Banking Small Businesses:
Forging Closer Ties between Banks and the Real Economy

Executive Summary

A Final Report of the BankingFutures Dialogue
Disclaimer: As a multi-stakeholder and collaborative project, the findings, interpretations and conclusions expressed herein may not necessarily reflect the views of all members of the group at all times. Members of all groups took part in a personal capacity.
BankingFutures

An Inclusive, Multi-Stakeholder Process

BankingFutures is a structured dialogue aiming to create a healthy, resilient and inclusive banking sector in the UK. It is a partnership run by Leaders’ Quest and Meteos, two non-profit organisations committed to improving the role business plays in society.

The dialogue has taken place in two phases. Phase One began in June 2014 and sought to provide civil society, customer and regulatory input to a leadership group of senior banking executives, investors and experts on banking reform. The original leadership group committed significant time over the course of 14 months, for internal working group meetings and external roundtables with stakeholders. Over 200 stakeholders contributed views through these meetings and via interviews. The first phase of the project, which was described as one of the most societally inclusive projects on banking reform, concluded with the publication of the report, Banking on Trust: Engaging to Rebuild a Healthy Banking Sector.

This is a report on Phase Two of the project, which launched in May 2016 and created Action Groups to explore two topics in depth: how banks can better contribute to the real economy, and how communication and dialogue can be improved between banks, investors and other stakeholders in order to enhance banks’ ability to deliver long-term value. The work of the groups was overseen by a Steering Group of senior banking leaders, investors, financial reform experts and civil society representatives (see Appendix A). Steering Group members agreed to use their positions of influence to further the project’s final recommendations.

Action Group One sought to identify actions that would forge stronger links between the financial system and the small and medium enterprise (SME) sector of the real economy. The group was composed of bank leaders, representatives of SMEs, representatives of the responsible finance and community development financial institutions (CDFI) sector, and civil society organisations working on finance. Its work incorporated insights of academics, economists and policy-makers. The group met regularly over the course of 14 months and exchanged views between meetings; these took place in London, Bristol and Sheffield, with a view to engaging with cities and regions where there is a greater need for improved access to financial services. The meetings included site visits, with leaders from organisations working to understand and support the needs of the real economy.

Action Group Two was charged with exploring how to reintroduce a long-term culture into investing in banks, in partnership with the Investor Forum. It sought to identify practical measures to contribute to a longer time horizon in investment and management decision-making, as well as a more comprehensive definition of long-term value. This group was made up of bankers, investors and representatives of organisations seeking reform from within and outside of the investment community. This group met five times for day-long workshops over the course of the project’s duration and, as above, participated in a combination of immersive learning with sector experts and site visits to underserved communities in London’s East End, complemented by internal group discussions.
We set up the BankingFutures dialogue three years ago to support the development of a healthy, resilient and inclusive banking sector in the UK, capable of underpinning UK economic development and enabling everyone to participate in the economy. This leadership dialogue is run jointly by our organisations, Leaders' Quest and Meteos, and in partnership with the Investor Forum for our work on long-termism. It is an invitation to senior bank leaders, institutional investors and civil society representatives to come together to agree what changes are needed in the sector, and to find common ground on how these can be achieved.

In this second phase of the project we have focused on two priorities: how banks can better support SMEs in the real economy, and how to improve communication and dialogue between banks, investors and other stakeholders in order to enhance banks’ ability to deliver long-term value. The dialogue concludes with a separate report on each topic.

Although seemingly different, these topics are ultimately interdependent. The ability of banks to adequately address the needs of small and medium enterprises (SMEs) is already challenging due to the high or unknown risk of doing so. This long-term challenge has been made more acute by recent changes to the banks’ business models, which are partly a result of an increased focus on the demands of capital markets. For investors, SME lending and banks’ contribution to society are low priorities because they are a small part of a global bank’s balance sheet. As a result, investors are more likely to focus on the introduction of efficiency measures – such as closure of bank branches – than to consider the effects of these closures on a bank’s ability to meet the needs of small companies. This matters not only because it is vital that this part of the economy has access to the finance it needs, but also because it affects society’s perception of banks.

Understanding how to encourage banks and investors to focus more on what is going to drive long-term value to all stakeholders, and less on short-term financial results, is a crucial part of what will permit banks to make investments in the real economy that require patient capital. The BankingFutures participants committed themselves to trying to square this circle. Our desire was for the project to strengthen the bridges between people in the financial system and real economies. Our groups embraced the opportunity to meet some of the most financially excluded people in the UK. Hearing from them helped focus our minds on the need to fix the system. The groups worked together with the intellectual rigour you would expect of such leaders, but they also worked respectfully and carefully, listening to each other’s perspectives even when they were at odds, and with a commitment to finding joint solutions. We are deeply grateful for their openness to work in this way and to such good effect. We would also like to thank the many experts who allowed us to interview them, and who were more than generous with their ideas and suggestions.

The outcome of the process is this report on SMEs, banks and the real economy and its counterpart report on long-termism. Each report is a standalone. However, to come to solution to either will requiring tackling both issues simultaneously. There are ways to do this which we outline in each report, and we therefore encourage you to read them both.

We are proud to have achieved our original goal of identifying actionable things that can be done by specific people or institutions to make a difference. This is the result of adopting a comprehensive multi-stakeholder approach in which the views of all stakeholders are sought and actively considered. The virtue of this approach is that participants come to mutually acceptable outcomes. For some, the recommendations may be a stretch; for others, they may not go far enough. This is not a weakness. Along the way participants have heard and acted on each other’s concerns, meaning that when the recommendations are finally launched, they are much more likely to get real traction in the real world. In this way, we hope that the creative energy that has gone into BankingFutures lives on in a tangible way that contributes to a healthy banking system, in service to society.

Sophia Tickell and Anne Wade • July 2017
Executive Summary

This is one of two reports on the findings of the second phase of the BankingFutures dialogue. It identifies how government and banks in the UK can provide more support to the real economy (economic activities undertaken by households and businesses, as opposed to transactions between financial entities), and focuses specifically on support for the small and medium enterprise (SME) sector. BankingFutures was set up in 2014, on the underlying premise that banks have a vital role to play in the economy and that multi-stakeholder views on how to achieve a healthy UK banking sector should shape recommendations to achieve that goal.

Executive Summary

The timing could not be more urgent. Prior to the Brexit vote, the SME sector was already in need of more support. Since June 2016 this imperative has been made stronger by the challenges posed by the UK’s withdrawal from the EU and the importance of SMEs to the economy. There is real concern that Brexit will leave ‘a business support black hole’ that urgently needs filling if SMEs are to be the successful engine of growth the economy needs today. Therefore the focus on SMEs arises from:

• The significance of the sector to the economy – for its contribution to economic growth, employment, innovation and social cohesion.¹ There are 5.4 million SMEs in the UK, making up over 90 percent of businesses.² Total employment in SMEs is 15.6 million and represents 60 percent of all private sector employment.

• The current government interest in the sector, which is providing an opportunity to feed a multi-stakeholder perspective into timely regulatory and legislative debates.

• The fact that a number of banks have committed to focus on SMEs, coupled with structural changes to bank business models which are likely to make serving SMEs more challenging, in ways that banks, government and SMEs themselves are only beginning to understand.

Although banks remain the primary source of lending to SMEs, it is a challenging sector for them. SMEs often have little or no collateral, and new companies do not have a track record against which banks can measure the risks and opportunities they pose. This means SME lending has tended to be one of the riskiest activities on bank balance sheets.

These challenges are compounded by the structure of the UK banking market, which is unusual in that it is almost entirely served by for-profit, privately owned businesses. It has no significant mission-driven or social banking sector, and government intervention to provide early support to smaller and riskier enterprises, or to address financial exclusion, is significantly lower than it is in other countries. Additionally, banks are undergoing profound business model changes driven by unprecedented regulation, historically low interest rates and a global technological revolution. This has seen the
acceleration of digitisation and automation, the introduction of financial technology (Fintech) and artificial intelligence; it also places banks on the front line in fighting financial crime. One of the most visible signs of the pressure on banks is branch closures, which complicates local and regional financing of SMEs, and is particularly challenging for small businesses which manage cash, those faced with difficult or complex decisions and those preparing for the next stage of growth. These are radical changes for the banking sector with huge implications for customers, employees and shareholders.

Loans to the real economy (non-financial businesses) account for 18 percent of domestic lending of UK-based banks. The figure falls to 12 percent if selling and renting of real estate is excluded. Lending to SMEs now sits at around 4 percent of banks’ balance sheets. This lending is nevertheless crucial to SME success – it accounts for 80 percent of loans to SMEs today. Government interest in SMEs has been increasing in recent years, and has been heightened by the Brexit vote. The past few years have seen a swathe of legislative and regulatory initiatives to address SME needs. Regulating to create the right balance between ensuring that finance is available and encouraging entrepreneurialism, promoting market confidence and providing protection for vulnerable SME customers is a complex and difficult undertaking, with strongly held views on all sides of the argument. It is clear, however, that government – guided by customers and industry – is uniquely placed to create the framework to capture comprehensive information about the nature and extent of SME needs, and to propose holistic solutions to meet them. Government also has a role to ensure consistency across its different departments, and to ensure that the implications of legislation or regulation on the range of economic activities are fully understood.

BankingFutures identified four priority areas for addressing the needs of SMEs:

• Access to finance (including non-bank finance and finance for social business).
• Access to advice.
• Access to protection.
• Access to redress.

Despite the plethora of welcome government and bank initiatives to improve support for the sector in recent years, SMEs – and smaller SMEs in particular – have ongoing and poorly met needs in each of these areas that should be addressed. Further, it is important that any attempts to do so take a holistic approach that recognises how interdependent the four issues are.

Pre-Requisites to Address the Four Priority Needs: Definition and Data

Successfully addressing the four priorities above can only be achieved by improving current definitions and by better data collection and analysis. Understanding the supply of and demand for SME finance is inherently complex, due to the size and diversity of the sector. It is made more so by the fact that definitions of SMEs are so broad. To fully address these challenges requires a more differentiated definition of SMEs, in order to separate out the wide variations in policy, financing, product, advice, legal and service needs of companies in the sector.

It also requires government to collate better, more granular, data about the supply and demand for finance for different types of SMEs, and how they fit together, as well as about their differentiated needs for advice. Data on smaller SMEs, micro- and nano-companies and the ‘gig economy’ is particularly difficult to obtain, but is much-needed, given the increasing numbers employed in these areas. Notwithstanding the need for more data, especially about the smaller end of the SME market, the current picture already reveals both provision gaps and potential solutions which form the basis of the BankingFutures recommendations.

Banks remain the major source of finance for SMEs, but confidence and trust in their ability to provide finance on fair terms have diminished in recent years and this appears to be denting demand. This goes some way to explaining the recent upsurge in demand for alternative finance. SME experts and champions believe that government assumptions that banks are well-placed to meet the bulk of appropriate SME demand for finance are over-optimistic. Different stakeholders hold divergent views about the needs of the sector and the degree to which there is an investment.
gap for SME financing. Many banks hold the view, based on their empirical experience, that there is more supply than demand for SME finance. SME representatives, on the other hand, believe that there is significant discouraged demand and unmet need.

The reality is that these different perspectives are probably simultaneously true. BankingFutures discussions revealed that banks may be approving most of those SME applications they believe to be of merit – not all small business plans are deemed to yield acceptable financial returns to banks, and not all are robust enough to deserve loans. However, sometimes the terms of those loans are not economic for the applicant, and at other times SMEs are not, for various reasons, requesting or completing applications to banks, and are therefore statistically invisible. There are also divergent views of the nature of that finance. Some financiers believe that many more SMEs could and should be seeking equity capital. SMEs themselves are more wary and prefer loans.

BankingFutures identified the following priorities to understand the SME investment gap:

- The need for better, more centralised data collection and collation from banks and other sources of SME finance to get a comprehensive picture of supply and demand.
- The need for a more disaggregated definition of SMEs to better understand the varied policy, advice and protection needs of the sector.
- The need to address specific SME sectors where demand for finance is poorly met, including, smaller SMEs, businesses in regions that are structurally underfunded, SMEs in the knowledge economy and those seeking growth capital, ‘green’ SMEs supporting the transition to a low carbon economy, and agricultural SMEs post-Brexit.

There is an urgent need for SMEs to obtain better access to business, financial and legal advice – and in particular on how to ensure that their business is ‘investment ready’. Despite a great deal of advice in the marketplace there is no one-stop-shop where SMEs can go for the full range of advice. The provision of advice is also complicated by a lack of clarity about when information (which can be freely given) becomes advice (which comes with legal liabilities and regulatory constraints). Comprehensive, independent, impartial advice needs to be easily available, readily accessible and affordable. Government does not have to provide this advice, but it is likely to have an important role in ensuring it meets the standards and high quality required.

BankingFutures identified the following specific advice gaps for SMEs, that urgently need to be addressed:

- The need for advice on the impact that rising interest rates will have on their firms and how to manage growing debt. This is particularly important for newer firms which have only ever operated in a low interest rate environment.
- The need for advice about how to manage debt throughout the cycle of a business. There is currently a strong bias towards advice to start-up firms, and an advice gap about how companies which have successfully survived the most difficult first two years of existence should manage future growth and develop into employers of the future.
- The need for advice on how to navigate complex decisions about what types of investment are most appropriate for their business and stage of growth. In most places SMEs have very little understanding of equity and other finance options.
- The urgent need for advice to nano- and micro-businesses, which rely heavily on personal bank accounts and credit cards to finance their firms, to help them understand and manage the potential impacts on their businesses of new data protection requirements.

The availability of advice is only one part of the story. SMEs not only need to be aware of the available advice; they also need to use it. One of the greatest challenges is to encourage uptake and application of advice by business users in ways that work for them. This means, amongst other things, taking into consideration the behavioural traits of a wide variety of SMEs, and understanding which sectors use what information in what way.
SMEs need protection against fundamental business risks and against the information asymmetry between them and those from whom they buy financial services, which may leave them vulnerable to manipulation and poor conduct. There is very limited regulatory protection afforded to SMEs today. BankingFutures discussions identified three significant protection gaps:

- Lack of protection for small and medium firms above the micro-business threshold that currently receive no protection from the Financial Conduct Authority (FCA), and for whom the only recourse is through the courts.
- The gap that arises from the fact that conduct regulations are not applicable to some new lenders and players in the financial sector.
- The lack of protection when unregulated products are sold by regulated entities to unregulated firms.

In creating any new protection there will be a trade-off between choosing simplicity (such as delineation on the basis of size) or a more nuanced approach which attempts to capture complexity (such as levels of financial sophistication). Although a one-size-fits-all ‘blunt tool’ may hinder a small number of more sophisticated smaller SMEs from obtaining finance, most stakeholders argue that the need for a clear and simple extension of protection provision to the majority of SMEs should prevail, especially as it is possible to introduce opt-in clauses for more sophisticated SMEs.

Despite their hugely different abilities to access advice, resources and legal expertise, the law today views SMEs and banks as equal, and works on the assumption that most businesses are more financially and commercially sophisticated than individual customers. For SMEs with more than 10 employees, or annual turnover of more than €2m, this means that in the case of dispute, their only recourse is to take their case to court. Unless they opt for ‘no win, no fee’ lawyers, they are ill-equipped to do this when in deep financial difficulty. The Financial Ombudsman, to which many SMEs turn in the first instance, is only mandated to hear complaints from individual customers or micro-enterprises. Those small businesses that do fall within this threshold then discover that the Ombudsman is unable to consider certain unregulated products, and can only award up to £150,000 in compensation, which may fall far short of the losses they have incurred. Some SMEs who have sought a hearing with the Ombudsman have lost confidence in it, and complain that it is slow and lacks the resources needed to help them.

BankingFutures identified the need to address the following gaps in access to justice for SMEs:

- The need for a fair system that addresses the information asymmetries and power imbalances between SMEs and their finance providers.
- The need for affordable redress that is within reach of SMEs, even when facing financial difficulties.
- A dispute-resolution mechanism that:
  - Carries out its duties in an expeditious way.
  - Is legally binding and able to create case law.
  - Is mandated to handle both regulated and unregulated asset cases.

**Action**

Action is needed now to ensure that the banking sector – in all its guises – is able to meet the urgent needs of the UK economy, and to serve smaller SMEs that appear to have particular unmet needs. The convergence of technological advances, Brexit, the inclusive growth agenda, the growth of the gig economy, the need to tackle cybercrime, and the imperatives of a low carbon future offers a massive opportunity to reset the relationship between finance providers and the society they are there to serve. Constructive action now would only create winners. The following recommendations outline what could be done to support SMEs in the UK at this unique point in its history.
RECOMMENDATION ONE:

_Banks to provide more precise data and more narrative information on SME lending to the British Business Bank_

i. Banks to provide the British Business Bank (BBB) with more data on loans, including loans requested, terms of outcome and drawdown in aggregated debt lending reporting, and requests for finance to allow SMEs to improve their sustainability and/or to expand provision of ‘green’ goods and services.

ii. Banks to introduce data collection processes to assess and understand the use of personal products for business use, and to make subsequent data available to government.

iii. Banks to work with the proposed government-convened Multi-Stakeholder Advisory Committee (see Recommendations to Government, below), set up to define what data points to use and to review the collection and collation process.

iv. Banks to provide narrative reports to the BBB on how the SME finance market is working.

v. Banks to augment efforts to understand the needs and opportunities in the Community Development Finance Institutions (CDFI)/Responsible Finance market by supporting the BBB to develop techniques to collect data, and informing the BBB about the referrals they make to CDFIs/Responsible Finance institutions. This should include the nature and size of loans referred, and to which CDFIs.

RECOMMENDATION TWO:

_Banks to articulate a coherent strategy to address local and regional SME needs_

i. All banks to provide clear and easily accessible information to SMEs about where and how credit decisions are made within the bank, and by whom.

ii. High Street banks to develop internal strategies to ensure that branch closures are accompanied by clear communications to current and potential small business customers about the financial service options – including Fintech options – that remain open to them, and how to access them.

iii. All banks, irrespective of business models, to contribute to ensuring that underserved communities retain or obtain access to banking services and financial inclusion. This will include working with the Post Office where it provides bank services; special provisions in places where bank services are no longer available; and a transition plan for businesses that are heavily dependent on cash.

iv. Banks to raise awareness of and improve access to ‘green’ financial products and services.

v. Banks to work constructively with Responsible Finance providers to ensure wider coverage of underserved customers and market segments, by:

   a) Exploring how referral processes are currently working; and based on the findings, developing more robust processes.

   b) Seconding bank staff and providing mentoring on request to Responsible Finance providers to strengthen their capacity and skills base.

   c) Actively supporting government initiatives to encourage investment into Responsible Finance organisations that is sufficiently de-risked for banks to protect their own depositors.
RECOMMENDATION THREE:
Banks to introduce measures to support SME access to advice and improve investment readiness

i. All banks to continue to develop and make available user-friendly digital and online tools on SME lending eligibility criteria, and what constitutes investment readiness for the bank.

ii. Banks to develop diagnostic tools and offer personal feedback to SMEs on why loans are declined (e.g. lack of confidence in management, unconvincing business model) and what management might do to address this.

iii. Banks to develop packages that alert SMEs to availability of existing advice programmes on:
   a) Financing options, including different types of loans, equity options, and how to distinguish their financial needs and evaluate the appropriateness of various forms of capital for initial funding.
   b) Where to go for advice when the business is in financial difficulty.
   c) How to approach and apply for working capital for growth.
   d) Sources of finance available to support sustainability performance.
   e) Sources of social investment advice, such as the Big Potential Fund of the Big Lottery Fund.

iv. All banks to systematically refer SMEs to a newly created British Business Bank Small Business Interactive Advice Platform (see Recommendations to Government, below), and to provide practical support to this government initiative, e.g. through secondments.

RECOMMENDATION FOUR:
Banks to introduce new internal protection thresholds and procedures

i. All banks to sign up to and adhere to the Lending Standards Board ‘New Standards for Lending Practice’ for business customers in the following ways:
   a. All banks to comply with the spirit of the Standards for Lending Practice by introducing simplified lending agreements in the form of a standardised lending contract, which allows SME customers to compare indicative offers between banks, and includes a one-page summary of the main components of the deal.
   b. Banks (including challenger banks) to commit to develop internal processes which embed the spirit of the Standards into their culture and into the structures that underpin decision-making.
   c. Banks to support the publication of an annual Lending Standards Board ‘State of the Nation’ report on compliance with the New Standards for Lending Practice.
   d. All signatories to the Standards for Lending Practice to commit to ensure that any contracts reflect the commitments in the Standards.

ii. All banks to introduce new internal SME thresholds (guided by Standards for Lending Practice, which recommends a threshold of £6.5m turnover), signalling the need for specific management training, monitoring and evaluation in dealings with firms below the specified threshold.

iii. All loan agreements with SMEs to require customer consent when the loan is established, for the loan to be sold on to other entities.

iv. Banks to cease using confidentiality agreements where their use could impede whistle-blowing or the development of policy or appropriate law.

Successful Implementation
To be effective, these recommendations will need to be adopted by individual banks. However, the creation of UK Finance (which brings together multiple providers of finance to SMEs, amongst others) presents a significant opportunity to provide sector-wide support for the BankingFutures recommendations. This could take the form of liaison with the FCA and SME representative bodies to convene multi-stakeholder roundtables designed to enhance data collection to fully understand the needs of the sector and oversee reporting on the uptake of BankingFutures recommendations.
i. Government to extend the mandate of the British Business Bank (BBB) to become the centralised, independent, credible and trusted body charged with collating anonymised data from all banks and other finance suppliers, and with ensuring that data is analysed in a way that supports the development of appropriate policy to support SMEs.

a) Government to set up a Multi-Stakeholder Advisory Committee to establish what data points to use and to review the collection and collation process. The Committee should include representatives of Responsible Finance, alternative finance and banks. A bespoke advisory board or committee should be created to ensure that the specific aims and needs of the CDFI/Responsible Finance sub-sector are met.

b) Government to provide the BBB with sufficient resourcing, including mandated support from the Office for National Statistics, to undertake data collection of supply and demand for SME finance, including peer-to-peer lending, alternative finance, CDFI/Responsible Finance, ‘green finance’ and postcode-level data.

c) Government to task BBB to identify data gaps that obscure discouraged demand, including collection of complaints, and to work with finance providers to identify credible sources of relevant information. This is likely to include a breakdown of loan applications between sectors (e.g. commercial property, intellectual property investments).

RECOMMENDATION TWO:

Government to support SME access to finance through provision of incentives as well as support for bank investment into the Responsible Finance sector

i. Government to provide future incentives to banks to lend, such as via the Funding for Lending/Term Funding Scheme and/or by refining capital requirements pertaining to SMEs. These incentives to focus particularly on areas of market failure.

ii. Government to actively encourage further take-up and extension of the Enterprise Finance Guarantee, and/or create a vehicle to encourage lending and investment into Responsible Finance providers, by providing a guarantee against loss and a commercial return to banks in order to protect bank depositors.

iii. Government to fund an investment readiness project for the Responsible Finance sector in anticipation of the above funding. This investment readiness project should be designed to encourage:

a) Agreement within the Responsible Finance sector to use common definitions on key metrics, such as loan loss and default rates.

b) A limited but standardised template that encourages common reporting, so that investors may better compare the financial health of Responsible Finance institutions.

c) Responsible Finance organisations to obtain independent ratings on financial viability to encourage investment readiness.

iv. Government to extend the Enterprise Finance Guarantee (EFG) to green finance.
**RECOMMENDATION THREE:**

*Government support to improve SME advice services*

i. Government to expand the mandate of the British Business Bank (BBB) to create a Small Business Interactive Advice Platform. This one-stop-shop would be a platform on which small businesses can obtain business development, risk management and legal advice, as well as financial advice from multiple sources. The Business Finance Guide should sit on this platform.

a) The BBB to develop interactive capabilities for its platform, including peer-to-peer advice and chat facilities on commonly used platforms (e.g. LinkedIn) to allow small businesses to exchange information and advice about key challenges they face.

b) The BBB to improve communications with target SME audience by using video, graphics and animation to promote ease of use.

c) The BBB to work with banks, alternative finance providers, accountants and CDFI/Responsible Finance providers to develop ‘white labelled’ (i.e. non-branded) advice on a range of issues on which government and finance providers anticipate demand in the near future, e.g. interest rate rises.

ii. Government to fund these enhanced, centralised BBB capabilities with savings made from funds currently invested in multiple diverse offerings.

**RECOMMENDATION FOUR:**

*Government to introduce new protections for small businesses*

i. Government to agree a new definition of self-employed and micro-businesses (SEMs).

ii. FCA Handbook to extend FCA retail customer protections to SEMs falling below the £6.5m turnover threshold.

iii. Government to require banks to use standardised charging terminology and include a one-page summary in SME contracts.

iv. Government to forbid sales of certain products (e.g. those that contain embedded hedging products) to SEMs, unless they specifically opt in to have access to them.

v. Government to introduce new regulatory Transfer of Undertakings (TUPE) to cover onward sales of contracts, similar to those that apply in employment law, whereby the product that is being transferred (sold on) is subject to the original conditions of sale.

vi. Government to introduce a statutory duty of care to ensure that SMEs are given appropriate advice and protected from negligence or economic harm as a result of their contractual relations banks.
**RECOMMENDATION FIVE:**

*Government to introduce new redress measures for small businesses*

i. Government to introduce a new Financial Arbitration Service that is fast, affordable and available to all, by meeting the following criteria:

   a) Fair – set up to address the information asymmetries between SMEs and their finance providers (including the fact that insolvency law favours the creditor) and the power imbalances between them.

   b) Affordable – within reach of SMEs, even when facing financial difficulties.

   c) Fast – carries out its duties in an expeditious way that does not leave SMEs facing uncertainty and long delays.

   d) Legally binding – able to create case law.

   e) Comprehensive - able to handle both regulated and unregulated asset cases.

Two ways to achieve this goal are under discussion at the time of writing. The first is to scale up and expand the remit and resources of the Financial Ombudsman to cover cases of companies under the new protection threshold of the Lending Standards Board (£6.5m turnover). The other alternative is to create a new Financial Tribunal, as proposed by the All-Party Parliamentary Group on Fair Business Banking, funded by all providers of banking services to SMEs.

---

**Successful Implementation**

**The Development of an Effective SME Legislative Strategy**

The above recommendations can all be implemented separately by extending the mandates of existing government bodies and by building specific SME provision into finance bills that are already planned. However, given the multiple, interdependent and partially met needs of SMEs, and of smaller SMEs in particular, and the role this sector of the economy will need to play post-Brexit, BankingFutures proposes that the government include specific SME provision in the Industrial Strategy and consider the introduction of a Small Business Financial Services Bill as soon as the legislative agenda permits.
# BankingFutures Participants

## BankingFutures Steering Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heather Buchanan</td>
<td>Director of Policy and Strategy, All Parliamentary Group</td>
</tr>
<tr>
<td>John Flint</td>
<td>Chief Executive, Retail Banking and Wealth Management, HSBC Holdings Plc</td>
</tr>
<tr>
<td>James Garvey</td>
<td>Managing Director, Head of Commercial Banking Markets, Lloyds Banking Group</td>
</tr>
<tr>
<td>Tony Greenham</td>
<td>Director of Economy, Enterprise and Manufacturing, RSA</td>
</tr>
<tr>
<td>Andy Griffiths</td>
<td>Executive Director; Operating Partner, Investor Forum; Corsair Capital</td>
</tr>
<tr>
<td>Jessica Ground</td>
<td>Global Head of Stewardship, Schroders</td>
</tr>
<tr>
<td>Matt Hammerstein</td>
<td>Head of Retail Products and Segments, Barclays UK</td>
</tr>
<tr>
<td>Will Hutton</td>
<td>Principal; Chair of the Steering Group, Hertford College, University of Oxford; Big Innovation Centre</td>
</tr>
<tr>
<td>Stephen Jones</td>
<td>Incoming CEO, UK Finance</td>
</tr>
<tr>
<td>Stuart Lewis</td>
<td>Chief Risk Officer and Member of the Management Board and Group Executive Committee, Deutsche Bank AG</td>
</tr>
<tr>
<td>Francesca McDonagh</td>
<td>Former Head, Retail Banking &amp; Wealth Management, HSBC Holdings Plc</td>
</tr>
<tr>
<td>Glen Moreno</td>
<td>Chairman, Virgin Money</td>
</tr>
<tr>
<td>Nick Robins</td>
<td>Co-Director, Inquiry into the Design of a Sustainable Financial System, UNEP</td>
</tr>
<tr>
<td>Simon Samuels</td>
<td>Consultant, Independent</td>
</tr>
<tr>
<td>Bevis Watts</td>
<td>UK Managing Director, Triodos Bank</td>
</tr>
<tr>
<td>Helen Wildsmith</td>
<td>Stewardship Director, CCLA</td>
</tr>
</tbody>
</table>
### BankingFutures Real Economy Action Group Participants

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tony Baron</td>
<td>Chair of the Treasury Policy Unit</td>
<td>The Federation of Small Businesses</td>
</tr>
<tr>
<td>James Cliffe</td>
<td>Head of Business Banking UK</td>
<td>HSBC Holdings Plc</td>
</tr>
<tr>
<td>James Corah</td>
<td>Head of Ethical and Responsible Investment</td>
<td>CCLA</td>
</tr>
<tr>
<td>Tony Greenham</td>
<td>Director of Economy, Enterprise and Manufacturing</td>
<td>RSA</td>
</tr>
<tr>
<td>Will Hutton</td>
<td>Principal; Chair of the Steering Group</td>
<td>Hertford College, University of Oxford; Big Innovation Centre</td>
</tr>
<tr>
<td>Neil Johnston</td>
<td>Chief Executive Officer</td>
<td>Paddington Development Trust</td>
</tr>
<tr>
<td>Martin McTague</td>
<td>Policy Director</td>
<td>The Federation of Small Businesses</td>
</tr>
<tr>
<td>Marloes Nicholls</td>
<td>Innovation Programme Manager</td>
<td>The Finance Innovation Lab</td>
</tr>
<tr>
<td>Steve Pateman</td>
<td>Chief Executive Officer and Director</td>
<td>Shawbrook Bank</td>
</tr>
<tr>
<td>Stephen Pegge</td>
<td>Group Competitive Markets and Business Policy Director</td>
<td>Lloyds Banking Group</td>
</tr>
<tr>
<td>Rebecca Pritchard</td>
<td>Head of Business Banking</td>
<td>Triodos Bank</td>
</tr>
<tr>
<td>Nick Robins</td>
<td>Co-Director, Inquiry into the Design of a Sustainable Financial System</td>
<td>UNEP</td>
</tr>
<tr>
<td>Jennifer Tankard</td>
<td>Chief Executive</td>
<td>Responsible Finance</td>
</tr>
<tr>
<td>Stephan Wilken</td>
<td>Managing Director, Head of Enterprise and Model Risk</td>
<td>Deutsche Bank AG</td>
</tr>
</tbody>
</table>
### BankingFutures Long-Termism Action Group Participants

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carla Antunes da Silva</td>
<td>Deputy Group Strategy Director</td>
<td>Lloyds Banking Group</td>
</tr>
<tr>
<td>Stephen Atkinson</td>
<td>Chief of Staff</td>
<td>Standard Chartered</td>
</tr>
<tr>
<td>Justin Bisseker</td>
<td>Pan-European Banks Analyst</td>
<td>Schroders</td>
</tr>
<tr>
<td>Albert Coll</td>
<td>Institutional Policy and Market Relations Director</td>
<td>Banco Sabadell</td>
</tr>
<tr>
<td>Paul Cox</td>
<td>Senior Lecturer of Finance; Investment Advisor</td>
<td>University of Birmingham; NEST</td>
</tr>
<tr>
<td>Lawrence Dickinson</td>
<td>Senior Advisor to the Board and Group Chief of Staff</td>
<td>Barclays</td>
</tr>
<tr>
<td>John Flint</td>
<td>Chief Executive, Retail Banking and Wealth Management</td>
<td>HSBC Holdings Plc</td>
</tr>
<tr>
<td>Andy Griffiths</td>
<td>Executive Director; Operating Partner</td>
<td>Investor Forum; Corsair Capital</td>
</tr>
<tr>
<td>Sue Harding</td>
<td>Managing Director</td>
<td>Harding Analysis</td>
</tr>
<tr>
<td>Will Hutton</td>
<td>Principal; Chair of the Steering Group</td>
<td>Hertford College, University of Oxford; Big Innovation Centre</td>
</tr>
<tr>
<td>Stephen Jones</td>
<td>Incoming CEO</td>
<td>UK Finance</td>
</tr>
<tr>
<td>Hendrik-Jan Laseur</td>
<td>Founder</td>
<td>Lead the Change</td>
</tr>
<tr>
<td>Sacha Sadan</td>
<td>Director of Corporate Governance</td>
<td>LGIM</td>
</tr>
<tr>
<td>Simon Samuels</td>
<td>Consultant</td>
<td>Independent</td>
</tr>
<tr>
<td>Eugenia Unanyants-Jackson</td>
<td>Director; Head of ESG Research</td>
<td>Allianz Global Investors GmbH</td>
</tr>
</tbody>
</table>