

MAKING CHANGE HAPPEN

David Pickering explores a path to the fair treatment of SMEs

I find cutting through noise such an essential skill these days. Fuelled by instant access to information and social media we live in a world where we experience knee-jerk reactions, and extreme opinions based, quite often, on who shouts the loudest. While this is great to draw attention to a problem, inevitably one needs to take a more reflective approach to addressing its root cause in order to arrive at the optimal solution.

Which brings me on to the debate that surrounds lending to small and medium sized enterprises (SMEs), often centering on those cases of particularly poor customer treatment to prove a point. SMEs are central to the UK economy – at the start of 2016 there were approximately 5.5 million private sector businesses in the UK, of which 99.9 percent fell under the SME definition. These businesses employ 15.7 million people, accounting for 60 percent of all private sector employment in the UK. Essential, therefore, that these businesses are given every chance to thrive. Access to finance is central to this, supported by adequate protection throughout the customer journey. The launch of the Government portal enabling SMEs declined by high street banks to be referred to an alternative lender, will hopefully help in terms of access.

But what about protection for SMEs, especially in light of the adverse press that there has been on their treatment? Well, the Lending Standards Board (LSB) will hopefully play a major role in shaping this. The Lending Code served a purpose in the industry in protecting micro-enterprises (maximum €2 million turnover and ten employees) but in reality it was often associated more with personal borrowing. Deciding to separate the new Standards of Lending Practice between personal and business customers will, I think, turn out to be a landmark decision. It will provide a clear focus for lenders and those who provide finance to SMEs on how they should treat their customers and it will enable borrowers to understand what protection they have. Crucially, it will ensure that we, as the independent monitoring body for the Standards, continue to keep SME lending at the top of our agenda.

So what has changed since the Lending Code? Well, significantly, the limit to which the Standards apply has been increased to £6.5 million turnover, taken at the time of borrowing, which will capture nearly all SMEs. This figure has been selected as it is consistent with the separation of retail and investment banking operations under bank ring-fencing regulations.

We believe this is a major step forward.

Secondly, we are committed to widening the product scope and consequently increasing the number of registered firms, thus extending protection to more customers. It made sense to launch with existing products – business loans, credit cards, overdrafts and charge cards – given that we are already increasing the turnover threshold. We are, however, seeking to extend the product scope later in 2017 to asset finance (HP, leasing, invoice discounting and financing) and commercial mortgages. Then, in early 2018, we will add in peer-to-peer lending.

Lastly, we have moved away from prescriptive rules, instead focusing on high level principles, customer outcomes and individual standards. In designing the framework we wanted to ensure three things: a focus on customer outcomes; ensuring the market continues to work well, avoiding any unintended consequences; and agility – being able to develop the Standards quickly.

Self-regulation is fine but how do we know if it is working in practice? We would agree that self-regulation, which is not independently monitored and enforced, falls short. The LSB will be undertaking a programme of work combining risk assessments at firms with thematic review work. It focuses on those areas where there is the highest impact on fair customer outcomes, such as transparency at point of sale, and how businesses are treated when they get into a turnaround situation. Where firms do not meet the Standards, we will agree remedial action to address any issues identified. Where firms fall significantly below what is required, we will hold those firms to account which could result in public censure.

But the hope is that firms will meet the Standards and that the combination of the Standards and the LSB's oversight will help firms to do this. There is a collective will from our registered firms and other stakeholders to ensure that SMEs receive consistent, fair treatment. We are very excited with what has been developed so far and what the future landscape looks like.

For more details on the Standards and how to become a registered firm, visit our website at lendingstandardsboard.org.uk.

• *Dave Pickering is the LSB's Chief Executive whose focus has been overseeing the development and implementation of the personal and small business Standards and associated oversight strategy as well as delivering the organisation's strategic aims.*