# SME Access to Finance Report

An analysis of UK SMEs' experiences accessing emergency funding

reparo finance

# Contents




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# Foreword

When the government announced the Coronavirus Business Interruption Loan Scheme (CBILS) back in March to help businesses survive the pandemic, it was welcomed as an opportunity to make finance more accessible to SMEs. SME finance has been in crisis since the 2008 banking crash, with many mainstream lenders having tightened their lending criteria. As a result, many small businesses are now considered too high risk.

Yet the need for SME finance has become greater than ever, with economic uncertainty and corporate debt having steadily increased and with crises such as Brexit putting businesses under extreme pressure. As of 2019, the UK's gap in SME financing was estimated to be a staggering £57 billion. Banks often struggle to evaluate the risk associated with SMEs due to limited financial information, unusual cash flow and a lack of understanding of their business.

As alternative lenders, we've been hearing countless stories from clients and other stakeholders about the challenges that SMEs are experiencing in accessing the finance they need. That's why we formalised this anecdotal evidence by commissioning a survey investigating SMEs' experiences in applying for CBILS and seeking alternatives.

The results have been stark, and the analysis in this report aims to explain why this is happening, what can be done to help make finance more accessible and the role that alternative finance should play in the future.

We believe that SMEs must be given a clear understanding of the financial support options available to them if they are to survive the pandemic and beyond - and we hope that this research helps to achieve that.

Thank you for taking the time to read this report - we hope you find it useful and informative. If you have a question or would like to discuss difficulties accessing finance, then please do get in touch with us - we'd love to hear from you.

**Steve Richardson**
Director, Reparo Finance

# Executive Summary

## About the survey

We surveyed more than 200 SMEs during October 2020. Respondents were key decision-makers at organisations employing less than 250 people who had applied for or started an application for a CBILS loan.

The research was conducted independently by Sapio Research and interviews were performed via email invitation and online survey. Overall, results are accurate to ± 6.8% at 95% confidence limits, assuming a result of 50%.

## Key findings

Our research explores the ease and timeliness that SMEs experienced in accessing financial support when it is needed and whether CBILS are adequately supporting their needs. Most strikingly, the research revealed that 85% of SMEs that began a CBILS application are still in need of some form of financial support.

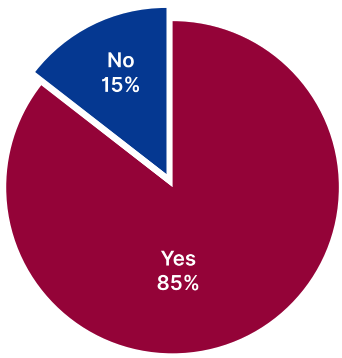
The findings also highlight a lack of understanding amongst SMEs over what alternative finance options are available to them, with some incorrectly assuming that government-backed schemes are the only choice.

However, government-backed loans have had some success, with 52% of SMEs that applied for a CBILS having secured funding. The research ultimately shows that more support is needed to help ensure that viable businesses have a future.

Here are some of the key findings from our research:

### 1. 85% say their company still requires financial help to address the pandemic

According to the results of the survey, 85% of respondents say their company still requires financial help to address the impacts of the pandemic. Of those who applied or started an application for a CBILS loan, 48% have yet to receive any funding.

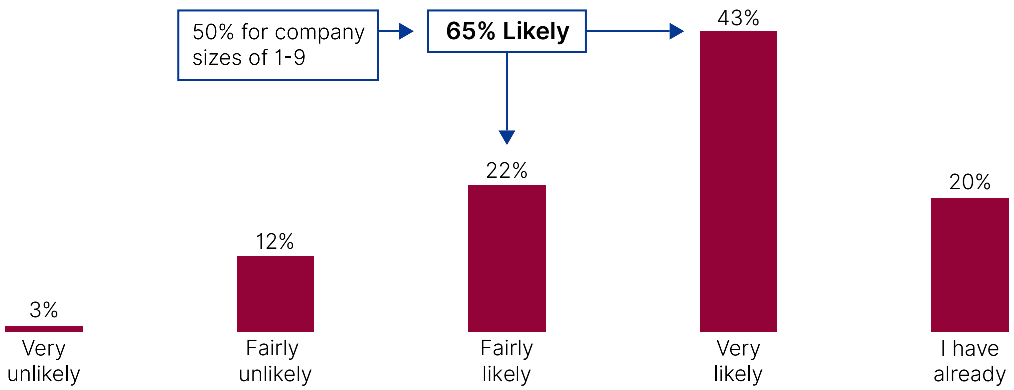


Even among those who were successful, 93% reported experiencing a struggle during the application process, from not knowing if they would be eligible to finding the process too time consuming and complex.

This shows us that government-backed loans are not straightforward to apply for and aren't suitable for all companies.

## 2. Many businesses seeking CBILS alternatives

**1 in 5 have already considered other forms of borrowing in addition to a CBILS loan (20%), and another two thirds are likely to consider looking (85%)**




With many businesses struggling to get the financial help they need, some are looking to other forms of borrowing. 20% of our sample had already explored other options, while a further 65% were likely to consider looking in the future.

This willingness not only reflects the urgent need for finance, but it also shows that businesses are open-minded about their options.

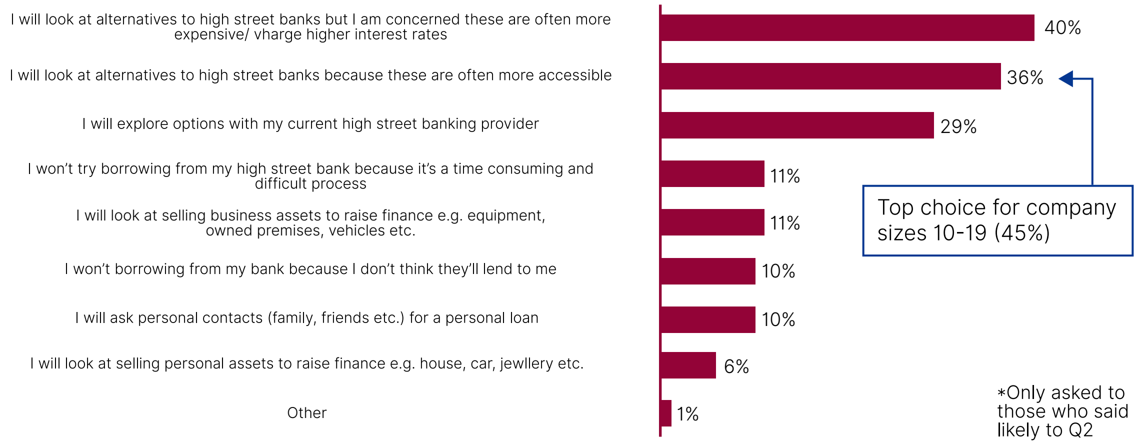
## 3. Uncertainty around other options

15% of businesses surveyed said that they were unlikely to consider alternatives to CBILS. The two primary reasons for this were uncertainty regarding the other forms of borrowing available and the belief that there was no other way of raising finance to support their business.

Others felt that their time and effort would ultimately be wasted and that traditional lenders like banks would reject their applications. These figures serve to highlight the need to educate SME leaders on the options available to them so that they can make an informed decision should a traditional lender turn them down.

## 4. Alternatives are more accessible

**2 in 5 of those likely to consider other forms of borrowing, will look at alternatives to high street banks but are concerned about the higher costs (40%)**




While 29% planned to explore the options with their current high street banking provider, 76% also planned to look elsewhere. There is a general feeling that alternatives to high street banks are often more accessible, but many businesses are conflicted due to concerns about higher costs.

A minority did not plan to borrow at all but instead intended to sell personal or business assets, or seek help from friends and family.

This once again shows that SMEs are willing to consider a range of finance options, as well as a sense that banks may not be the most suitable route available to them.

### Lenders Cut Back

Our research focuses on SMEs' experiences; however, it is clear that lenders are going to be more cautious over the coming months, especially towards those lacking a clear plan for how their business is going to remain profitable.

With so many businesses struggling to secure finance through CBILS, lenders have been overwhelmed with the demand and are taking much longer than usual. Many financial institutions have also cut access to Bounce Back loans for new customers amid a huge surge in applications—even though they may be entitled to one.

## Conclusion: Alternative finance has an important role to play

With banks not fulfilling the need and CBILS causing confusion, businesses and finance brokers need to be open to other options and find bespoke solutions for those customers most in need.

Our research proves that there is a growing demand for SMEs to be connected with lenders that are able to provide tailored solutions.

This is where alternative finance providers can play a role. They have the experience and know-how to seek a practical solution, rather than relying on clinical computer algorithms.

They won't shy away from urgent or challenging applications that don't fall into traditional lenders' criteria.

They work with SMEs on a case-by-case basis, assessing individual circumstances and finding ways to make financing their business possible.

# Most SMEs still require financial support as a result of Covid-19

## Financial support needed

**85%**
Still need financial help

**93%**
Experienced a struggle during the CBILS loan application process

## CBILS struggles

**48%**
Of applications are pending, rejected or abandoned

**23%**
Didn't know if they would be eligible

**20%**
Found the application too complex

## Looking elsewhere

**65%**
Are likely to consider looking for other forms of borrowing – and another 20% already have

**39%**
Of those unlikely to look for alternatives are unsure what other options are out there

**40%**
Of those likely to look at alternatives are concerned about higher costs outside of high street banks

# The SME lending checklist

Business leaders generally don't have the knowledge or expertise to find the right finance solutions, often sticking to traditional lenders such as high street banks. This lack of knowledge means that alternative options are not being fully explored and in some cases, not even considered as a potential route.

Our research found that while 65% of SMEs that had begun a CBILS application said that they would look for alternative options, 15% said that they were unlikely to consider other forms of borrowing.

Of these, 39% don't know what alternative finance options are available to them, or don't believe there is any way to raise funding for their business. This represents a sizable opportunity for brokers to support small businesses to understand the full range of funding options available to them.

Alternative lenders will be able to support clients quickly if they are well prepared. Here's our checklist for preparing SMEs for alternative funding.

## 1 - Consider a broad range of lenders

SMEs may not be aware of the alternative finance options available to them and have little understanding of what security they can leverage. If unsecured working capital loans don't currently seem viable, consider invoice financing, asset finance or explore secured lending. Alternative lenders may take a more flexible view on security than traditional lenders.

Many lenders have removed themselves from industries that have been hit hard by the pandemic. Sector-specific providers could be the answer for many SMEs. Casting the net more widely will increase the chance of accessing funding, but lending applications must be thorough and well prepared.

## 2 - Tailor the application

Finance applications will face more scrutiny as the economic outlook remains uncertain. Unfortunately, most SMEs lack the skills to create a well-articulated proposal and will need close support when approaching alternative lenders.

The purpose of the loan should be clear and mitigate any doubts. Many businesses will need finance to address problems caused by the pandemic; however, there are still a large number that are seeking to grow. These companies should be ready to convince lenders of their vision by highlighting their expertise and the reasons they can make the business a success.

## 3 - Draw up robust contingencies

Whatever the purpose of the loan, applications must explore all possible outcomes and show the business can trade through further adverse conditions. However, most SMEs will naturally aim to play down any difficulties facing their business and so will need close guidance to ensure that they provide contingencies for worst case scenarios.

Proving a company's historical performance is still important and cash flow forecasts and management information are a critical element in this. Business leaders also need to be prepared to be candid and share their plans for the future.

Many companies will not have filed accounts since the pandemic hit and lenders may request more detail on the health of the business. Robust contingency planning can alleviate concerns and give insight into how the business will return to pre-Covid trading levels.

## 4 - Upskill management

A lack of financial expertise is common in leaders of smaller SMEs. Brokers can play a role here, helping them to understand how to make useful and accurate projections in order to make the process more efficient.

For example, the ability to stress test projections will ensure that they are prepared for a range of eventualities - they should also understand their options should the worst case scenario occur.

Another useful skill is dynamic budgeting, which can help them operate flexibly when financial conditions change.

They should also be encouraged to implement regular reviews of debtors and creditors to allow them to address cash flow issues and set up a management dashboard that provides them with an overview of key information. Lenders will view this preparation favourably, particularly where financing needs are spotted before problems arise.

## 5 - Discuss terms

Alternative lenders may have flexibility in their financing terms compared to traditional banks. It is important that SMEs are briefed on how to negotiate these terms once a conditional offer has been made.

# Trends for 2021 and beyond

When the first lockdown hit in March we saw first hand the impact on UK companies and immediately got to work helping borrowers to navigate the period.

Many of these companies had found their revenues extinguished overnight. But a mix of government measures and resilience made sure they survived the period.

Looking back now, it was an incredibly challenging time; there was much panic and uncertainty in the business community. Nine months on, and the panic has subsided but the outlook for many SMEs is bleak.

The blitz spirit and financial support measures will soon come to an end and give way to a new reality. The government will need to start recovering funds and consumer habits may be altered forever.

Businesses will be expected to resume paying staff wages and rents, as well as to catch up on suspended taxes.

Costs will return but revenues may not.

Businesses will struggle to survive and many probably won't. How does this leave the SME lending space? It's difficult to predict but let's look at some of the trends we expect to see:

## 1. Many businesses will fail

Despite the raft of government measures the amount of insolvent bad debt (unpaid invoices when a company fails) is the same for the 12 months to 30th September 2020 as it was for the 12 months to 20th September 2019.

This is a helpful proxy for the likelihood of future business failure and it's worrying. With the raft of government support you'd expect less businesses to fail and leave behind unpaid debt but the figure hasn't gone down.

This leaves the question: what will this debt look like once government support measures end?

It will likely be many multiples higher.

## 2. This will make lenders cautious

Traditional and large fintech lenders make decisions largely based on set criteria. This is necessary for them to process the volume of applications they receive.

These models weren't designed for a pandemic or post-pandemic business environment so it will become much harder for lenders to make credit decisions.

Because no-one knows how the economy will bounce back, lenders will naturally be reluctant to fund all but the most vanilla applications.

This will leave many SMEs struggling to access lending. Even those businesses with a strong proposition may be unable to access capital. We'll look at why in point three.

## 3. Lenders are facing their own resource challenges

Traditional lenders have spent the best part of 2021 administering government loan schemes. They now have huge books of CBILS and Bounce Back Loans to manage.

They are stretched and have even fewer resources to evaluate loan applications. But unfortunately, lending applications will now need more consideration. A business that had consistent revenues and a stable business model pre-Covid now faces an uncertain future.

Previously lenders that may have sanctioned a loan to a relatively stable SME will now need to start looking more deeply at the business.

- Will revenues bounce back?
- Is the value of security still the same?
- How does the future look for their sector?
- Is their business model solid?
- Do they have a good financial plan in place?

It's now more difficult to make lending decisions and it's likely that the default response in cases of uncertainty will be "no".

# The need for alternative lending

We're seeing a strong demand for alternative lending. As companies look ahead at 2021 and beyond, some see big black holes in their cash flow and others see opportunity to bounce back.

As the economy re-adjusts, we see three dynamics:

1. A large need for capital
2. Reduced lending appetite from larger lenders
3. More challenging lending decisions

These three factors signal a busy few years for alternative finance. As we've already pointed out in this report, 65% of businesses are looking beyond CBILS for funding. For many of these businesses alternative finance will be a perfect solution.

At Reparo, we can help viable businesses that struggle to secure lending through traditional routes.

- ☑ Rather than lend based on set criteria, we have the resources to look at the business proposition more closely.
- ☑ We can make fast lending decisions, so when circumstances change we're able to review applications quickly.
- ☑ When a lending application is complex, we have the experience to understand the unique circumstances.
- ☑ We're flexible in our approach; we're looking for ways to get the deal done rather than dismissing anything that isn't straightforward.

In an uncertain world the alternative lending market will play an important role. Lenders with a wide range of products and industry expertise will be perfectly placed to step in and make lending decisions when larger lenders don't have the resources or risk appetite.

# Expert insight

We've presented our research to a range of experts to get their view on the current state and future of SME lending.

**Graeme Lipman**
Director, Bebies Traynor Group

Graeme Lipman has decades of SME experience. First through running his own firm in the printing and publishing business, with a multi-million pound turnover and over 50 staff, and now as a director at Begbies Traynor, assessing SMEs through independent business reviews for banks and other financial clients.

*"Providing SME lending at scale is going to be a challenge for traditional lenders. I recently had a call with a senior figure at a leading financial institution; he explained that of the 2,000 companies on his patch 1,200 hadn't applied for a CBILS or Bounce Back Loan. He lamented that his team had limited capacity to serve the 1,200 companies not applying for government funding. It's a clear indication that lenders are facing a huge backlog of demand.*

*Even within the CBILS scheme, the demand is significantly outstripping supply. Companies in distressed sectors are unlikely to get CBILS lending now. The banks have the added complication that when defaults begin they have to start claiming back losses from the government and many are worried this will prove hugely problematic. This all points to a marketplace where companies will need to look outside traditional lenders for finance - even for companies that are normally served by banks.*

*Our advice to brokers and businesses is to get your management information in order. Keep good records and track progress versus plan. If the need arises for borrowing, then lenders can move a lot faster when they have the right information. I anticipate that alternative lenders are going to be busy in the coming years. Alongside resource issues, traditional lenders' credit policies may tighten as they look to minimise risk. Alternative lenders that can quickly evaluate lending propositions will likely step in and provide some much-needed liquidity."*

**Calvin Dexter**
Commercial Finance Broker

Calvin Dexter runs his own commercial finance brokerage and is also a director at both Kingsbridge Funding Solutions Ltd and ND Squared Ltd. Calvin had 32 years' experience in banking and asset-based lending prior to setting up his own business. In 2014 he left the corporate world to start life as a commercial finance broker. Over the past five years he's drawn on his experience to build a successful business, helping hundreds of companies access the right funding.

*"Looking ahead to 2021 we're predicting that many companies will struggle to access finance. The large fintech lenders that lend based on algorithms are going to find their models aren't fit for purpose, as the algorithms they use aren't built for companies emerging from a global pandemic. These fintech lenders don't have the resources to give every application the time and attention it needs - that's just not their model. Subsequently, many companies will be left struggling to access funding - they're unlikely to fare any better approaching the banks.*

*This means alternative providers will have an important role to play. Lenders that have a common sense approach and look beyond the figures are going to be needed as lending decisions require greater personalisation and expertise. As a broker, I'm working hard to get out the message that there is a thriving alternative finance market ready to provide capital."*

**Gary Smith**
Director, Simply Business Finance

Gary is a qualified accountant with 20 years of experience in commercial finance. Simply Business Finance helps business owners access the funding they need to grow. Prior to starting his own business, he spent 19 years working for a secured business finance lender offering bespoke personal lending to UK companies. He helped pioneer an approach to lending that focused on the people behind the business, rather than assessing them according to rigid criteria.

*"Challenging economic conditions and saturated demand mean that the majority of SMEs cannot rely on traditional lenders or government support schemes for finance.*

*Because of this, the need for a fast and flexible service that doesn't depend on rigid lending criteria is only going to become more pronounced over the next 18 months. This situation isn't going to go back to normal once the pandemic and subsequent recession is over. SME lending has been a growing issue in recent years because the service offered by financial institutions is only suitable for a small portion of the market.*

*Alternative lenders are perfectly positioned to fill the gap; however, most of my clients don't know they exist and even fewer understand why they may be a better choice than their high street bank. As brokers, we need to introduce SMEs to the full spectrum of options, explain the different benefits available to them and help them find the right niche lender for them.*

*This will help businesses to survive the pandemic, weather Brexit uncertainty and flourish during recovery. It's therefore vital that borrowers, brokers and lenders alike wake up to, and embrace, this new reality."*

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