice finance

and asset-based lenders. Challenger and specialist banks now account for around 60% of gross SME bank lending.² This diversification has materially increased choice for SMEs and strengthened the resilience of the market to economic shocks.³

13. Gross SME bank lending increased in 2025, reaching one of the highest levels recorded outside the exceptional pandemic period, with total flows reflecting a stable and functioning supply of credit to viable businesses. Gross bank lending excluding overdrafts rose by around 9% year-on-year, to £68 billion⁴, alongside significant additional funding through asset finance, invoice finance and specialist non-bank lenders.
14. However, while lending flows remain robust, the stock of outstanding SME lending has continued to demonstrate a long-term decline in real terms. This reflects structural changes in both supply and demand, including shorter loan durations, faster repayments, reduced reliance on overdrafts and increased use of flexible, short-term finance products rather than long-dated bank lending. These trends do not indicate a lack of credit availability, but rather a shift in how SMEs choose to finance themselves.
15. Demand-side evidence reinforces this picture. Around half of SMEs currently use some form of external finance, with working capital remaining the most common driver of demand. Flexible products such as credit cards and overdrafts are the most frequently used, while use of term loans remains comparatively lower, reflecting economic uncertainty and a more cautious investment environment. Importantly, most SMEs do not identify access to finance as a major barrier to their business, suggesting that the market is working well for the majority of firms.
16. At the same time, gaps persist in specific segments of the market. Smaller lending amounts, unsecured finance, start-up lending and funding for business models reliant on intangible assets continue to present challenges. These gaps are structural in nature and reflect risk and capital constraints rather than a lack of competition or willingness to lend. Geographic disparities also remain, with businesses in rural, coastal and more deprived areas reporting greater difficulty accessing finance than those in major urban centres.
17. Overall, the latest evidence supports the conclusion that the UK SME finance market is competitive and well-supplied, with a wide range of providers and products available to meet diverse business needs. The principal constraints on SME borrowing are increasingly demand-side factors, including risk aversion, economic uncertainty and low appetite for external finance, rather than systemic failures in credit supply. Any policy interventions should therefore focus on addressing specific market gaps and information frictions such as credit data (see section 1.4, paragraphs 35-38), rather than introducing broad-based regulatory changes that could undermine the strengths of the existing market. They should

² British Business Bank, [Small Business Finance Markets 2025/26 Report](#), p.27

³ British Business Bank, [Small Business Finance Markets 2025/26 Report](#), p.26

⁴ British Business Bank, [Small Business Finance Markets 2025/26 Report](#), p.7

of course also be necessary and proportionate, recognising that lenders must divert resource away from growth or innovation in order to implement any new initiatives.

V. Barriers and Challenges Affecting SMEs Access to Finance

18. Lenders report a consistent willingness and capacity to lend to viable SMEs. However, the overall environment in which both lenders and borrowers operate has become more complex and, in places, less predictable than it was a decade ago. These challenges can be grouped into two broad categories: *supply-side and demand-side barriers and challenges*.

1. Supply-Side Barriers and Challenges

19. Supply-side conditions play a critical role in shaping SMEs' access to finance. While lenders remain willing and able to support viable SMEs, the regulatory environment in which they operate has become increasingly complex, fragmented and resource-intensive, and certain aspects have become outdated. Regulatory requirements have increased across prudential, conduct and reporting domains, often in ways that create duplication or impose disproportionate burdens relative to the risks involved.

20. These regulatory pressures, set out in more detail in the following sections, influence the cost, availability and flexibility of SME finance. For example, several lenders do not offer CCA regulated (or exempt) business lending. For those that do, products or product features may be more limited for regulated lending. Lenders may also have to design multiple customer journeys for regulated and non-regulated lending, which are further complicated by the layered regulatory obligations and voluntary codes referred to.

21. The Government has recognised the role that regulation can play in impeding economic growth, setting this out in its [2025 Strategic Steer to the Competition and Markets Authority \(CMA\)](#), which directs the regulator to use its tools proportionately and with growth and investment in mind, ensuring that interventions support the UK's wider economic objectives. As a result, the CMA has begun reviewing a number of market remedies. Notably, it has now revoked the remaining provisions of the [SME Banking Undertakings 2002](#), including the Limitation on Bundling Provisions, concluding that these restrictions were no longer appropriate given the evolution of competition and customer behaviour in SME banking. The CMA has also initiated a strategic review of 33 market remedies, signalling that market developments may warrant amendment or full removal of all of the aforementioned remedies – many of which impose significant administrative burdens on lenders and thereby create friction in the provision of finance to SMEs.

1.1. Regulatory Complexity and Fragmentation

22. Since the financial crisis, the regulatory framework has evolved in a fragmented way, resulting in layered and overlapping requirements that collectively make it harder for lenders to support riskier or more complex SMEs.

23. Additionally multiple regulators and public bodies now hold responsibilities that touch different parts of the SME finance ecosystem, yet no single body has overarching oversight.
24. Alongside regulatory requirements, firms are encouraged by government and other stakeholders to sign up to voluntary codes. These are often duplicative and overlapping with regulation such as Consumer Duty. The proliferation of codes risks confusing business customers while creating additional layers of governance, reporting and compliance for lenders. Consolidation rather than further expansion would better support consistency and reduce duplication. Examples include the SME Finance Charter, the Investing in Women Code and the Disability Finance Code for Entrepreneurship.
25. This layered regulatory framework and growth in regulatory actors, alongside an expansion in codes and charters applicable to SME lending, has materially increased the compliance burden for firms and distracts resources away from lending and growth-driving activities. Simplifying and reducing regulatory layering and ensuring a clearer balance between financial stability, customer protection and proportionality, would allow lenders to devote more capacity to supporting business lending.⁵

1.2. Challenges of the current CCA Regime

26. The current Consumer Credit Act (CCA) presents a number of structural and practical challenges when applied to modern lending markets, particularly in the context of SME finance. The regime was originally designed over fifty years ago for consumer lending and has been amended incrementally over time, resulting in a framework that is increasingly misaligned with contemporary products, customer behaviour and regulatory expectations. Consumer Duty has added a layer of complexity since there is overlap and, in some instances, inconsistent obligations under CCA/CONC and Consumer Duty.
27. UK Finance has been closely engaging with HMT's review of the CCA, where these issues have been explored in more detail. Some of the key challenges relevant to SME lending are set out below.
28. A central challenge with the CCA is its reliance on prescriptive and duplicative information requirements, including pre- and post-contractual disclosures. In practice, these obligations can sit uneasily alongside the Consumer Duty and may require firms to issue multiple prescribed communications even where this adds little to customer understanding. This includes circumstances where Notices of Sums in Arrears must be sent despite an agreed repayment arrangement already being in place. Such requirements are particularly poorly aligned with business lending, where borrowers' circumstances, needs and levels of financial sophistication vary significantly.

⁵ UK Finance, HMT and DBT Call for Evidence Access to Finance Response, May 2025

29. The sanctions regime under the CCA represents a further material challenge. Automatic sanctions such as the disentitlement to interest and fees, unenforceability and in some cases criminal sanctions can arise from technical breaches, irrespective of whether any customer harm has occurred. These measures are widely seen as disproportionate, can generate windfall outcomes for borrowers, encourage claims management activity, and deter firms from offering flexible forbearance or tailored support to customers in difficulty. In addition, the regime is increasingly hard to justify given the Consumer Duty's much broader, principles-based requirement for firms to identify harm and take proactive steps to remediate it where it arises.
30. The CCA also relies on a number of legal concepts and definitions that do not function in practice. Distinctions such as those between fixed-sum and running-account credit, the broad and inflexible definition of credit, and the treatment of modifying agreements introduce unnecessary complexity, legal uncertainty and operational friction. In particular, the modifying agreement framework can constrain effective forbearance, as firms may face legal and compliance risks when restructuring debt for customers in financial difficulty. While these issues affect both consumer and business lending, they can be especially problematic for SMEs, whose financing arrangements are often more tailored and dynamic.
31. Early indications from HMT's Phase 1 CCA consultation are that some of the issues referred to above may be resolved but we are of course yet to see Phase 2 or the final rules. In any case though, complexity is likely to remain if regulated business lending remains subject to both the consumer credit regime and Consumer Duty, more so if the proliferation of voluntary codes and charters is not addressed.
32. There will also need to be a comprehensive review of CONC, both to reflect the introduction of Consumer Duty and in light of CCA reform. We expect to engage further on the changes required to CONC from a regulated business lending perspective once we have a clearer direction of travel on CCA reform and the regulatory perimeter for business lending.

1.3. FCA Authorisation Process and Ongoing Compliance Requirements

33. More generally, the current regulatory framework can act as a barrier to entry for firms wishing to lend to sole traders and other businesses within the CCA regime. The process of obtaining new FCA authorisations is complex, time-consuming and resource-intensive, particularly for newer entrants or firms that do not already undertake regulated activities and is often characterised by uncertainty around regulatory expectations. Once authorised, firms face ongoing compliance costs and risks, including the need to comply with regimes such as the CCA/CONC framework and Consumer Duty. These burdens can be particularly significant for smaller and specialist lenders that might not be subject to such requirements for their other activities. Taken together, the very fact of lending being a regulated activity can deter entry or expansion – as indicated by the fact that several lenders only offer non-regulated business lending – with implications for competition, innovation and access to SME finance.

34. In this regard, the FCA and PRA joint Scale-Up Unit is a welcome development though it is too soon to assess its effectiveness. Notwithstanding this, our view is that the compliance cost and risk will continue to deter many lenders from engaging in regulated lending.

1.4. Commercial Credit Data Sharing regulatory requirements

35. There are limitations in the current commercial credit data landscape, reflecting the fact that not all lenders participate in formal data-sharing frameworks. While the Commercial Credit Data Sharing (CCDS) regime has made a positive contribution to SME access to finance, incomplete participation means that lenders may not always have a full or accurate view of an SME's credit position, particularly where businesses seek to move between providers or use multiple forms of finance. We highlighted these issues in our response⁶ to [HM Treasury's Commercial Credit Data Sharing consultation](#), which sought views on how the scheme could be improved to reflect changes in the SME lending market.

36. The effectiveness of CCDS has also been affected by changes in the structure of the SME lending market. Since the introduction of the scheme, challenger and specialist banks have come to account for a substantial share of new SME lending, yet designation under CCDS remains limited to a small number of incumbent firms. This can result in gaps in data coverage and reduced transparency, undermining the scheme's ability to support effective credit decision-making across the market.

37. Operational complexity within the CCDS framework further constrains its effectiveness. Differences in data formats, validation rules and amendment processes across Credit Reference Agencies create duplication, manual workarounds and additional cost for lenders. The current amendment process for commercial credit data is largely manual and fragmented, increasing the risk of delays and inconsistencies and, in some cases, leaving SMEs' credit files inaccurate for extended periods.

38. Addressing these issues would help improve data quality and market transparency, supporting competition and SMEs' access to finance without creating new barriers to entry.

1.5. Bank Referral Scheme

39. The Bank Referral Scheme (BRS) provides additional insight into the wider supply-side environment affecting SME access to finance. Launched in 2016 to support businesses whose finance applications were declined, the scheme was originally expected to help unlock up to £1.9bn of additional lending. However, the BRS has had minimal impact, with only around £128 million of finance secured for approximately 5,400 SMEs over a ten-year period. Engagement with the scheme has remained extremely low: only 2–3% of declined SMEs proceed with a referral, and just 6% of those ultimately secure funding, resulting in a high proportion of "double declines".

⁶ UK Finance, HM Treasury Commercial Credit Data Sharing Call for Evidence Response, November 2025

40. These outcomes predominantly reflect underlying issues within the declined SME population. Many of these businesses face challenges linked to financial readiness, creditworthiness, lack of collateral and limited understanding of lender decision-making, meaning that simply signposting them to alternative providers does not address the root causes of decline. The scheme's linear, one-size-fits-all design does not align with the increasingly diverse SME finance market and cannot accommodate the wide variation in reasons for rejection or the tailored support often required by SMEs at different stages of development.
41. As part of UK Finance's response⁷ to [HM Treasury's Consultation and Call for Evidence](#), opportunities were identified to improve outcomes through a more flexible successor framework. A model centred on a government-facilitated Access to Finance Hub – providing guidance, financial education, signposting to appropriate finance options and integration with tools such as the British Business Bank's Finance Finder – could better support SMEs to prepare for and navigate the finance market. Such a model could also reflect the significant and growing role of commercial finance brokers, who now facilitate a substantial share of SME lending activity and help match businesses with suitable providers.
42. While we recognise that the BRS sits outside the FCA's regulatory remit, the aforementioned themes are directly relevant to the topic of this Call for Input, particularly the challenges SMEs face when seeking finance after a decline, the importance of financial capability and the need for effective pathways to appropriate sources of support.

1.6. Prudential Requirements and Capital Calibration

43. Prudential requirements are essential for financial stability, but the current calibration of the UK framework has become overly conservative and now sits materially above levels judged optimal by the Financial Policy Committee (FPC)⁸. UK banks' Tier 1 capital ratios have risen significantly over the past decade, moving far beyond the FPC's previously identified optimal range of 11–14%⁹, with levels now around 17.7%¹⁰, considerably above international peers and well beyond what is required to ensure resilience. This upward drift has occurred even though the UK banking system is now structurally far more robust than it was in the years following the Global Financial Crisis.¹¹
44. In its [December 2025 assessment](#), the FPC revised down its estimate of the appropriate system wide Tier 1 capital benchmark from around 14% to 13% of RWAs, equivalent to a CET1 ratio of approximately 11%. This revision reflects stronger bank balance sheets, improvements in risk measurement and the expected effects of Basel 3.1 implementation.

⁷ UK Finance, HM Treasury Bank Referral Scheme: Consultation and Call for Evidence Response, December 2025

⁸ UK Finance, Response to FPC & PRA's Capital assessment, 2026

⁹ Bank of England, [Financial Stability Paper No. 35, December 2015, The framework of capital requirements for UK banks, December 2015](#)

¹⁰ Bank of England, [Banking sector regulatory capital - 2025 Q4](#)

¹¹ UK Finance, Response to FPC & PRA's Capital assessment, 2026

While the FPC has emphasised the importance of maintaining resilience alongside supporting economic growth, it has also noted that banks continue to operate with material capital headroom above regulatory minimums. However, the revised benchmark does not translate into changes to firms' actual capital requirements and the mechanism and timeline through which this recalibration may feed into binding requirements remain unclear.

45. The cumulative effect of post-crisis reforms, including strengthened capital and liquidity standards, ring-fencing, resolution planning, stress testing and enhanced governance frameworks, means that prudential protections have multiplied and frequently overlap. Together these reforms have produced a highly restrictive regulatory environment that constrains the efficient deployment of capital into the real economy.
46. A number of prudential features contribute to higher costs and reduced flexibility in SME lending, including:
 - **Increased capital buffers:** UK capital requirements now exceed those in other G7 jurisdictions, driven by high buffer levels, including the Countercyclical Capital Buffer (CCyB) set at a neutral rate of 2%, significantly above peer countries. This can discourage lending to domestic SMEs and deter foreign banks from allocating lending capacity to the UK.
 - **Overlap between supervisory tools:** the CCyB, OSII (other systemically important institutions) buffer, output floor, Pillar 2A geographic concentration requirements and PRA buffers collectively capitalise the same domestic risks multiple times, disproportionately affecting domestically focused lenders whose business models are concentrated in UK real-economy lending.
 - **SME factor removal / Pillar 2A offset:** The replacement of the SME support factor with a Pillar 2A offset is welcome, but higher Pillar 1 levels increase CET1 requirements, reducing the benefit of the offset. Calibration remains unclear, especially for firms with low or zero Pillar 2A today. In addition, infrequent recalibration, for example during capital review assessments, risks imposing unnecessary capital requirements especially for firms with evolving business models.
 - **Leverage ratio design:** The UK's leverage regime requires the minimum and buffers to be met predominantly or entirely with CET1 capital, unlike Basel standards or peer jurisdictions that allow Tier 1 capital. In addition, the UK has introduced two leverage buffers, countercyclical buffer for all firms and an additional buffer for large domestic lenders. This restricts balance-sheet capacity and makes the leverage ratio the binding constraint for a significant number of UK firms.
 - **IFRS 9:** The forward-looking expected-loss model under IFRS 9 increases impairments early and amplifies capital strain in downturns, introducing volatility and constraining lending at precisely the wrong point in the economic cycle.

47. These prudential requirements raise the cost of capital for SME exposures. Members estimate that SME lending is priced 10–20 basis points higher than it would be under more internationally aligned rules.
48. Capital requirements also tend to have a disproportionate impact on SMEs, as these businesses are more reliant on bank financing than mid- and large-cap firms, and SME lending typically attracts higher risk weighted assets. This means that, all else being equal, lending to larger corporates or non-corporate entities can be more commercially attractive for banks than lending to SMEs.
49. As a result, although lenders remain willing to support viable SMEs, the UK's prudential framework has become a material constraint on capacity, pricing and risk appetite, reducing the competitiveness of UK-sourced finance relative to peer markets and limiting the flow of credit to growth-oriented businesses.

1.7. Subscale Growth Guarantee Scheme

50. Government interventions – through the British Business Bank, the Growth Guarantee Scheme and the National Wealth Fund – play an important role in extending the reach of finance to firms that commercial lenders alone cannot fully serve. However, the scale of government-backed support is insufficient relative to both underlying demand and international comparators. The UK's GGS currently supports around £1.2–1.3 billion of lending per year – three to four times smaller relative to GDP than equivalent schemes in the US, Germany, France and Spain. Demand consistently exceeds supply: UK Finance members active in the scheme report that allocated capacity is exceeded by more than 100%.
51. We therefore have been calling on the Government to scale GGS to around £5 billion of annual lending. This could include increasing the maximum loan size from £2 million to £10 million to better support larger SMEs and mid-sized firms, extending maximum loan terms from six to ten years to enable longer-term capital investment, and providing multi-year funding certainty to support lender participation and market development. Scaling the GGS in this way would bring the UK closer to international best practice and could unlock over £4 billion in additional SME lending each year.

2. Demand-Side Barriers and Challenges

52. Demand-side factors also play a key role in shaping SMEs' access to finance, with evidence showing that many firms are not actively seeking external funding even where supply conditions are broadly supportive. Recent data shows that only 11% of SMEs plan to apply for finance, with appetite highest among firms with 1-49 employees. A significant share of businesses prefer to rely on internal resources; 40% meet the definition of

Permanent Non-Borrowers, reflecting a structural reluctance to take on debt and a cultural preference for self-financing.¹²

2.1. Economic uncertainty and risk aversion

53. Economic conditions remain a major demand-side barrier. Across the SME population, concerns about the economic climate, higher costs and political uncertainty consistently rank as the top obstacles to future activity. In 2025, 62% of SMEs described themselves as cautious with their plans and borrowing intentions remain subdued even among ambitious, innovative firms.¹³
54. These pressures are mirrored in broader market analysis, with SMEs facing persistent cost inflation, cash-flow volatility and tightening margins. In the British Business Bank's assessment, cash flow is now a major obstacle for 22% of SMEs, up from previous years.¹⁴
55. Recent geopolitical developments, including the ongoing conflict in the Middle East, have added to economic uncertainty facing SMEs. Heightened volatility in energy and commodity markets, alongside rising shipping costs and renewed pressure on inflation expectations, have increased concerns about input costs, cash-flow stability and the outlook for demand. These factors are likely to further dampen investment appetite and borrowing intentions among SMEs, particularly those exposed to energy-intensive activities or international supply chains.

2.2. Financial capability, information gaps and complexity

56. Financial capability challenges continue to play a major role in shaping SME demand for external finance.
57. Many SMEs struggle to understand the full range of finance products available to them and lack the skills or confidence to navigate an increasingly complex market. In particular, awareness of non-traditional forms of finance, including equity and other growth finance, remains limited, with many SMEs unsure where to go for appropriate support where bank debt may not be the most suitable option.
58. Low financial literacy compounds this challenge. A significant share of SMEs report difficulty interpreting financial terminology, comparing costs, preparing financial information or understanding lender expectations. Many SMEs also face difficulty understanding eligibility criteria or preparing a robust application. [The Money Advise Trust report](#) shows that 18% of SMEs delayed growth or investment because they lacked the financial skills or confidence to engage effectively with finance processes.
59. These capability gaps are more pronounced among micro-businesses, rural firms and underserved groups, who often have fewer formal financial management resources and

¹² [SME Finance Monitor Q4 2025](#), p.13

¹³ [SME Finance Monitor Q4 2025](#), p.34

¹⁴ British Business Bank, [Small Business Finance Markets 2025/26 Report](#), p.22

lower awareness of specialist or alternative finance routes. Fragmented information sources, variable advice quality and limited access to trusted guidance further create complexity.

60. While recent initiatives such as the British Business Bank's Finance Finder and the Government's business support website represent positive steps, clearer signposting and more joined-up presentation of existing support could further help resource-constrained SMEs navigate available options.
61. In this context, establishing the Business Growth Service as the central SME finance platform could provide a more coherent and accessible support landscape. Integrating advisory services, finance providers and government backed schemes into a single offer, including replacing the existing Bank Referral Scheme with a modern Access to Finance Hub would help combine guidance, financial readiness assessments and clear signposting to funding options across the business lifecycle. SMEs currently face a fragmented and hard to navigate support landscape; a single, well signposted entry point, genuinely joined up across government and industry, would provide a stronger foundation for SME growth.
62. Alongside this, there would be value in launching a national SME finance awareness and readiness campaign, integrated with the Business Growth Service, to improve awareness of available finance options, encourage earlier engagement with lenders and advisers, and increase application success rates. Only around 12% of SMEs planned to apply for finance last year, and around 40% consider themselves Permanent Non-Borrowers, highlighting the scale of latent demand and the importance of improving confidence, capability and engagement.

2.3. Digital and Data Capability Gaps

63. Furthermore, SMEs continue to face significant digital and data capability gaps, driven by limited time, cash and technical know-how, which slows adoption of essential productivity-enhancing technologies. Many SMEs struggle because digital tools often feel designed for larger firms, adoption and switching costs are perceived as high and businesses frequently lack the confidence or expertise needed to implement new systems effectively.
64. Digital support in the UK can feel fragmented, with unclear signposting and inconsistent access to guidance across sectors and regions. Also, widespread overestimation of digital readiness is identified, noting a persistent gap between SMEs' aspirations and their actual ability to execute digital transformation, often due to limited internal capabilities and insufficient data to track their own digital maturity.
65. In consequence, UK SMEs lag behind G7 peers on digital and AI adoption, underscoring structural capability gaps in technology awareness, data management and digital infrastructure. Despite the UK's strong tech ecosystem, smaller firms frequently lack the internal skills, leadership support and practical guidance required to adopt digital tools and

AI effectively, reinforcing disparities in digital uptake and data utilisation across the SME population.¹⁵

2.4. Low confidence in securing finance, 'would-be seekers' and attitudinal barriers

66. Confidence in securing finance remains a central barrier to demand. Despite improvements in supply conditions, approximately 48% of SMEs are confident their bank would agree to a facility, down from 65% in 2016.¹⁶ This lack of confidence leads to a persistent pool of 'discouraged borrowers': firms that may need finance but choose not to apply because they believe they will be declined.
67. In 2025, 5%¹⁷ of SMEs were identified as 'would-be seekers', meaning they had a funding need but did not apply due to fear of rejection or concerns about process, burden, cost or hassle. Among discouraged SMEs: past negative experiences, perceived bias, lack of collateral and uncertainty about creditworthiness were key drivers. These behaviour patterns are particularly prevalent among smaller, younger and higher-risk SMEs, as well as among groups with lower financial literacy.
68. The BBB's report further shows that discouraged demand intersects with product awareness: SMEs with lower understanding of finance markets are less confident and less likely to apply. This creates a feedback loop: low confidence reduces applications, low engagement reduces familiarity and reduced familiarity further suppresses confidence.
69. Furthermore, attitudinal barriers remain one of the very strong determinants of SME finance behaviour. Many SMEs express a clear preference for avoiding debt and relying on internal resources, even where external finance could enable growth or investment; 77% of SMEs prefer to grow more slowly using internal funds rather than take on external finance and 62% describe themselves as cautious due to the economic climate.¹⁸

2.5. Underrepresented and underserved SMEs

70. Underrepresented and underserved SMEs, including ethnic minority-led, female-led, disabled-led and lower socio-economic background businesses, face distinct and often more acute barriers across capability, confidence and information dimensions. [The Small Business Finance Markets 2025/26 report](#) shows that Ethnic Minority-led businesses are more than twice as likely to view access to finance as a major obstacle, with 51% expecting difficulty obtaining finance and 22% citing access as a barrier, compared with 10% of White-led businesses.
71. Similarly, female-led businesses are less likely to be happy using external finance to grow (31% vs. 41% of male-led businesses), and disabled-led businesses are more likely to invest personal funds due to perceived barriers in the finance market (27% vs. 18% among

¹⁵ DBT, [SME Digital Adoption Taskforce: final report](#), July 2025

¹⁶ British Business Bank, [Small Business Finance Markets 2025/26 Report](#), p.41

¹⁷ [SME Finance Monitor Q4 2025](#), p.262

¹⁸ [SME Finance Monitor Q4 2025](#), p.181

others). Underrepresented groups consistently report lower certainty about understanding finance options, navigating the market or meeting lender expectations.

VI. Sector-Specific Barriers to Finance: Challenges for High-Growth and Strategically Important Industries

72. High-growth and strategically important industries, including asset-light and IP-intensive businesses and firms operating in the defence sector, face distinct barriers to accessing finance.

1. Asset-light/IP-intensive businesses

73. High-growth and knowledge-based businesses increasingly rely on intangible assets, such as intellectual property (IP), data and know-how, rather than physical assets. While the banking sector recognises the importance of supporting these businesses, SMEs that are asset-light or IP-intensive can face particular challenges in accessing debt finance, especially where lending is traditionally secured against tangible collateral.

74. Lending against IP and other intangible assets presents a number of structural challenges. From a prudential perspective, regulatory capital requirements mean that IP does not generally qualify as eligible collateral, increasing the cost of lending against such assets. In addition, there are no well-established secondary markets for the disposal of IP assets in the event of default, creating uncertainty around recoverability. Accounting practices can further limit transparency, as IP and other intangibles are often not fully reflected on balance sheets, reducing the information available to lenders and investors.

75. Valuation also remains a barrier. IP valuation in the UK is a relatively small and specialist market, and issues around cost, complexity and confidence can make it difficult for both lenders and borrowers to rely on valuations in credit decisions. Awareness challenges compound this issue, with some SMEs struggling to identify, articulate or protect the value of their IP, and therefore not recognising its potential relevance in discussions with finance providers.

76. Evidence suggests, however, that firms with registered IP are associated with lower default rates and lower loss given default, indicating that IP can be a useful indicator of credit quality even where it is not taken as collateral.¹⁹

77. Some lenders have been developing propositions to address these challenges and international work is under way to explore how intangible assets can better support access to finance. Reforms such as the introduction of new security mechanisms for intangible assets under Scots law may also help over time, though the impact of these changes will need to be assessed as the regime beds in.

¹⁹ BBB and IPO, [USING INTELLECTUAL PROPERTY TO ACCESS GROWTH FUNDING](#), 2018

78. Overall, while IP-intensive and asset-light businesses represent an important source of innovation and growth, structural, regulatory and informational barriers continue to limit their ability to access debt finance on comparable terms to firms with tangible assets.²⁰

2. Defence Sector

79. UK Finance members are robust in their support for the defence of the nation and many actively support viable businesses operating across the defence, security and aerospace sectors, providing a wide range of banking and finance products. Lenders recognise the strong growth potential of the sector.

80. At the same time, lending to defence-related businesses takes place within a particularly complex environment. Firms operating in this sector are subject to heightened scrutiny due to the range of domestic and international requirements that financial institutions must comply with, including anti-money laundering (AML), counter-terrorist financing (CTF), sanctions, export controls and broader financial crime obligations.²¹ The penalties for regulatory failings can be significant, and this necessarily influences lenders' risk assessment processes and due diligence requirements.

81. Each lender therefore has its own approach to the defence sector, shaped by its individual risk appetite, business model and global regulatory obligations. While policies differ between providers, all must comply with the same underlying legal and regulatory frameworks, both in the UK and internationally, which can lead to variation in outcomes for businesses seeking finance.

82. Where defence businesses are unable to access finance or specific products, this is most often linked to challenges around meeting KYC and AML requirements, concerns about business viability, or the higher risk profile associated with newer or highly innovative firms. In addition, many defence and security contracts are subject to confidentiality restrictions, which can limit the information businesses are able to share with lenders. While these restrictions are often necessary, they can hamper providers' ability to undertake effective due diligence and fully assess risk.

83. A range of public and private schemes exist to support defence businesses, across both debt and equity markets, including the Growth Guarantee Scheme and the National Security Strategic Investment Fund. The General Export Facility (GEF) also provides valuable support for eligible exporters, although there is currently no equivalent domestic scheme, unlike in some peer jurisdictions.

²⁰ UK Finance, HMT and DBT Call for Evidence Access to Finance Response, May 2025

²¹ ADS & UK Finance, GUIDE FOR THE DEFENCE AND SECURITY SECTORS ON ACCESS TO FINANCIAL SERVICES IN THE UK, 2023

VII. Opportunities for Future Regulation to support the provision of SME Finance

84. The future regulatory framework for SME lending provides several opportunities to improve clarity, proportionality and customer protection while promoting competition and access to finance. In doing so, it is important to align with the [FCA's secondary international competitiveness and growth objective](#), recognising that clear, proportionate and predictable regulation can enable both SME businesses seeking finance and lenders to invest, innovate and deploy capital in the UK.
85. We have focused in this section on matters that are or will be within the FCA's remit or that relate to the FCA's regulatory perimeter; we have not reiterated the asks of the Government or other regulators set out within this submission.

1. Regulatory perimeter for business lending

86. It is important to avoid unnecessary expansion of the current regulatory perimeter, which covers lending up to £25,000 to sole traders, small partnerships and unincorporated bodies. Any expansion of the perimeter risks restricting access to finance, distorting competition and introducing disproportionate compliance costs for lenders, particularly challengers and specialists that now provide a significant share of SME lending. In fact, we consider that HMT's reform of the CCA may present an opportunity to remove unnecessary regulatory burdens (see sections 1.2. and 1.3, paragraphs 26-34 above, which we expect will persist to an extent even under a reformed consumer credit regime) by removing business lending altogether from the consumer regime. At this stage, we are still working through the mechanics and implications of this and will confirm our position in response to HMT's Phase 2 consultation. In any case we would note that we do not support the introduction of any *new* regulatory regime for SME lending, which members view as unnecessary, and likely to be costly and to increase complexity without delivering commensurate benefits for business borrowers.
87. We would note that even in the absence of a statutory framework beyond the existing perimeter, business lending continues to operate under high standards of customer treatment, with several firms confirming that they will uphold protections comparable to those previously delivered under the LSB Standards. Many lenders also apply aspects of Consumer Duty voluntarily to business customers beyond the regulatory perimeter, reinforcing that significant elements of good practice governance already extend beyond what regulation formally requires. Small business access to the Financial Ombudsman Service (FOS) remains an important safeguard that already provides recourse where appropriate.

2. Regulatory regime for consumer credit

88. From an FCA perspective, with the anticipated transfer of much of the consumer credit rules from legislation into the FCA Handbook, there is the opportunity to ensure the future regulatory regime is more proportionate and flexible than the current regime. To the extent

that lending to sole traders and other business customers remains within scope, there is also an opportunity for the FCA to reflect more explicitly the differences between consumers and business borrowers in future rules and guidance, ensuring that requirements are proportionate and appropriately calibrated for SME lending.

89. The FCA should avoid simply ‘lifting and shifting’ the existing prescriptive CCA framework into its Handbook and instead take the opportunity to streamline overlapping requirements and remove legacy provisions that do not align with modern lending practices. Improving coherence between Consumer Duty, CONC and any new rules will also be important, to prevent unnecessary layering and ensure that firms can focus resources on delivering good outcomes rather than navigating duplicative or conflicting regulatory obligations.
90. More broadly, the transition to an FCA-led regime offers a chance to set clearer expectations around the intended policy outcomes for SME credit markets, including greater flexibility for firms to tailor communications and processes in a way that recognises the sophistication and needs of business customers. Embedding this more outcome-based approach from the outset will help ensure the regime supports innovation, proportionality and competition in SME lending and aligns with the expectations of Consumer Duty
91. We set out above some of the particular challenges with the current CCA regime, which we will develop further in our engagement with HMT and with the FCA in due course.

3. Personal guarantees

92. Personal guarantees (PGs), which mostly support lending to limited companies, generally fall outside the regulatory perimeter and we do not consider that they should be subject to regulation. Regulating PGs would introduce significant operational complexity, legal uncertainty and privacy risks, and would be likely to reduce lending appetite and SME access to finance. Instead, the industry supports a proportionate, industry-led approach based on voluntary commitments and good practice, including transparency and the encouragement of independent legal advice where appropriate. We have worked with members to strengthen practice around the use of PGs, resulting in a set of voluntary Commitments published in October 2024 focused on transparency, communication and guarantor understanding. We consider that these Commitments provide a more effective and flexible means of supporting good outcomes than statutory regulation.
93. In 2025, the Government announced plans to introduce a mandatory code of conduct for accredited lenders under the Growth Guarantee Scheme (GGS) covering the use of personal guarantees, recognising the importance of ensuring fair and transparent practice. Following engagement with UK Finance, lenders and other stakeholders, the British Business Bank and UK Finance agreed that the GGS Code should be based on the existing UK Finance industry Commitments, enhanced to align with Government expectations and provide additional clarity on lenders’ use of PGs under the scheme.
94. It is of note that the Economic Secretary to the Treasury, Lucy Rigby KC MP, in her [letter to the Treasury Committee Chair](#) published in early 2026, concluded that evidence from the Government’s 2025 Call for Input “*did not point to adjusting the regulatory framework*

in relation to personal guarantees specifically” and instead referred to the ongoing work with lenders and UK Finance.

4. HMRC Data Access for Credit Assessment

95. A persistent barrier to SME access to finance is the continued reliance on manual, document-heavy processes to evidence identity (KYB and KYC), income, turnover and financial health. UK Finance-led discussions with lenders and HMRC indicate that consent-based access to selected HMRC datasets could help reduce this friction. Where available and appropriately governed, verified tax and turnover data could support more timely onboarding for customers as well as accurate credit and affordability assessments. This would reduce reliance on self-reported information and contributing to improved fraud risk management. Industry discussions suggest that an API-based delivery model, aligned with established Open Banking principles of customer consent, security and auditability, could provide a scalable and trusted approach, while also improving customer experience and lending outcomes.
96. We welcome the [FCA’s open finance vision](#) published this week, which highlights the role of secure, consent-based data sharing in improving SMEs’ access to lending, enabling faster and more accurate credit decisions and supporting better capital allocation across the economy. We look forward to working with the FCA and our members to progress this.

5. Multi-stakeholder Coordination

97. There may be value in creating an SME regulatory policy group bringing together key stakeholders, including HM Government, the FCA, the Bank of England and the PRA, to help ensure regulation is proportionate and supports appropriate risk-taking and growth, while recognising that the challenges SMEs face are complex and multi-layered. This could include consideration of:
- Risk appetite: providing clearer guidance on the regulatory metrics for *tolerable failure* within the context of the secondary international competitiveness and growth objective. Greater clarity in this area could help regulators take a more growth-oriented approach.
 - Regulatory simplification: identifying opportunities to simplify regulation by removing overlapping requirements and simplifying reporting requirements, reflecting the commitments already made in this area.
98. We look forward to discussing the points raised in this submission with the FCA at the roundtable on 19 May and would be happy to discuss bilaterally in the meantime.
99. If you have any questions relating to this response, please contact Aysha Fernandes, Director, Commercial Finance, Avsha.Fernandes@ukfinance.org.uk, Mike Conroy, Director, Commercial Finance, Mike.Conroy@ukfinance.org.uk or Angela Spaho, Manager, Commercial Finance, Angela.Spaho@ukfinance.org.uk.