

SME Finance Monitor

Q2 2016

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BDRC Continental, September 2016



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Foreword





Welcome to the full report of the SME Finance Monitor for Q2 2016. Fieldwork for this report was completed just as the EU referendum result was declared and so provides a baseline for SME sentiment as that change was announced.

The SME Finance Monitor now surveys 4,500 businesses every quarter about past borrowing events and future borrowing intentions. It is the largest such survey in the UK and since the first report was published covering Q1-2 2011 has built into a robust and reliable independent data source for all parties interested in the issue of SME finance. In total, 21 waves of interviewing have been completed, with highlights reported quarterly and a full report now published every half year, following completion of the Q2 and Q4 fieldwork. In 2016, the full report will continue to be published every half year as before but there will be no highlights pack in the other quarters. Instead additional 'deep dive' reports are planned to explore the Monitor data set in more detail on specific topics of interest.

The survey was set up through the Business Finance Taskforce, which was itself established in July 2010 to review the key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a

commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing – the SME Finance Monitor.

This extensive dataset is recognized by both public *and* private sector stakeholders as the de facto authority on access to finance conditions for SMEs, because it is seen as reliable, trustworthy, and, crucially, as independent. The Monitor is cited regularly in Parliament, in government led reviews, and in evidence to the European Commission and OECD, as well as forming the basis for policy discussions between the banks and BEIS.

The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time. It also provides analysis by size of SME and sector, as SMEs should not be seen as one homogenous group: in particular, the smallest SMEs with no employees can often report different views and experiences to their larger peers.

This is an independent report, and I am pleased to confirm that this latest version has once again been written and published by BDRC Continental, with no influence sought or applied by any member of the Steering Group.

Shiona Davies

Editor, The SME Finance Monitor
September 2016



The Survey Steering Group comprises representatives of the following:

Association of Chartered Certified Accountants

Barclays Bank

British Bankers' Association

Dept. for Business, Energy and Industrial
Strategy

EEF the manufacturers' organisation

Federation of Small Businesses

Forum of Private Business

HM Treasury

HSBC

Lloyds Banking Group

Royal Bank of Scotland

Santander

1.Introduction





The issue of SMEs and external finance continues to provoke debate. Over time, the emphasis has moved from access to finance to demand for finance amongst SMEs and the extent to which funding is needed by and then available to, those businesses looking to grow and invest as economic conditions change. A range of government and financial initiatives, such as the 'Funding for Lending' scheme, have sought to make funds available for SMEs and encourage banks to lend. Alternative sources of finance, such as crowd-funding, are increasingly being discussed and the new British Business Bank is involved in a range of initiatives. For some time the unstable economic atmosphere, including in the Eurozone, has affected business confidence and appetite for borrowing and the EU referendum result in June 2016 adds an additional level of complexity. The debate continues about the extent to which demand and/or supply issues are contributing to continued lower levels of lending to SMEs.

The Business Finance Taskforce was set up in July 2010 to review this key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing.

BDRC Continental was appointed to conduct this survey in order to provide a robust and respected independent source of information. BDRC Continental continues to maintain full editorial control over the findings presented in this report.

The majority of this report is based on a total of 19,007 interviews with SMEs, conducted to YE Q2 2016. This means that the interviews conducted in 2011 (three waves), 2012, 2013, 2014 (4 waves respectively) and Q1-2 2015 are no longer included in the *year-ending* results but they are still shown in this report where data is reported quarterly or annually over time, or by application date.

The YE Q2 2016 data therefore includes the following four waves:

- July-September 2015 – 5,004 interviews conducted, referred to as Q3 2015
- October-December 2015 – 5,003 interviews conducted, referred to as Q4 2015
- January-March 2016 – 4,500 interviews conducted, referred to as Q1 2016
- April-June 2016 – 4,500 interviews conducted, referred to as Q2 2016

The decision was made for 2016 to reduce the overall sample size slightly to 4,500 interviews per quarter which still provides a robust base size for analysis. At the same time the size, sector and region quotas and weighting were reviewed and, for the first time since the Monitor was established, minor changes were made to better reflect the current profile of SMEs. These new weights have been applied to all data in 2016, so the YE Q2 2016 data provides a transition data set between the 'old' weighting and the 'new'.



The results from these most recent four waves have been combined as usual to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 19,007 interviews is referred to as YEQ2 2016.

The majority of reporting is based on interviews conducted in the year to Q2 2016. The exceptions to this rule are:

- Where data is reported by loan or overdraft application date over time. In these instances, all applicants to date are eligible for inclusion, split by the quarter in which they made their application for loan and/or overdraft facilities.
- From Q2 2013, when applications are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q2 2016 report, this means such tables are based on all applications occurring in the 18 months between Q1 2015 and Q2 2016, to provide robust base sizes for each sub-group.
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are made between individual quarters.
- For key questions new summary tables are now provided with annual figures over the longer term to set the current results in context. The charts in the final chapter of this report provide more detailed quarter on quarter data from the start of the Monitor.

The structure of the SME market is such that the overall ‘All SME’ figures quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an ‘All employers’ figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 4,500 interviews, to the same sample structure, is being conducted July to September 2016. In 2016, full reports will be published after the Q2 and Q4 fieldwork, with ‘deep dive’ and other analysis reported in-between these full reports.

A fifth edition of the annual report, published in June 2016, provided separate analysis at regional level for an in-depth assessment of local conditions during 2015. A new regional report is planned for Spring 2017, to report on local conditions during 2016.

2. Management summary



This report covers

the borrowing process from the SME's perspective, with detailed information about those who have, or would have liked to have been, through the process of borrowing funds for their business. Each chapter reports on a specific aspect of the process, dealing with different aspects of SME finance.



In the run up to the referendum result, demand for finance amongst SMEs continued to be muted, with many saying they preferred to self-fund any future growth:

A third of SMEs were using external finance	<p>36% of SMEs were using external finance (YEQ2 2016). This has been stable over recent quarters but remained lower than in previous years (in 2012, 44% were using external finance), primarily due to lower levels of use of core finance (loans, overdrafts and/or credit cards).</p> <p>As in previous reports, use of external finance increased by size of SME from 31% of those with 0 employees to 62% of those with 50-249 employees.</p>
More SMEs qualified as Permanent non-borrowers than used external finance	<p>46% of SMEs met the definition of a Permanent non-borrower with little apparent appetite for external finance (YEQ2 2016). As use of external finance has declined, this group has increased in size from 34% of SMEs in 2012 to 48% in the first half of 2016.</p> <p>Whilst smaller SMEs remained more likely to be PNBs (50% of those with 0 employees YEQ2 2016) just over a quarter of SMEs with 10-249 employees also met the definition.</p>
Demand for new or renewed loans and overdrafts remained muted	<p>6% of SMEs had applied for a new or renewed loan or overdraft in the 12 months prior to interview (YEQ2 2016). This has declined from 11% in 2012, across all size bands, risk ratings and once the PNBs were excluded.</p>
Many SMEs appeared to prefer self-funding	<p>80% of SMEs agreed that their current plans were based on what they could afford to fund themselves (YEQ2 2016).</p> <p>In new questions for 2016, 71% agreed that they would accept a slower growth rate they funded themselves rather than borrow to grow more quickly and 47% agreed that they never thought about whether to use (more) finance in the business. In all instances smaller SMEs were more likely to agree.</p>
Being prepared to borrow to grow is linked to current use of finance	<p>44% of SMEs agreed that they were happy to use external finance to help the business grow (YEQ2 2016), with limited variation by size (42% of those with 0 employees to 54% of those with 50-249 employees).</p> <p>Those who were already using external finance were much more likely to agree with this statement (57%) than those who weren't (37%). Overall, a quarter of all SMEs (24%) were not currently using external finance but said that they would be prepared to borrow in future while almost twice as many (40%) were neither using finance nor would they be prepared to borrow in future.</p>



Demand for external finance may also be affected by other funding being available such as retained profits, cash balances and trade credit:

Most SMEs reported making a profit	81% of SMEs reported making a profit in their last 12 months trading (YEQ2 2016 excluding DK answers). This proportion has improved steadily from 2012 when 69% reported making a profit and also across size bands.
Most also hold credit balances, which can reduce their need for external finance	<p>Almost all SMEs hold some credit balances. The proportion of SMEs holding more than £10,000 in credit balances increased from 16% to 24% between 2012 and 2015 but was slightly lower (21%) in the first half of 2016.</p> <p>Most of those who held such sums said that it reduced their need for external finance and analysis showed that the proportion of SMEs with £10,000 or more who also used <u>any</u> external finance had declined from 51% in 2012 to 45% in the first half of 2016.</p>
A third use trade credit, which can also reduce the need for external finance	<p>A consistent 32% of SMEs regularly purchased goods or services from other businesses on credit. The proportion increased from 26% of those with 0 employees to 58% of those with 50-249 employees and was also higher for those also using external finance (43% v 24% of those not using external finance).</p> <p>Two thirds of those who received trade credit said that it reduced their need for external finance and this varied little by size of SME.</p>
Fewer SMEs have felt that they had to inject personal funds	<p>28% of SMEs reported an injection of personal funds into the business (YEQ2 2016). This proportion has varied little over recent quarters having previously fallen from 43% in 2012 to 29% in 2014.</p> <p>This decline was primarily due to fewer SMEs feeling that they <u>had</u> to inject personal funds (25% in 2012 to 15% in 2014 – and 13% YEQ2 2016).</p>
Use of any business funding remained stable	<p>While 36% of all SMEs used external finance, this increased to 63% using business funding when trade credit and injections of personal funds were added in.</p> <p>Use of crowd funding remained limited (1% of all SMEs).</p>



Most SMEs had been Happy non-seekers of finance. Those applying for new or renewed loan or overdraft finance remained likely to end the process with a facility, with satisfaction clearly impacted by whether they had been offered the facility they wanted or not:

8 in 10 SMEs were Happy non-seekers of external finance	<p>81% of SMEs met the definition of a Happy non-seeker of finance (YEQ2 2016) and that proportion has increased over time, from 68% of SMEs in 2012 to 83% in the first half of 2016.</p> <p>Very few SMEs felt that something had stopped them applying for a facility – 4% met this definition of a Would-be seeker (YEQ2 2016), down from 10% in 2012.</p> <p>15% reported a borrowing event which includes those with an automatically renewed overdraft (YEQ2 2016) and this has also declined over time from 23% of SMEs in 2012 to 14% in the first half of 2016.</p>
Would-be seekers were more likely to hope for a different relationship with their bank	<p>In a new question, two thirds of SMEs in the first half of 2016 described the relationship with their main bank as ‘fine, but transactional’. 22% said that they had a ‘strong working relationship’ with their bank and this was much more likely to be the case for larger SMEs (51% of those with 50-249 employees compared to 19% of those with 0 employees).</p> <p>12% would have liked a more active relationship with their bank. This was more likely to be the case for smaller SMEs and in particular for those who had been Would-be seekers of finance (28%).</p>
8 in 10 applications for new or renewed finance resulted in a facility	<p>81% of all loan and overdraft renewals reported to date for the 18 months to Q2 2016 resulted in a facility. This proportion has increased over time, from 69% of applications in the 18 months to Q4 2012.</p> <p>Almost all renewals of loans and overdrafts were successful, with no change over time. The increase in overall success rate was therefore due to the increased success rate for new money applications (54% to 66%) and for first time applicants in particular (41% to 61%) although this was driven by first time overdraft applicants much more than by first time loan applicants.</p>
Overdraft applicants remained more likely to be successful than loan applicants	<p>84% of overdraft applicants and 72% of loan applicants in the 18 months to Q2 2016 ended the process with a facility.</p> <p>In both instances success rates have improved over time. In the 18 months to Q4 2012, 74% of overdraft applications and 59% of loan applications were successful.</p> <p>Early indications for 2016 suggest some weakening of success rates, possibly driven by the profile of applicants and this will be followed up in future reports.</p>

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Those offered what they wanted were very satisfied and rated the process a 'low effort' experience

In a new question for 2016, more than 9 in 10 of loan and overdraft applicants offered the facility they wanted said that they had been satisfied with the application process itself and most (8 in 10 of these overdraft applicants and 6 in 10 of these loan applicants) rated the process as 'low effort'.

Those experiencing any other outcome (having a facility after issues, taking other funds or having no facility) were much less likely to have been satisfied with the application process (15% of such overdraft applicants and 17% of such loan applicants). Base sizes are limited for this new question and further analysis will be provided as more data is gathered.



Looking forward, larger SMEs became more concerned about the economic climate and political uncertainty during the referendum campaign. Whilst levels of past growth have remained consistent, levels of future growth were somewhat less certain. Future appetite for finance remained stable, with most confident the bank would say yes (whether they planned to apply or not):

Two thirds of SMEs did not identify any factor as a 'major barrier' to their business	In Q2 2016, 68% of SMEs did not identify any of the potential obstacles tested as 'major barriers'. As in previous waves, the most likely to be mentioned were the economic climate (rated a major obstacle by 13% of SMEs), legislation and regulation (11%) and political uncertainty/government policy (10%).
However, larger SMEs, or those with plans to grow or borrow had concerns	Those with plans to grow (38%) or any future appetite for finance (47%) were more likely to identify one or more obstacles than those with no such plans (28% and 27% respectively). Over the referendum campaign the proportion rating either the 'Economic climate' or 'Political uncertainty' as 'major barriers' did not change much overall but doubled for those with 50-249 employees: 14% rated the economic climate a major barrier in Q2 2016 up from 8% in 2015, and 16% rated political uncertainty a major barrier in Q2 2016 up from 7% in 2015
Fewer SMEs are planning to grow	In Q2 2016, 41% of SMEs were planning to grow in the next 12 months, ranging from 38% of those with 0 employees to 60% of those with either 10-49 or 50-249 employees. Over time, the proportion planning to grow has fallen from 49% in 2013 to 43% for the first half of 2016, due to lower growth expectations amongst the smallest and largest SMEs.
The proportion planning to apply for finance has changed little over time	11% of SMEs in Q2 2016 planned to apply for new or renewed finance in the 3 months after interview. This has varied little over time: 14% of those interviewed in 2012 and 2013 planned to apply and then 13% in 2014, 2015 and the first half of 2016. This is due to a relatively stable appetite for finance amongst the 0 employee SMEs. Amongst those with employees, future appetite for finance has declined somewhat (by between 3 and 6 percentage points).

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Those with no plans to apply are typically confident the bank would say yes if asked

All SMEs are now asked how confident they would be that the bank would agree to a (potentially hypothetical) application for finance.

Amongst those planning to apply for bank finance in H1 2016, 50% were confident the bank would say yes, maintaining the increase seen from 2012, when 42% were confident.

Confidence amongst Future happy non-seekers of finance (who made up 75% of SMEs in the first half of 2016) for a hypothetical application was higher at 67% than amongst those planning to apply to a bank.

Future would-be seekers appear less confident about applications generally

Future would-be seekers made up 12% of SMEs in the first half of 2016, down from 23% in 2012.

The FWBS were less confident than other groups that their bank would agree to lend if they were to apply (44%).

They were also less confident about assessing the products and services available at their main bank (58% v 69% overall), or at another bank (49% v 61% overall) and less confident about making an application for funding to another bank (53% v 60% overall).

The Future happy non-seekers with no plans for finance were typically the most confident in all of these scenarios, ahead of those actually planning to apply.

3.Using this report





As well as the overall SME market, key elements have been analysed by a number of other factors where sample sizes permit. Typically, nothing will be reported on a base size of less than 100 – where this *has* been done an asterisk * highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report.

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because research has repeatedly shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that

size of business can be a significant factor. The employee size bands used are the standard bands of 0 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where appropriate, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied, for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as follows:

D&B	Experian
1 Minimal	Very low/Minimum
2 Low	Low
3 Average	Below average
4 Above average	Above Average/High/Maximum/Serious Adverse Information



It is also possible to show many results by sector. The table below shows the share of each sector, from 3% (Agriculture) to 27% (Property/Business Services) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

Sector		% of all SMEs	% of sector that are 0 emp
AB	Agriculture, Hunting and Forestry; Fishing	3%	65%
D	Manufacturing	6%	68%
F	Construction	19%	84%
G	Wholesale and Retail Trade; Repairs	10%	54%
H	Hotels & Restaurants	4%	30%
I	Transport, Storage and Communication	12%	82%
K	Real Estate, Renting and Business Activities	27%	76%
N	Health and Social work	7%	83%
O	Other Community, Social and Personal Service Activities	12%	84%



Analysis over time

This report is based predominantly on four waves of data gathered across the 4 quarters to Q2 2016. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Where results can be shown by individual quarter over time, they have been. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YE Q2 2016 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made from 2010 up to and including Q2 2015 but for other more recent quarters data is still being gathered. Results for events occurring from Q3 2015 onwards are therefore still *interim* at this stage (respondents interviewed in Q3 2016 will report on events which occurred in Q3 2015 or later).

Where analysis is shown by date of application, this typically includes all interviews to date

(including those conducted 2011-2014 which are no longer included in the year-ending data reported elsewhere), and such tables are clearly labelled in the report. For all reports from Q2 2013 onwards, when applications made are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q2 2016 report, this means such tables are based on all applications occurring in the 18 months between Q1 2015 and Q2 2016 to ensure a robust base size for analysis.

The exception to the approach outlined above is in the latter stages of the report where SMEs are asked about their planned future behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Quarterly data from 2011 -2014 is no longer routinely shown and subsequent reports will continue this policy of deleting the oldest wave before adding the latest.

However, a series of annual summary tables have been developed and are included for the first time in the Q2 2016 report. These compliment the series of key charts in the final chapter of this report which show all results over time for these key metrics.



Definitions used in this report

Over time, a number of definitions have been developed for different SMEs and some standard terms are commonly used in this report. The most frequently used are summarised below:

SME size – this is based on the number of employees (excluding the respondent). Those with more than 249 employees were excluded from the research

External risk profile – this is provided by the sample providers (Dun & Bradstreet and Experian). Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as shown at the start of this chapter

Fast growth – SMEs that report having grown by 20% or more each year, for each of the past 3 years (definition updated Q4 2012)

Use of external finance – SMEs are asked whether they are currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan/Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3rd parties, Export/import finance

Permanent non-borrower – SMEs that seem firmly disinclined to borrow because they meet all of the following conditions: are not currently using external finance, have not used external finance in the past 5 years, have had no borrowing events in the past 12 months, have not applied for any other forms of finance in the last 12 months, said that they had had no desire to borrow in the past 12 months and reported no inclination to borrow in the next 3 months

Borrowing event – these are defined as any Type 1 (new application or renewal), Type 2 (bank sought cancelation/renegotiation) or Type 3 (SME sought cancelation/reduction) borrowing event for loan or overdraft in the 12 months prior to interview. The definition also includes those SMEs that have seen their overdraft facility automatically renewed by their bank

Would-be seeker – those SMEs that had not had a loan or overdraft borrowing event and said that something had stopped them applying for loan/overdraft funding in the previous 12 months (definition revised in Q1 2016 – the question is now asked once for both loan and overdraft events rather than separately, but the question wording has not changed)



Happy non-seeker – those SMEs that had not had a loan/overdraft borrowing event, and also said that nothing had stopped them applying for any (further) loan/overdraft funding in the previous 12 months (definition revised in Q4 2012)

Issues – something that needed further discussion before a loan or overdraft facility was agreed, typically the terms and conditions (security, fee or interest rate) or the amount initially offered by the bank

Principle of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they feared they might lose control of their business, or preferred to seek alternative sources of funding

Process of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they thought it would be too expensive, too much hassle etc.

Discouragement – where an SME did not (or, looking ahead, will not) apply to borrow because it had been put off, either directly (they made informal enquiries of the bank and felt put off) or indirectly (they thought they would be turned down by the bank so did not enquire)

Major obstacle – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to their running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 are classed as a major obstacle

Future happy non-seekers – those that said they would not be applying to borrow (more) in the next three months because they said that they did not need to borrow (more) or already had the facilities they needed

Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

Average – the arithmetic mean of values, calculated by adding the values together and dividing by the number of cases

Median – a different type of average, found by arranging the values in order and then selecting the one in the middle. The median is a useful number in cases where there are very large extreme values which would otherwise skew the data, such as a few very large loans or overdraft facilities



Please note that the majority of data tables show **column** percentages, which means that the percentage quoted is the percentage of the group described at the top of the column in which the figure appears. On some occasions, summary tables have been prepared which include **row** percentages, which means that the percentage quoted is the percentage of the group described at the left hand side of the row in which the figure appears. Where row

percentages are shown, this is highlighted in the table.

New for the Q2 2016 such summary tables have been prepared for key questions to show the changes year on year since 2012. This provides a longer term context for the changes being seen in the most recent quarters, upon which most reporting is based.

4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year-ending Q2 2016 (YEQ2 16).



Key findings

SMEs have reported a stable picture over recent quarters:

81% made a profit YEQ2 2016 (excluding DK answers). This has changed little over recent quarters (80% in 2015), having previously increased over time from 69% in 2012.

- Larger SMEs remained somewhat more likely to report a profit (91% of those with 50-249 employees compared to 80% of those with 0 employees).

40% of SMEs (excluding Starts) reported having grown in the previous 12 months and this has changed little since 2012, when 40% of SMEs also reported having grown.

- This was due to a consistent 1 in 3 of the smallest SMEs reporting growth each year (38% YEQ2 2016) while those with 1-9 or 10-49 employees have become increasingly likely to report growth (46% and 54% for YEQ2 2016 respectively).
- 6% of all SMEs excluding Starts reported achieving 'scale-up growth' that is growing by 20% or more for three consecutive years. This is the equivalent of 5% of all SMEs.

48% of SMEs had a worse than average external risk rating and this was much more likely to be the case for smaller SMEs (55% of those with 0 employees compared to 6% of those with 50-249 employees).

- This proportion declined somewhat between 2012 and 2014 (from 53% to 45%) but is showing some signs of increasing again (in H1 2016, 49% had a worse than average risk rating), due to an increasing proportion of 0 employee SMEs with such a rating (50% in 2014 to 56% in H1 2016).



Almost all SMEs hold some credit balances. In the first half of 2016, 21% held £10,000 or more. Most of these SMEs went on to say that holding such sums reduced their need for external finance.

- Between 2012 and 2015 the proportion of SMEs holding £10,000 or more increased from 16% to 24%. The slightly lower figure for H1 2016 (21%) is due to fewer 0 employee SMEs holding such sums.

The proportion of SMEs undertaking international trade has stabilised after previous increases. In 2012, 10% of SMEs were international (6% exported and 7% imported) increasing to 16% in 2014. In 2015, 17% of SMEs were international and in H1 2016 15% (9% exported and 10% imported). Larger SMEs remained more likely to be international.

- 16% of exporters said that international trade made up 50% or more of all sales and this proportion has declined over time (in 2013, 24% of exporters sold 50% or more overseas).



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 19,007 interviews conducted in the year-ending Q2 2016 (that is Q3 and Q4 of 2015 and Q1 and Q2 of 2016). There were a number of trading challenges when the survey started in 2011,

and analysis of this data over time provides an indication of how SMEs have managed and continue to manage as conditions change. Note that all this data was collected prior to the EU referendum result being known (with Q1 and Q2 2016 data collected during the referendum campaign).

Profitability

In Q2 2016, 74% of SMEs reported making a profit in their most recent 12 month trading period, maintaining the improvement seen since 2013, when around two thirds of those interviewed each quarter reported making a profit.

The proportion unable or unwilling to give an answer has varied over time, so the table also reports the proportion that made a profit once those ‘don’t know’ answers had been excluded. On this basis there has also been an increase over time in the proportion of SMEs reporting a profit for the previous year and in Q2 2016 itself 80% of SMEs (excluding the DK/refused answers) were profitable, maintaining the higher levels seen in recent quarters:

Business performance last 12 months

Over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Made a profit	71%	73%	72%	74%	76%	75%	75%	75%	74%
Broke even	11%	10%	11%	10%	10%	10%	9%	10%	12%
Made a loss	12%	12%	10%	10%	9%	9%	8%	8%	6%
DK/refused	6%	6%	8%	6%	5%	6%	8%	7%	7%
Median profit made	£9k	£8k	£9k	£9k	£9k	£9k	£9k	£8k	£8k
Made profit (excl DK)	76%	77%	78%	79%	80%	80%	81%	81%	80%

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of ‘survivorship bias’ in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.



For the period YEQ2 2016, 75% of all SMEs had been profitable (81% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £9k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months		0	1-9	10-49	50-249
YEQ2 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
Made a profit	75%	74%	76%	80%	83%
Broke even	10%	11%	9%	7%	5%
Made a loss	8%	8%	8%	5%	4%
DK/refused	7%	7%	8%	9%	9%
Made profit (excl DK)	81%	80%	82%	87%	91%
Median profit made	£9k	£7k	£13k	£51k	£193k
Median loss made	£2k	£2k	£3k	£13k	£155k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 83% reported making a profit YEQ2 2016 (once the DK and refused answers were excluded).

Over recent quarters larger SMEs have remained consistently more likely to be profitable than smaller ones, as the table below shows:

Made a profit in last 12 months

Over time

Row percentages – excl DK	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
All SMEs	76%	77%	78%	79%	80%	80%	81%	81%	80%
0 employee	74%	76%	76%	78%	79%	79%	81%	80%	79%
1-9 employees	80%	82%	81%	79%	82%	83%	82%	84%	80%
10-49 employees	87%	84%	85%	88%	87%	86%	88%	87%	88%
50-249 employees	89%	89%	85%	90%	87%	89%	93%	94%	87%

Q241 All SMEs excluding DK



By sector, once the ‘don’t know’ answers were excluded, there was relatively little difference in the proportion reporting a profit YEQ2 2016, with the possible exception of the Health sector where 76% reported a profit:

Business performance last 12 months

YEQ2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Made a profit	70%	74%	75%	74%	72%	73%	77%	71%	77%
Broke even	11%	10%	12%	10%	11%	11%	10%	10%	8%
Made a loss	10%	6%	7%	8%	10%	8%	8%	11%	8%
DK/refused	8%	8%	6%	8%	7%	9%	5%	8%	7%
Made profit (excl DK)	77%	82%	80%	80%	78%	80%	82%	76%	83%
Median profit made	£9k	£11k	£8k	£11k	£9k	£7k	£10k	£6k	£8k
Median loss made	£2k	£2k	£2k	£2k	£5k	£2k	£2k	£2k	£2k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Median profits reported for YEQ2 2016 varied slightly, between £6-11k by sector, with little change over time. Reported median losses for YEQ2 2016 were £2k overall and for all sectors, with the exception of those who reported making a loss in the Hotel & Restaurant sector (£5k).



The table below takes a longer term view of profitability (since 2012) by key demographics. This shows increasing profitability across all size bands, and that Permanent non-borrowers are now no longer more likely to be profitable than their peers:

Made a profit in last 12 months					
Over time (excl DK)					H1
By date of interview – row percentages	2012	2013	2014	2015	2016
All	69%	70%	77%	80%	80%
0 emp	67%	69%	75%	79%	80%
1-9 emps	72%	75%	81%	82%	82%
10-49 emps	80%	81%	86%	87%	88%
50-249 emps	81%	84%	88%	90%	91%
Minimal external risk rating	83%	83%	84%	84%	86%
Low	81%	84%	82%	87%	87%
Average	71%	73%	80%	82%	84%
Worse than average	63%	65%	72%	76%	77%
Agriculture	74%	73%	79%	78%	76%
Manufacturing	69%	74%	80%	81%	79%
Construction	67%	68%	78%	80%	79%
Wholesale/Retail	67%	70%	74%	79%	82%
Hotels & Restaurants	59%	65%	73%	75%	77%
Transport	65%	66%	76%	78%	80%
Property/ Business Services	73%	73%	80%	81%	82%
Health	70%	69%	76%	78%	78%
Other	66%	73%	67%	83%	81%
PNBs	74%	73%	80%	82%	81%
All excl PNBs	66%	69%	74%	78%	80%

Q241 All SMEs excl DK



Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in each of the previous 2 years.

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has remained fairly stable over recent quarters at around 4 in 10, while the proportion reporting growth of 20% or more has declined slightly:

Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	4005	4074	4046	4157	4146	4184	4203	3729	3686
Grown by more than 20%	15%	14%	12%	10%	11%	11%	12%	10%	9%
Grown but by less than 20%	27%	28%	30%	31%	26%	29%	28%	33%	31%
Grown	42%	42%	42%	41%	37%	40%	40%	43%	40%
Stayed the same	43%	45%	44%	48%	51%	47%	49%	46%	49%
Declined	15%	13%	14%	12%	13%	13%	11%	10%	11%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ2 2016:

- 10% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months while 30% had grown but by less than 20%
- This means that for YEQ2 2016, 40% of SMEs reported having grown at all in the previous 12 months
- 48% had stayed the same size and 11% had got smaller.



The table below shows how these growth patterns varied by SME demographics, with larger (but also younger) SMEs more likely to report growth, as were those who also reported a borrowing event:

Business Growth	Further analysis (excluding Starts) YE Q2 2016
Size of SME	<p>There was relatively little difference in the proportion of SMEs in each size band that had grown by 20% or more (10-12%).</p> <p>Larger SMEs were more likely to have grown by up to 20% and so were more likely to have grown overall:</p> <ul style="list-style-type: none"> • 38% of 0 employee SMEs reported having grown at all • 46% of those with 1-9 employees had grown • Half of those with 10-49 (54%) or 50-249 (53%) employees had grown
Risk rating	<p>There was relatively little difference in reported overall growth by risk rating (38-43%). 9% in each risk rating band had grown by 20% or more, with the exception of those with an above average risk rating (13%).</p>
Age of business	<p>SMEs trading for 2-5 years remained the most likely to report growth (53%) of which 19% reported growth of 20% or more.</p> <p>Levels of growth then declined by age. 45% of those trading for 6-9 years reported growth compared to 34% of those trading for more than 15 years. The proportion growing by 20% or more also declined slightly (10% to 6%).</p>
Sector	<p>Half of those in Manufacturing (49%) reported growing. Growth in other sectors was between 40% and 46% with the exception of SMEs in Agriculture (35%), Construction (35%) or Health (37%), where a third reported having grown.</p> <p>The proportion reporting growth of 20% or more was 7-9% for Agriculture, Construction, Hotels & Restaurants and Health and slightly higher (10-14%) for those in Manufacturing, Wholesale/Retail, Transport, Business Services and the Other Community sector.</p>
Appetite for finance	<p>45% of those who reported a borrowing event in the 12 months prior to interview had grown in the previous year, compared to 37% of Would-be seekers and 38% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were not quite as likely to have grown (39%) as those who did not meet the definition (43%).</p>



The table below takes a longer term view of growth by key demographics. This shows a consistent proportion overall saying that they have grown over time, due to the performance of the 0 employee SMEs. SMEs with 1-49 employees were somewhat more likely to have grown in recent years:

Growth achieved in last 12 months				
All SMEs over time (excluding Starts)				
By date of interview – row percentages	2013	2014	2015	H1 2016
All	40%	42%	39%	41%
0 emp	38%	39%	36%	38%
1-9 emps	43%	48%	45%	48%
10-49 emps	49%	55%	56%	55%
50-249 emps	54%	61%	57%	54%
Minimal external risk rating	36%	44%	38%	41%
Low	40%	40%	39%	44%
Average	35%	38%	37%	39%
Worse than average	44%	45%	41%	45%
Agriculture	40%	40%	31%	41%
Manufacturing	44%	46%	45%	50%
Construction	35%	37%	35%	36%
Wholesale/Retail	38%	46%	43%	47%
Hotels & Restaurants	37%	43%	45%	45%
Transport	35%	38%	35%	43%
Property/ Business Services	44%	42%	41%	42%
Health	40%	45%	38%	39%
Other	44%	45%	41%	41%
PNBs	38%	40%	37%	40%
All excl PNBs	41%	43%	41%	43%

Q245a All SMEs excl DK



Scale up growth

Amongst those who reported for YEQ2 2016 that they had grown by 20% or more, 6 in 10 (61%) went on to report that they had also achieved this level of growth for each of the two previous years, increasing slightly by size by size (60% for 0 employee SMEs that had grown by 20% or more to 68% of such SMEs with 50-249 employees).

This is the equivalent of 6% of all SMEs 3+ years old achieving 3 years of 20%+ growth, also known as 'scale-up' growth. This increased

slightly by size (5% for 0 employee SMEs to 8% for those with 50-249 employees). By sector, 7% of those in the Wholesale/Retail and Other Community sectors had achieved such growth compared to 4% in Health.

The equivalent of 5% of all SMEs had achieved scale-up growth. Again this increased by size of SME (4% to 8%) but there was no variation by risk rating. By sector it varied from 3% in the Health sector to 6% in Wholesale/Retail.

Past and future growth

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded from 2011 onwards and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. When this analysis started, the predictions made typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs).



Back in Q1 2015, 38% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q2 2016 as many, 39%, (of a *different* sample of SMEs) reported that they *had* grown in the previous 12 months:

Growth predictions against expectations

	All SMEs	All SMEs	0-9 emps	0-9 emps	10-249 emps	10-249 emps
All SMEs excluding Starts By date of interview	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
Predicted Q1 13/Achieved Q2 14	41%	42%	41%	42%	56%	55%
Predicted Q2 13/Achieved Q3 14	47%	42%	47%	42%	58%	60%
Predicted Q3 13/Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13/Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14/Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14/Achieved Q3 15	49%	40%	48%	39%	67%	54%
Predicted Q3 14/Achieved Q4 15	41%	39%	39%	39%	69%	52%
Predicted Q4 14/Achieved Q1 16	39%	44%	38%	43%	64%	53%
Predicted Q1 15/Achieved Q2 16	38%	39%	36%	38%	65%	57%
Predicted Q2 15/Achieved Q3 16	40%		38%		67%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

The growth predicted versus achieved was close both overall and for those with 0-9 employees, However, amongst those with 10-249 employees, 57% achieved growth against a prediction of 65% (albeit this is a narrower gap than in recent periods).

Growth levels achieved have typically been quite consistent, both overall and by size of SME. In those instances where a higher level of

growth was *predicted* (for example predictions made across Q1-3 2014) there has therefore been a bigger gap between predicted and achieved growth. For the last few quarters there has been a bigger gap between predicted and achieved growth for larger SMEs in particular with two thirds predicted to grow and around half achieving that growth.



Financial Risk Profile

In earlier Monitor reports two assessments of financial risk were provided. The first was a self-reported risk from the survey itself, which over time affected a decreasing minority of SMEs (8% YE Q2 2015). As a result, from Q3 2015 this question has been 'rested' from the main survey and will be re-run from time to time to understand whether any changes have occurred.

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the

likelihood of business failure and their ratings have been combined to a common 4 point scale from minimal to worse than average risk. Although not all SMEs receive this external risk rating, most do (85%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below. Just under half of SMEs had a worse than average risk rating with limited variation:

External risk rating

(Where provided) over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	4607	4609	4584	4560	4594	4601	4546	4139	4093
Minimal risk	7%	7%	8%	9%	7%	8%	7%	6%	8%
Low risk	16%	15%	17%	18%	17%	17%	16%	13%	16%
Average risk	30%	33%	33%	30%	31%	27%	28%	28%	32%
Worse than average risk	47%	45%	43%	44%	45%	48%	48%	53%	44%

All SMEs where risk rating provided



Looking over the longer term, the proportion of SMEs with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015 (and 22% in H1 2016). The proportion with a worse than average risk rating was lower in 2014 and 2015 than in earlier years but is currently slightly higher for 2016 to date:

External risk rating					
(Where provided) over time					
By date of interview	2012	2013	2014	2015	H1 2016
Unweighted base:	18,270	18,183	18,330	18,301	8232
Minimal risk	5%	6%	7%	8%	7%
Low risk	11%	10%	15%	17%	15%
Average risk	31%	29%	32%	29%	30%
Worse than average risk	53%	54%	45%	46%	49%

All SMEs where risk rating provided

The overall YEQ2 2016 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs:

External risk rating		0	1-9	10-49	50-249
YEQ2 16 – all SMEs where rating provided	Total	emp	emps	emps	emps
Unweighted base:	17,379	3166	5474	5892	2847
Minimal risk	7%	5%	12%	19%	34%
Low risk	16%	10%	28%	50%	45%
Average risk	29%	30%	26%	23%	16%
Worse than average risk	48%	55%	35%	9%	6%

All SMEs where risk rating provided

Amongst SMEs with employees, 45% had a minimal or low external risk rating, 25% an average risk rating and 30% a worse than average risk rating.



The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs. YEQ2 2016, 55% of SMEs with no employees had such a rating. The table below shows the proportion with this rating over the longer term, in each size band. Amongst the 0 employee SMEs the proportion with a worse than average risk rating declined between 2012 to 2014 but then increased somewhat in recent periods. Amongst those with employees there has been a steadier decline over time in the proportion with a worse than average risk rating:

Worse than average risk rating					
Over time					
Row percentages	2012	2013	2014	2015	H1 2016
Total	53%	54%	45%	46%	49%
0 employee	58%	60%	50%	52%	56%
1-9 employees	43%	43%	37%	34%	35%
10-49 employees	17%	17%	11%	9%	8%
50-249 employees	13%	15%	9%	6%	6%

All SMEs where risk rating provided

An analysis for YEQ2 2016 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (48% YEQ2 2016) while those in Construction (15%) and Transport (13%) remained the least likely to have such a rating:

External risk rating									
YEQ2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	1208	1693	3034	1754	1369	1712	3258	1510	1841
Minimal risk	27%	8%	4%	9%	6%	5%	6%	13%	6%
Low risk	21%	19%	11%	25%	22%	8%	14%	22%	16%
Average risk	21%	31%	30%	24%	27%	24%	31%	31%	29%
Worse than average risk	30%	41%	55%	43%	45%	63%	48%	34%	50%
Total Min/Low	48%	27%	15%	34%	28%	13%	20%	35%	22%

All SMEs where risk rating provided



Credit balances

Almost all SMEs reported holding some credit balances. In H1 2016, 3% did not hold any, and this proportion has changed relatively little over time, nor does it vary much by size of SME, or risk rating.

Credit balances held					H1
Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	15,020	14,752	13,039	13,182	5684
None	4%	4%	5%	3%	3%
Less than £5,000	66%	64%	58%	55%	59%
£5,000 to £10,000	14%	15%	17%	18%	17%
£10,000 to £50,000	11%	12%	14%	17%	14%
More than £50,000	5%	4%	6%	7%	7%
Average balance held	£25k	£24k	£31k	£39k	£30k

Q244 All SMEs excluding DK/refused

The median value of credit balances held has increased and was just over £2,000 for YEQ2 2016. This amount continued to vary by size of SME, and for YEQ2 2016 was:

- £1,900 for 0 employee SMEs
- £5,700 for 1-9 employee SMEs
- £32,000 for 10-49 employee SMEs
- £136,000 for 50-249 employee SMEs

The median value of credit balances varied little by sector.

From Q3 2015, new questions have been asked of all those holding £10,000 or more in credit balances (21% of all SMEs in H1 2016) and so the analysis in this section now reflects that split at £10,000 rather than at £5,000 as previously.



The table below shows the proportion of SMEs holding more than £10,000 in credit balances over time, and how this increased between 2012 and 2015 across all sizes of SME, notably for the smaller ones. The proportion in H1 2016 with £10,000 or more was slightly lower, due to fewer 0 employee SMEs holding such sums. The proportion of SMEs with employees holding £10,000 or more was unchanged from 2015:

£10,000+ Credit balances held					
Over time – all SMEs					
Row percentages	2012	2013	2014	2015	H1 2016
All SMEs	16%	17%	20%	24%	21%
0 employee	10%	10%	14%	17%	14%
1-9 employees	32%	33%	38%	41%	41%
10-49 employees	66%	66%	68%	70%	70%
50-249 employees	77%	80%	82%	81%	81%

Q244 All SMEs excluding DK/refused

The next chapter reports on the use of external finance amongst SMEs. The table below shows the proportion of SMEs in each group that also hold £10,000 or more in credit balances:

£10,000+ Credit balances held					
Over time – row percentages					
	2012	2013	2014	2015	H1 2016
All SMEs	16%	17%	20%	24%	21%
SMEs who use any external finance	18%	20%	23%	27%	26%
SMEs who use core finance	18%	20%	22%	27%	25%
SMEs who use no external finance	14%	14%	19%	22%	18%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance have become more likely to also hold £10,000 or more in credit balances (in H1 2016 a quarter of those using external finance (26%) also hold such credit balances). Amongst those who don't use external finance (typically smaller SMEs), there has been a smaller increase in the proportion also holding £10,000 in credit balances (18% in H1 2016).



From Q3 2015, all SMEs holding £10,000 or more of credit balances were asked whether holding such balances meant that the business had less need of external finance. 8 in 10 SMEs with such credit balances said that it did, declining slightly by size of business (from 86% of 0 employees SMEs with £10,000 or more of credit balances to 78% of those with 50-249 employees). The table below shows that this is the equivalent of 14% of all SMEs saying their need for external finance is lower due to the credit balances they hold:

Impact of £10k+ of credit balances		0	1-9	10-49	50-249
YE Q2 2015 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
£10k+ reduces need for external finance	14%	10%	23%	31%	31%
£10k+ does not reduce need for finance	3%	2%	5%	7%	9%
Hold less than £10k of credit balances	54%	60%	38%	14%	6%
No credit balances/DK/Refused	30%	28%	35%	47%	53%

Q244x All SMEs

Analysis shows that, over time, SMEs with £10,000 or more of credit balances have become somewhat less likely to actually use any external finance *at all* (51% in 2012 to 45% in H1 2016) and specifically core finance:

Use of finance over time					
Over time					
All with £10k+ in credit balances	2012	2013	2014	2015	H1 2016
Unweighted base:	6296	6319	5926	6376	2706
Use any external finance	51%	52%	44%	44%	45%
• Use core finance	41%	40%	32%	35%	34%
Do not use finance	49%	48%	56%	56%	55%



How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (planning, trading internationally and having someone in charge of the finances who is qualified) reflect their contribution to other

areas of analysis or external action such as applications for finance.

From Q1 2016, SMEs have also been asked whether the business has 'a mentor who provides help and advice' and these figures are reported below for the first time.

The table below shows that the proportion of SMEs undertaking these activities has varied relatively little over recent quarters:

Business formality elements

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Planning (any)	56%	55%	54%	53%	51%	56%	56%	54%	52%
- Produce regular management accounts	44%	41%	41%	40%	38%	44%	42%	41%	39%
- Have a formal written business plan	33%	32%	33%	30%	29%	34%	33%	32%	29%
International (any)	16%	17%	15%	15%	15%	20%	18%	15%	15%
- Export goods or services	9%	11%	9%	9%	9%	12%	11%	10%	9%
- Import goods or services	11%	11%	11%	10%	11%	14%	13%	10%	10%
Mentors	-	-	-	-	-	-	-	13%	10%
Have qualified person in charge of finances	28%	27%	25%	24%	28%	26%	24%	23%	22%

Q223/251 All SMEs



The table below provides further analysis by key demographics for YEQ2 2016:

Business Formality Further analysis YEQ2 2016

Planning	<p>54% of SMEs planned increasing by size of SME from 48% of those with 0 employees to 69% of those with 1-9 employees, 85% of those with 10-49 employees and almost all (91%) of those with 50-249 employees.</p> <p>Starts were more likely to plan (59%) with levels of planning then declining slightly by age of business to 50% of those trading for over 15 years.</p>
International	<p>17% of SMEs identified as international for YEQ2 2016. Larger SMEs remained more likely to be international. 15% of 0 employee SMEs were international, compared to 21% with 1-9 employees, 29% with 10-49 employees and 35% with 50-249 employees.</p> <p>Starts were less likely to be international (14%) with no clear pattern for older businesses (15-19%).</p>
Financial specialist	<p>24% of SMEs had a financially qualified person looking after their finances and the larger the SME, the more likely they were to have a financial specialist: 20% of 0 employee SMEs had a financial specialist, compared to 31% with 1-9 employees, 50% with 10-49 employees and 66% with 50-249 employees.</p> <p>By age of business around a fifth of SMEs trading for less than 10 years had a financial specialist, increasing to 26% of those trading for 10 years or more.</p> <p>Where such a person was in charge of the finances, SMEs were somewhat more likely to plan (68% v 50% of those where there was no financial specialist).</p>
Excluding the 0 employees	<p>For YEQ2 2016, the smallest SMEs remained less likely to plan or to undertake international trade. Excluding these 0 employee businesses sees the proportion of SMEs (with employees) who:</p> <ul style="list-style-type: none"> • Plan increase to 72% (from 54%) • Have a qualified person in charge of the finances increase to 34% (from 24%) • Trade internationally increase to 23% (from 17% overall).
Sector analysis	<p>65% of those in the Hotels & Restaurants or the Wholesale/Retail sectors planned. The least likely to plan were those in the Health sector (47%).</p> <p>Those in Wholesale/Retail, together with those in Manufacturing, were also more likely to be international (both 29%). Those in Construction (7%) were the least likely to be international.</p> <p>30% of those in Business Services had someone in charge of the finances who was qualified, compared to 17% of those in Construction.</p>



Taking a longer term view back to 2012, there has been something of an increase in SMEs that identify as international with increases for both importing and exporting. Levels of planning and financial qualification have changed very little:

Business formality elements					
Over time – all SMEs					H1
By date of interview	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Planning (any)	55%	55%	54%	54%	53%
- Produce regular management accounts	41%	42%	42%	41%	40%
- Have a formal written business plan	33%	32%	32%	32%	30%
International (any)	10%	13%	16%	17%	15%
- Export goods or services	6%	8%	10%	10%	9%
- Import goods or services	7%	9%	11%	12%	10%
Have qualified person in charge of finances	25%	26%	27%	26%	23%

Q223/251 All SMEs

A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. Initial results for H1 2016 show that 12% did, with larger SMEs much more likely to have such support:

- By size, the use of mentors increased from 10% of those with 0 employees to 14% of those with 1-9 employees and was 23% for those with either 10-49 or 50-249 employees.
- The presence of mentors declined slightly by risk rating: from 17% of those with a minimal risk rating compared to 14% of those with a low risk rating, 12% with an average and 11% with a worse than average risk rating.
- By sector those in Construction (8%) or Manufacturing (9%) were less likely to have a mentor, with little variation across the other sectors (12-15%).
- Permanent non-borrowers were slightly less likely to have a mentor (10% v 13% who are not PNBs).



From Q4 2012, SMEs who export have been asked how important such trade was to their business with additional granularity provided from Q2 2014. 7 out of 10 exporters reported that less than a quarter of their total sales came from overseas:

Percentage of turnover as sales overseas

All SMEs who export YEQ2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2518	285	669	996	568
Less than 25% of sales overseas	72%	74%	68%	68%	59%
25-50%	12%	11%	14%	16%	20%
51-75%	8%	6%	12%	11%	14%
76-100% of sales overseas	8%	9%	6%	5%	7%
Average proportion	26%	25%	26%	26%	30%

Q223x All SMEs who export, excluding DK/refused

16% of exporters said that international trade made up 50% or more of sales. This is a declining trend:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014
- In 2015 this proportion dropped again to 13%, but is currently 19% for the first half of 2016

10% of all SMEs export. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 8% of all SMEs where exports made up less than 50% of their sales. 90% of all SMEs do not export.

New questions were asked for the first time in Q1 and Q2 2014 about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (6% did). When the questions were asked again for 2015

there was little change: 5% held intellectual property or other knowledge assets on their balance sheet, increasing by size from 4% of 0 employee SMEs to 12% of those with 50-249 employees (The questions were not asked in Q3 and Q4 2014). The latest figures for YEQ2 2016 are marginally higher, with 6% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 6% of 0 employee SMEs to 15% of those with 50-249 employees.



Membership of business groups or industry bodies

From Q4 2012 SMEs have been asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ2 2016 a fifth of SMEs (22%) said that this was the case (excluding DK answers). This has varied relatively little over time (in 2013, 24% of SMEs said that they belonged to a business group)

Business Groups	Further analysis YEQ2 2016
By size of SME	Membership was higher amongst the largest SMEs: <ul style="list-style-type: none">• 21% of 0 employee businesses belonged to a group/body• 22% of 1-9 employee businesses• 25% of 10-49 employee businesses• 31% of 50-249 employee businesses.
By external risk rating	There was relatively little difference by risk rating: SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (20%), compared to 22-24% of SMEs in the other 3 risk rating bands.
By sector	The most likely to belong to such groups remained those in the Health sector (28%) and Property/Business Services (27%) while those in Transport were less likely (16%).
PNBs and those using external finance	Those currently using external finance were slightly more likely to belong to such groups (24%) than those that did not use external finance (20%). There was also a slight difference by whether the SME met the definition of a Permanent non-borrower or not (18% v 23% if not a PNB).
Other demographics	There was limited variation by age of business. Starts were less likely to belong to a business group (16%) with between 21-26% being members in the other age bands. Those who had someone in charge of the finances who was qualified (more common in larger SMEs) were more likely to belong to a business group (30% v 18%).



Business Ownership

65% of *companies* had one owner, ranging from 82% of 0 employee companies to 36% of those with 50-249 employees. This means that of *all* SMEs, 93% are either sole proprietorships or companies with one owner.

A broader question explored the extent to which the owner of the SME was also involved in other businesses. For YEQ2 2016 (and excluding DK answers):

- 88% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 90% of 0 employee SMEs, to 76% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 18% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

From Q3 2014, SMEs with employees were asked whether theirs was a family business. For YEQ2 2016:

- 17% have employees and are family owned
- 8% have employees and a different ownership structure
- 74% of all SMEs have no employees (so are not asked the question).

A high level analysis of family owned businesses suggests similarities with their peers that are not family owned. They are as likely to be using external finance (51%), or to be a PNB (34%). They are slightly more likely to have had a borrowing event (23% v19%) but less likely to be planning to grow (52% v 61%).

5. Financial context – how are SMEs funding themselves?



This chapter provides

an overview of the types of external finance being used by SMEs, including the use of personal finance and trade credit within a business.



Key findings

Attitudinally, many SMEs appear to prefer self-funding their business rather than taking on external debt:

- YEQ2 2016, 80% agreed that their plans were based on what they could afford to fund themselves and, in new questions for 2016, 71% agreed that they would accept a slower growth rate rather than borrow to grow faster, while 47% agreed that they never think about whether the business could or should use (more) external finance. Smaller SMEs were more likely to agree with all these statements.
- 46% of SMEs agreed that they were happy to borrow to help the business grow. Current use of finance is a key predictor of agreement with this statement and 57% of those currently using finance would be happy to borrow compared to 37% of those not currently using finance.

36% of SMEs YEQ2 2016 used external finance, increasing by size of SME from 31% of those with 0 employees to 62% of those with 50-249 employees.

- This is little changed from 2015 as a whole, when 37% used external finance, but remains lower than in previous years (in 2012, 44% of SMEs were using external finance).
- The decline was primarily due to fewer SMEs using core forms of finance: In 2012, 36% of SMEs were using loans, overdrafts and/or credit cards but by 2014 this had fallen to 29%. It has been relatively stable since (29% YEQ2 2016).
- Use of other forms of finance such as invoice discounting has been more stable over time (16% for YEQ2 2016).



YEQ2 2016, 28% of SMEs reported an injection of personal funds into the business. This was as likely to have been a choice (15%) as something they felt forced to do (13%).

- Smaller SMEs remained more likely to inject funds (30% of those with 0 employees compared to 8% of those with 50-249 employees).
- The proportion reporting *any* injection of funds fell from 43% in 2012 to 29% in 2014 primarily due to fewer SMEs feeling that they had to inject funds (25% in 2012 to 15% in 2014). It has been fairly stable since.

A third of SMEs (32%) use trade credit, increasing by size of SME to 58% of those with 50-249 employees. Two thirds of those who received trade credit said that it reduced their need for external finance.

Combining injections of personal funds and trade credit with use of external finance results in 63% of SMEs using any business funding and this has changed little in the time the relevant questions have been asked.

YEQ2 2016, 46% of SMEs qualified as Permanent non-borrowers with no apparent appetite for finance. This group increased in size from 34% of SMEs in 2012 to 47% in 2015.

- Whilst the smallest SMEs remained the most likely to meet the definition (50% of 0 employees SMEs qualified as PNBs YEQ2 2016), just over a quarter of the largest SMEs with 10-249 employees were PNBs.
- Since the start of 2015 more SMEs have met the definition of a PNB than used external finance and the gap is starting to widen. In Q2 2016 itself, 36% of SMEs were using external finance while 47% met the definition of a PNB.



Use of external finance

SMEs were asked some initial questions about their use of external finance:

- Which of a specified list of sources they were currently using
- Whether they had used any form of external finance in the past 5 years.

Use of external finance for YEQ2 2016 was 36%, in line with 2014 and 2015 (both 37%). This remains lower than in previous years.

Analysis by recent quarter showed use of external finance in Q2 2016 itself was 36%, in line with most of 2015, after a slight 'dip' in Q1 2016:

Use of external finance in last 5 years

Over time – all SMEs	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Use now	39%	40%	36%	36%	36%	36%	40%	33%	36%
Used in past but not now	3%	3%	3%	3%	3%	4%	2%	2%	3%
Not used at all	58%	58%	62%	61%	60%	61%	57%	65%	61%

Q14/15 All SMEs



As the table below shows, the ‘dip’ in Q1 2016 was due to lower levels of usage of external finance amongst smaller SMEs. Amongst those with 10-249 employees use was more stable and such SMEs remained more likely to be using external finance:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All	39%	40%	36%	36%	36%	36%	40%	33%	36%
0 emp	35%	35%	32%	32%	32%	31%	35%	28%	31%
1-9 emps	50%	53%	44%	48%	47%	49%	53%	44%	50%
10-49 emps	59%	64%	55%	61%	60%	59%	59%	60%	61%
50-249 emps	64%	65%	61%	58%	63%	60%	63%	63%	64%

Q14/15 All SMEs

The table below shows use of finance by risk rating for recent quarters. In Q2 2016, those with a better risk rating remained more likely to be using external finance:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All	39%	40%	36%	36%	36%	36%	40%	33%	36%
Minimal	51%	46%	35%	41%	48%	51%	49%	40%	48%
Low	44%	36%	37%	51%	46%	41%	50%	40%	50%
Average	38%	40%	33%	35%	38%	39%	40%	36%	35%
Worse than average	36%	39%	37%	31%	29%	31%	36%	28%	33%

Q14/15 All SMEs , base varies slightly each quarter



As already reported, use of external finance has declined over time and these longer term changes are summarised in the table below which shows the decline in use of external finance since 2012 by key business demographics:

Currently use external finance					
Over time – all SMEs					
By date of interview – row percentages	2012	2013	2014	2015	H1 2016
All	44%	41%	37%	37%	34%
0 emp	38%	35%	32%	32%	29%
1-9 emps	58%	55%	49%	49%	47%
10-49 emps	70%	67%	61%	60%	60%
50-249 emps	73%	73%	63%	61%	64%
Minimal external risk rating	57%	50%	44%	47%	44%
Low	52%	51%	40%	47%	46%
Average	46%	42%	36%	38%	36%
Worse than average	41%	38%	35%	32%	30%
Agriculture	51%	44%	43%	44%	45%
Manufacturing	49%	44%	44%	39%	38%
Construction	41%	38%	33%	33%	34%
Wholesale/Retail	56%	50%	50%	45%	43%
Hotels & Restaurants	53%	47%	42%	44%	43%
Transport	47%	41%	38%	38%	32%
Property/ Business Services	41%	39%	34%	35%	28%
Health	32%	31%	28%	33%	31%
Other	38%	42%	33%	39%	40%
All excl PNBs	66%	68%	65%	70%	67%

Q14/15 All SMEs



Use of core forms of finance

To understand more about the use of external finance over time, the table below shows the overall reported use of the core forms of finance (overdrafts, loans and credit cards) across recent quarters. The 'dip' in overall use of finance seen in Q1 2016 is reflected here in a lower proportion of SMEs using any of the core forms of finance in that quarter:

Use of external finance

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Bank overdraft	18%	17%	16%	16%	16%	15%	17%	14%	16%
Bank loan/Commercial mortgage	8%	7%	7%	8%	6%	7%	8%	6%	6%
• Bank loan		5%	6%	7%	5%	6%	6%	5%	4%
• Comm. Mortgage		1%	1%	2%	2%	2%	2%	2%	3%
Credit cards	15%	16%	14%	15%	15%	15%	17%	15%	17%
Any core products – all SMEs	30%	31%	28%	29%	28%	29%	32%	25%	30%

Q15 All SMEs

From Q3 2014, use of bank loans and commercial mortgages has been recorded separately and each is now shown in the table above. Excluding the use of commercial mortgages from the core finance definition reduces the figure for Q2 2016 from 30% to 29% with a similar decrease for 2015 as a whole (30% to 29%).

The table above shows that use of core finance (including commercial mortgages) has been

relatively stable over recent quarters. A longer term view, shown in the table below, shows how use of core finance declined from 36% in 2012 to 29% in 2014 and has been stable since. This earlier decline in use of finance was due to the increase in Permanent non-borrowers, as once they are excluded, use of core finance has been fairly consistent year to year with around half of such SMEs using these forms of finance.



The longer term changes in the use of core finance are summarised in a new table below showing the decline since 2012 by key business demographics:

Currently use core finance					
Over time – all SMEs					H1
By date of interview – row percentages	2012	2013	2014	2015	2016
All	36%	32%	29%	30%	28%
0 emp	31%	27%	25%	25%	24%
1-9 emps	48%	44%	40%	40%	36%
10-49 emps	62%	57%	50%	50%	52%
50-249 emps	67%	64%	55%	53%	56%
Minimal external risk rating	48%	42%	35%	39%	38%
Low	46%	43%	34%	39%	39%
Average	39%	34%	30%	31%	30%
Worse than average	31%	28%	26%	24%	22%
Agriculture	44%	37%	36%	36%	36%
Manufacturing	40%	35%	37%	31%	32%
Construction	34%	31%	25%	26%	29%
Wholesale/Retail	47%	39%	41%	36%	36%
Hotels & Restaurants	45%	38%	34%	37%	32%
Transport	36%	30%	29%	29%	24%
Property/ Business Services	33%	31%	26%	29%	22%
Health	25%	24%	22%	26%	25%
Other	30%	32%	25%	29%	31%
All excl PNBs	54%	53%	51%	55%	53%

Q15 All SMEs



YEQ2 2016, 78% of credit card users reported that they usually paid off the balance on their card in full each month (excl DK answers), so these businesses were not necessarily using their card as a source of finance, but as a payment mechanism. The larger the SME the more likely they were to pay off their credit card (73% of 0 employee SMEs with a credit card typically paid off the balance compared to 95% of those with 50-249 employees). The proportion typically paying off the balance has

changed very little over time (it was 79% for Q2-Q3 2013).

7% of SMEs only use credit cards of all the forms of external finance reported. 84% of this group said that they usually pay off the balance each month. This is the equivalent of 6% of all SMEs who might be considered not to be using external finance, given that they use only credit cards and typically pay the balance off each month.

Excluding credit cards from the core product table above would result in 19% of SMEs YEQ2 2016 with either an overdraft and/or loan and this proportion has declined over time from 26% in 2012 (it was 20% for 2015).

From Q4 2012 those using core finance were asked whether any of those facilities were in their personal name, rather than that of the business. For YEQ2 2016, a third of those using such facilities (37%) said that one or more facilities were in their personal name, the equivalent of 10% of **all** SMEs having a facility in their personal name (or 18% of SMEs excluding the Permanent non-borrowers). This had varied relatively little across the quarters in which the question has been asked.



As the table below shows, the incidence of facilities in a personal name varied by size of business. Amongst SMEs with loans, overdrafts and/or credit cards, 4 in 10 of those with 0 employees had some facility in their personal name (44%) compared to 9% of those with 50-249 employees. SMEs with these facilities, and who also had an average or worse than average risk rating, were more likely to have a facility in their own name (37% and 42%), than those with a minimal or low risk rating (both 25%) but the equivalent figures for **all** SMEs continued to show relatively little difference by risk rating:

Have element of facility in personal name	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
YEQ2 16 – row percentages		
Total	37%	10%
0 employees	44%	10%
1-9 employees	28%	10%
10-49 employees	15%	7%
50-249 employees	9%	8%
Minimal risk rating	25%	9%
Low risk rating	25%	9%
Average risk rating	37%	10%
Worse than average risk rating	42%	9%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were somewhat less likely to be using any external finance (YEQ2 2016, 21% were using a core form of external finance, compared to 31% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all (86%) said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Those with facilities who used a business

account, were much less likely to say that there were facilities in their personal name. (28%)

As a result, amongst all SMEs, those using a personal account for their business were twice as likely to have a facility in their personal name as those using a business account (17% of all those using a personal account had a facility in their personal name compared to 8% of all those using a business account).



From Q3 2014, SMEs using loans, overdrafts or credit cards were asked about each individual type of facility they held, rather than simply whether any of these facilities were in a personal name. In all instances, those with 0 employees were more likely to have a facility in a personal name:

Facilities in a personal name YEQ2 2016 (excl DK)

Overdrafts	<p>20% of all SMEs with an overdraft said it was in a personal name, of which 84% were 0 employee SMEs. 8% said they had facilities in both personal and business names.</p> <p>27% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 10% of those with 1-9 employees, 4% of those with 10-49 employees and 1% of those with 50-249 employees.</p>
Loans	<p>23% of all SMEs with a loan said it was in a personal name, of which 79% were 0 employee SMEs. 6% said they had facilities in both personal and business names.</p> <p>32% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 14% of those with 1-9 employees, 2% of those with 10-49 employees and 1% of those with 50-249 employees.</p>
Credit cards	<p>27% of all SMEs with a credit card said it was in a personal name, of which 79% were 0 employee SMEs. 14% said they had facilities in both personal and business names.</p> <p>35% of 0 employee SMEs with a credit card said that it was in a personal name. This declined by size to 18% of those with 1-9 employees, 6% of those with 10-49 employees and 3% of those with 50-249 employees.</p>



Any use of external finance

The table below shows the full list of the different types of funding being used by SMEs YEQ2 2016. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank.

Larger businesses continued to make use of a wider range of forms of funding. Amongst SMEs with employees, 51% were using external finance – 41% were using any form of core finance and 27% any of the other forms of finance listed:

External finance currently used	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
YEQ2 16 – all SMEs					
Unweighted base:	19,007	3800	6203	6103	2901
Core products (any)	29%	25%	39%	51%	55%
-Bank overdraft	16%	14%	21%	24%	22%
-Credit cards	16%	13%	22%	34%	40%
-Bank loan	5%	4%	8%	12%	14%
-Commercial mortgage	2%	1%	4%	7%	8%
Other forms of finance (any)	16%	12%	26%	36%	37%
-Leasing or hire purchase	8%	6%	12%	22%	22%
-Loans from directors, family & friends	6%	4%	10%	9%	6%
-Equity from directors, family & friends	2%	2%	4%	5%	5%
-Invoice finance	2%	1%	4%	9%	12%
-Grants	2%	1%	3%	5%	6%
-Loans from other 3 rd parties	2%	1%	3%	5%	5%
Any of these	36%	31%	49%	60%	62%
None of these	64%	69%	51%	40%	38%

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. YEQ2 2016, 1% of such SMEs used these products, with limited variation by size of business (1-4%).



A summary analysis for YEQ2 2016 by risk rating showed that:

- 48% of SMEs with a minimal and 45% of those with a low risk rating were using external finance at all, compared to 38% of those with an average risk and 32% of those with a worse than average risk rating.
- Those with a minimal (40%) or low (39%) risk rating were more likely to be using core forms of finance than those with an average (31%) or worse than average (24%) rating.
- This was also true for other forms of finance. 20% of those with a minimal and 21% of those with a low risk rating were using other forms of finance compared to 15% of those with either an average or worse than average rating.

SMEs in the Hotel & Restaurant, Agriculture and Wholesale/Retail sectors remained more likely to be using core forms of finance. There was more variation by sector in terms of the use of other forms of finance than has been seen in the past, with those in Agriculture again more likely to be using such finance:

External finance currently used

YEQ2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Core finance	37%	33%	28%	36%	36%	27%	25%	26%	30%
Other finance	25%	18%	14%	22%	22%	18%	13%	13%	18%
Any finance	45%	40%	34%	44%	46%	36%	31%	31%	40%

Q15 All SMEs



From Q1 2014 SMEs using leasing, HP and vehicle finance were asked where this funding was obtained from, with SMEs able to give more than one source. From Q1 2015, those using these forms of finance have been asked to name the supplier(s) used and these have then been coded into the categories below to provide a more accurate analysis of how funding is being provided.

For YE Q2 2016 leasing, HP and vehicle finance was obtained as follows:

- 34% obtained this funding from a bank/bank subsidiary: 16% from their main bank/subsidiary, 18% from another bank/subsidiary
- 16% from an equipment manufacturer
- 24% from another leasing provider
- 4% from a broker

These results are virtually unchanged from 2015 as a whole and not that dissimilar to those in 2014 (when the SME self-identified the type of supplier used). Mentions of a bank are now slightly higher (having been 26% in 2014) and mentions of another leasing provider are somewhat lower (having been 39%).

Amongst those using leasing, HP or vehicle finance, use of any bank for this finance was slightly more common amongst larger SMEs for YE Q2 2016:

- 34% of 0 employee SMEs using leasing, HP or vehicle finance were using a bank
- 31% of those with 1-9 employees
- 38% of those with 10-49 employees
- 44% of those with 50-249 employees.



The table below details the use of all of these forms of funding over recent quarters. Loans and equity from family/friends/directors and bank loans/ commercial mortgages can now be reported separately as sufficient data has been collected.

The long term decline in the use of core forms of finance has already been reported. Use was stable in 2015 but has been somewhat lower in the first half of 2016 and this is also true for other forms of finance:

Use of external finance

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Core products (any)	30%	31%	28%	29%	28%	29%	32%	25%	30%
-Bank overdraft	18%	17%	16%	16%	16%	15%	17%	14%	16%
-Bank loan/Commercial mortgage	8%	7%	7%	8%	6%	7%	8%	6%	6%
-Bank loan		5%	6%	7%	5%	6%	6%	5%	4%
-Comm. Mortgage		1%	1%	2%	2%	2%	2%	2%	3%
-Credit cards	15%	16%	14%	15%	15%	15%	17%	15%	17%
Other forms of finance (any)	18%	20%	16%	16%	17%	16%	19%	15%	15%
-Leasing, hire purchase or vehicle finance	7%	8%	6%	7%	6%	7%	8%	7%	8%
-Loans from directors/family/friends*	8%	8%	6%	7%	7%	6%	8%	4%	5%
-Equity from directors/family/friends*	2%	3%	2%	2%	2%	3%	3%	2%	2%
-Invoice finance	3%	3%	2%	2%	2%	3%	2%	2%	2%
-Grants	2%	2%	1%	2%	2%	2%	2%	2%	1%
-Loans from other third parties	1%	2%	2%	2%	2%	2%	2%	2%	1%
Any form of finance – all SMEs	39%	40%	36%	36%	36%	36%	40%	33%	36%

Q15 All SMEs



The table below shows how sole use of core and other forms of finance has varied over the longer term, as the proportion using none of these forms of finance increased from 56% to 66% of SMEs:

External finance currently used					H1
Over time - all SMEs	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Only use core products	26%	23%	20%	20%	19%
Only use other forms of finance	8%	9%	8%	8%	7%
Use both forms of finance	10%	9%	9%	9%	8%
Use none of these forms of finance	56%	59%	63%	63%	66%

Q15 All SMEs

The decline in the use of external finance is driven by the decline in use of core finance (26% to 19%), with the use of other forms of finance, whether alone or in combination with core forms of finance, being somewhat more stable.

SMEs can use one or more of the forms of finance listed above, but most used just one if they used any (58% of SMEs using *any* external finance were only using one of the forms of finance listed). The table below shows the

number of forms of finance used by all SMEs (including those using no external finance). Around a quarter of all SMEs in each size band used just one form of external finance. While 4% of the smallest SMEs were using 3 or more forms of finance, this proportion increased to around 1 in 5 of those with 10-49 or 50-249 employees:

Forms of external finance currently used		0	1-9	10-49	50-249
YEQ2 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
None	64%	69%	51%	40%	38%
1 form of finance	22%	21%	26%	24%	25%
2 forms of finance	8%	7%	13%	16%	16%
3 forms of finance	3%	2%	6%	9%	11%
4 or more forms of finance	3%	2%	5%	11%	11%



After further questioning, 2% of SMEs (YEQ2 2016) said that they were using an additional form of external finance not on the list detailed in full above. This did not vary much by size (2-4%) or risk rating (2-4%), or by sector (1-4%), and has varied little over time.

There was no difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (2% for those also using the specified forms of external finance and 2% for those

not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance.

The form of funding used is not known but amongst the nearly 500 SMEs who said they were using a form of finance not specified in the survey, 21 went on to report at a later question that they were using crowd funding.



The impact of crowd funding and alternative finance

A later chapter in this report covers awareness and usage of crowd funding/peer to peer lending.

These products are currently used by a minority of SMEs. If they were to be included in the definition of external finance used in this chapter, the use of external finance in 2015 would stay unchanged at 37% and for H1 2016 it would increase marginally from 34% to 35%.

More analysis will be provided over time.



Injections of personal funds

SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do.

The table below shows that in Q2 2016, a quarter of SMEs (25%) reported an injection of personal funds and that this was slightly more likely to have been a choice (14%) than something they felt they had to do (11%). These figures are at the lower end of the range seen over recent quarters:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	15%	13%	14%	14%	13%	15%	15%	17%	14%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	15%	15%	15%	11%	13%	15%	14%	13%	11%
Any personal funds	30%	28%	29%	26%	26%	30%	29%	30%	25%
Not something you have done	70%	72%	71%	74%	74%	70%	71%	70%	75%

Q15d All SMEs



The more detailed analysis below is based on the combined results YEQ2 2016 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, were much more likely to have received an injection of personal funds:

Personal funds in last 12 months		0	1-9	10-49	50-249
YEQ2 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	15%	16%	15%	8%	6%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	13%	14%	12%	7%	2%
Any personal funds	28%	30%	27%	15%	8%
Not something you have done	72%	70%	73%	85%	92%

[Q15d All SMEs from Q2 2012](#)

Amongst SMEs with employees, 25% reported any injection of personal funds – 14% because they chose to do so and 11% who felt that they had no choice.

Analysis by external risk rating showed that those with a worse than average external risk rating were more than twice as likely to have seen an injection of personal funds (36%), as those with a minimal external risk rating (14%). Around half of all SMEs making any injection of funds reported that they had felt that they had no choice, and this proportion did not vary much by risk rating:

Personal funds in last 12 months					Worse/
YEQ2 16 – all SMEs	Total	Min	Low	Avge	Avge
Unweighted base:	19,007	2965	5907	4231	4276
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	15%	7%	9%	13%	20%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	13%	8%	9%	12%	16%
Any personal funds	28%	14%	18%	25%	36%
Not something you have done	72%	86%	82%	75%	64%

[Q15d All SMEs from Q2 2012](#)



Analysis by sector showed relatively little variation in terms of *any* injection of funds, experienced by 25-33% of SMEs in each sector:

Personal funds in last 12 months

YEQ2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
<u>Chose</u> to inject	15%	14%	13%	15%	17%	16%	17%	15%	17%
<u>Had</u> to inject	12%	15%	13%	14%	15%	14%	12%	11%	15%
Any funds	27%	29%	26%	29%	33%	30%	28%	25%	32%
Not done	73%	71%	74%	71%	67%	70%	72%	75%	68%

Q15d All SMEs from Q2 2012

A longer term look at the injection of personal funds shows how this became less likely between 2012 and 2014. When the question was first asked in 2012, 43% reported an injection of personal funds, declining to 29% for 2014 and stable since. This is due predominantly to a drop in the proportion feeling that they had to inject funds (from 25% in 2012 to 12% in H1 2016) :

Personal funds in last 12 months					H1 2016
Over time – all SMEs					
	2012*	2013	2014	2015	
Unweighted base:	15,032	20,036	20,055	20,046	9000
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	17%	19%	14%	14%	15%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	25%	20%	15%	13%	12%
Any personal funds	43%	38%	29%	28%	27%
Not something you have done	57%	62%	71%	72%	73%

Q15d All SMEs from Q2 2012



The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by key business demographics. It shows that larger SMEs, those with a minimal risk rating and those who meet the definition of a Permanent non-borrower have always been less likely to report an injection of funds:

Any personal funds in last 12 months					
Over time – all SMEs					H1
Row percentages	2012*	2013	2014	2015	2016
All	43%	38%	29%	28%	27%
0 emp	45%	40%	30%	29%	29%
1-9 emps	39%	36%	29%	26%	26%
10-49 emps	22%	19%	17%	16%	14%
50-249 emps	13%	11%	9%	8%	9%
Minimal external risk rating	20%	16%	17%	17%	11%
Low	29%	22%	21%	19%	17%
Average	36%	33%	25%	24%	23%
Worse than average	51%	46%	36%	33%	34%
Agriculture	41%	38%	27%	26%	27%
Manufacturing	42%	31%	30%	27%	26%
Construction	44%	38%	29%	25%	25%
Wholesale/Retail	43%	37%	27%	27%	28%
Hotels & Restaurants	47%	41%	33%	29%	33%
Transport	44%	40%	30%	31%	30%
Property/ Business Services	42%	41%	29%	27%	28%
Health	43%	37%	29%	27%	23%
Other	41%	37%	31%	34%	28%
PNBs	33%	29%	19%	19%	20%
All excl PNBs	48%	44%	37%	35%	34%

Q15d All SMEs from Q2 2012



Returning to the current period, analysis by age of SME for YEQ2 2016 showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (47%), and that this was more likely to have been a choice (28%) than a necessity (19%). For older businesses, an injection of personal funds was less likely to have happened at all but where it had, a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months		2-5	6-9	10-15	15
YEQ2 16 – all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	1909	2062	2207	3130	9699
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	28%	19%	14%	10%	9%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	19%	15%	9%	13%	10%
Any personal funds	47%	34%	23%	23%	19%
Not something you have done	53%	66%	77%	77%	81%

[Q15d All SMEs from Q2 2012](#)

Starts have always been more likely to report an injection of funds than older businesses but the proportion has declined somewhat over time. In 2012, 68% of Starts reported receiving an injection of funds, compared to 43% in 2015. The 47% reported for YEQ2 2016 shows a slight increase in that figure, across both those choosing to inject funds and those feeling they had to.

Those using a *personal* account for their business banking were somewhat more likely to

have put personal funds in at all (37% v 26% of those with a business account) and to have felt that they had to do so (16% of SMEs with a personal account, 12% with a business account).

SMEs currently using external finance were more likely to have received an injection of personal funds (35% YEQ2 2016) than those not currently using external finance (25%) and were also more likely to say they had felt that there had been no choice (19% v 10%).



Analysed by their overall financial behaviour in the previous 12 months, the Would-be seekers (who had wanted to apply for loan or overdraft finance but felt that something had stopped them) remained clearly more likely to have received an injection of personal funds (and to have felt that they had no choice):

Personal funds in last 12 months				
YEQ2 16 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	19,007	3956	450	14,601
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	15%	17%	23%	15%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	13%	23%	38%	10%
Any personal funds	28%	40%	61%	25%
Not something you have done	72%	60%	39%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of funds has declined overall, from 43% when the question was first asked in 2012 to 27% for YEQ2 2016.

- This was also true amongst those that have had a borrowing event (from 52% to 40% for YEQ2 2016) and amongst Happy non-seekers (37% to 25%)
- However, there has been no such decline amongst the small group of Would-be seekers of finance, from 62% in 2012 to 61% YEQ2 2016 and this group is now much more likely than SMEs generally to have seen an injection of personal funds.

Additional data on whether these SMEs had been turned down by a bank (or thought that they would be), the amount of funds injected and whether this was a long or short term investment is not currently being gathered.



Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (80% excluding DK answers).

Of the 20% that used a personal account, almost all (94%) were 0 employee businesses. Excluding those with 0 employees reduces the proportion of remaining SMEs with a personal account to 5%.

SMEs more likely to be using a personal account included those in the Health sector (30%), Starts (27%) and those with a worse than average risk rating (27%).

In most years around 1 in 5 SMEs has used a personal account, the exception being 2014 when 14% of SMEs used them, compared to 20% YEQ2 2016. This latest increase was primarily due to an increase in 0 employee SMEs using such accounts (18% to 25%). Amongst those with employees, usage remained low (3% to 5%).

YEQ2 2016, SMEs using a personal account were:

- less likely to be using external finance (27% used external finance, compared to 39% using a business account) and less likely to have applied for new or renewed facilities (4% versus 7%)
- more likely to have put personal funds into the business (37% v 26% of those with a business account) and to be a Permanent non-borrower (54% v 44%)

In H1 2016, 98% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking remains rare in this market:

Use one bank					H1
Over time - row percentages	2012	2013	2014	2015	2016
All	99%	99%	99%	98%	98%
0 emps	99%	99%	99%	99%	99%
1-9 emps	98%	99%	98%	98%	98%
10-49 emps	97%	98%	97%	97%	97%
50-249 emps	97%	98%	97%	98%	98%



The 'interweaving' of business and personal funds

A number of questions explore the use of personal funds and/or personal borrowing by SMEs and details are provided in the relevant chapters. For YEQ2 2016, 4 in 10 SMEs (44%) reported having one or more of these personal 'elements' to their business. This is in line with 2014 and 2015 (both 42%) but lower than in 2012 (54%) and 2013 (53%), as fewer smaller SMEs with less than 10 employees say that they have any personal element to their business. The table below shows how smaller SMEs, those with a worse than average risk rating and those in the Health sector remaining the most likely to have a personal element to their business:

Had any personal element	
Row percentages	YEQ2 16
All SMEs	44%
0 employee	48%
1-9 employees	33%
10-49 employees	18%
50-249 employees	10%
Minimal external risk rating	26%
Low external risk rating	27%
Average external risk rating	41%
Worse than average external risk rating	52%
Agriculture	41%
Manufacturing	38%
Construction	46%
Wholesale/Retail	38%
Hotels & Restaurants	43%
Transport	44%
Property/Business Services etc.	43%
Health	47%
Other Community	48%

Excluding SMEs with no employees reduces the proportion of remaining SMEs with a personal element to their business to 30%.



Recent applications for other forms of finance

The majority of this report focuses on activity around loans and overdrafts. For a complete picture of external finance applications in the 12 months prior to interview, an overview is provided below of applications for other forms of funding and the extent to which these were successful.

As reported elsewhere, amendments were made to the answer codes for Q1 2014,

splitting the loans/equity codes into loans from friends and family/directors and equity from friends and family/directors. These can now be reported as the new codes.

Overall a small minority of SMEs had applied for other forms of finance and this is stable over time, with larger SMEs more likely to have applied, notably for leasing:

Other finance applied for	Total		Applied for			
YE Q2 16 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	varies	3800	6203	6103	2901
Leasing/Hire purchase/vehicle finance	5%	94%	3%	7%	13%	13%
Credit cards	3%	89%	3%	4%	7%	6%
Loans from family/friends or directors	3%	90%	2%	5%	4%	2%
Grants	2%	65%	2%	3%	5%	5%
Equity from family/friends or directors	1%	79%	1%	2%	2%	2%
Invoice finance	1%	80%	1%	2%	4%	5%
Loans from other 3 rd parties	1%	67%	1%	2%	2%	2%
Any of these	12%	-	9%	17%	24%	23%

Q222 All SMEs

Most applicants for most types of funding were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. Success rates in 2015 have typically been somewhat higher than in 2014.

SMEs that are companies were also asked about equity from other third parties. 1% had applied for such finance.



In a series of questions asked for the first time in 2015 respondents were asked in more detail about these other forms of finance:

Applications for other forms of finance YEQ2 2016

Net applications for facilities	<p>12% reported an application for one or more of these other forms of finance. As the next chapter reports, 6% of SMEs interviewed YEQ2 2016 reported that they had made an application for a new or renewed loan or overdraft facility (not including any automatically renewed facility).</p> <p>Putting the two together increases the proportion making <i>any</i> application to 16% (30% when the PNBs are excluded).</p> <p>This has declined from 21% in 2012 due to fewer loan and overdraft applications – applications for these other forms of finance have been more stable (14% in 2012, 13% in both 2014 and 2015).</p>
Other applications	<p>For YEQ2 2016, <1% of SMEs said that they had applied for some other form of finance not listed, half successfully and half unsuccessfully. The type of finance applied for is not recorded.</p>
Identifying additional Would-be seekers of other forms of finance	<p>From Q3 2015, SMEs who had <u>not</u> sought any of these forms of finance (whether from the list specified or any other source as above) were asked whether they had wanted to apply for any of them but had felt that something had stopped them.</p> <p>88% of SMEs <i>qualified</i> for this question for YEQ2 2016 because they had not applied for any additional form of external finance (90% of those with 0 employees to 75% of those with 10-49 or 50-249 employees).</p>
Would-be seekers of other forms of finance	<p>2% of these SMEs went on to say that something had stopped them applying for an additional form of finance (3% for 0 employee SMEs, 1% for those with 10-49 or 50-249 employees).</p> <p>This is the equivalent of 2% of <u>all</u> SMEs – the potential impact on the proportion of Would-be seekers overall is explored in Chapter 11.</p>
Net users of finance	<p>Taking all loan/overdraft events (including automatic renewal of overdrafts) and the applications for these other types of finance together for YEQ2 2016 showed that:</p> <ul style="list-style-type: none"> - Most SMEs (77%), reported neither a loan/overdraft ‘event’ nor an application for any of the types of finance listed above - 12% reported a loan/overdraft event, but had not applied for other forms of finance - 8% had applied for other forms of finance but did not report a loan/overdraft event - 3% reported both a loan/overdraft event <u>and</u> applying for one of these forms of finance



Use of trade credit

Data has been gathered on the extent to which SMEs use trade credit from their suppliers and the impact it has on their use of, or need for, external finance.

YEQ2 2016, 32% of SMEs regularly purchased products or services from other businesses on credit and this has changed very little over time. Use of trade credit increased by size of SME:

- 26% of those with 0 employees regularly purchased on credit
- 45% of those with 1-9 employees
- 59% of those with 10-49 employees
- 58% of those with 50-249 employees

Those using external finance (loans, overdrafts etc) were more likely to be using trade credit (43%) than those who were not using any external finance (24%).

From Q3 2014 to Q4 2015 questions were also included to explore the extent to which SMEs offered trade credit to their customers but these no longer form part of the questionnaire. When this was last asked for YEQ4 2015, 32% said that they did so, again with variation by size of SME:

- 28% of those with 0 employees offer trade credit to their customers
- 42% of those with 1-9 employees
- 59% of those with 10-49 employees
- 62% of those with 50-249 employees



SMEs that received trade credit were asked whether having this trade credit meant that they had a reduced need for other forms of external finance. Two thirds of them did and this is the equivalent of 22% of all SMEs needing less external finance, as the table below shows:

Impact of <u>receiving</u> trade credit		0	1-9	10-49	50-249
YEQ2 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
Receive trade credit	32%	26%	45%	59%	58%
<i>Have less of a need for external finance</i>	22%	18%	30%	40%	37%
<i>Do not have less of a need for external finance</i>	9%	7%	13%	15%	16%
<i>Not sure</i>	1%	1%	2%	4%	5%
Do not receive trade credit	68%	74%	55%	41%	42%
<i>% of those with TC where it reduces need</i>	69%	69%	67%	68%	64%

Q14y/y4 All SMEs from Q3 2014

YEQ2 2016, SMEs currently using external finance (who are more likely to be using trade credit) were also more likely to say that they had less of a need for external finance as a result (31%) than those not using external finance (16%) or SMEs overall (22%).

SMEs with a minimal or low external risk rating were more likely to receive trade credit. Around two thirds of those receiving trade credit in each risk rating band said that it reduced their need for external finance:

Impact of <u>receiving</u> trade credit					Worse/ Avge
YEQ2 16 – all SMEs	Total	Min	Low	Avge	
Unweighted base:	19,007	2965	5907	4231	4276
Receive trade credit	32%	43%	46%	34%	26%
<i>Have less of a need for external finance</i>	22%	29%	31%	24%	18%
<i>Do not have less of a need for external finance</i>	9%	12%	13%	9%	7%
<i>Not sure</i>	1%	2%	1%	1%	1%
Do not receive trade credit	68%	57%	54%	66%	74%
<i>% of those with TC where it reduces need</i>	69%	67%	67%	71%	69%

Q14y/y4 All SMEs from Q3 2014



Older SMEs were also more likely to be receiving trade credit and overall a quarter said it reduced their need for trade credit:

Impact of receiving trade credit

YEQ2 16 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	1909	2062	2207	3130	9699
Receive trade credit	22%	27%	27%	35%	39%
<i>Have less of a need for external finance</i>	14%	19%	21%	25%	26%
<i>Do not have less of a need for external finance</i>	7%	7%	6%	9%	12%
<i>Not sure</i>	1%	1%	1%	1%	2%
Do not receive trade credit	78%	73%	73%	65%	61%
<i>% of those with TC where it reduces need</i>	64%	70%	78%	71%	67%

Q14y/y4 All SMEs from Q3 2014

SMEs in the Manufacturing or Wholesale/Retail sectors were the most likely to receive trade credit:

Trade credit in last 12 months

YEQ2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Receive TC	35%	47%	40%	46%	33%	22%	25%	18%	24%
<i>Have less of a need for external finance</i>	23%	34%	30%	31%	21%	13%	16%	12%	15%
<i>Do not have less of a need for external finance</i>	11%	11%	8%	13%	11%	7%	8%	5%	8%
<i>Not sure</i>	1%	2%	1%	2%	2%	2%	1%	*	1%
Do not receive TC	65%	53%	60%	54%	67%	78%	75%	82%	76%
<i>% where TC reduces need</i>	66%	72%	75%	67%	64%	59%	64%	67%	63%

Q14y/y4 All SMEs from Q3 2014



The non-borrowing SME

As this chapter has already reported, just over a third of SMEs (36% YEQ2 2016) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

- Are not currently using external finance
- Have not used external finance in the past 5 years
- Have had no loan or overdraft borrowing events in the past 12 months
- Have not applied for any other forms of finance in the last 12 months
- Said that they had had no desire to borrow in the past 12 months
- Reported no inclination to borrow in the next 3 months

These Permanent non-borrowers make up 46% of SMEs (YEQ2 2016), and were more likely to be found amongst the smaller SMEs:

- 50% of 0 employee SMEs met this non-borrowing definition
- 36% of 1-9 employee SMEs
- 29% of 10-49 employee SMEs
- 27% of 50-249 employee SMEs

Amongst SMEs with employees, 35% met the definition of a Permanent non-borrower.

Half of SMEs in the Health (55%) or Property/Business Services (51%) sectors met the definition of a Permanent non-borrower. Those with an above average risk rating (49%) or using a personal account for their business banking (54%) were also somewhat more likely to meet the definition. This means that the equivalent of 11% of all SMEs are Permanent non-borrowers who use a personal account.



In the second half of 2015, the proportion meeting the definition of a PNB declined slightly due to fewer of the smaller SMEs meeting the definition, but this trend has not been maintained into 2016. Amongst larger SMEs the proportion of PNBs is lower and more stable over time:

Permanent non-borrowers

Over time – all SMEs Row percentages	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	39%	40%	47%	48%	49%	46%	43%	49%	47%
0 employee	42%	44%	51%	53%	53%	50%	47%	52%	52%
1-9 employees	31%	29%	39%	36%	38%	36%	33%	42%	34%
10-49 employees	27%	23%	31%	29%	28%	30%	29%	28%	28%
50-249 employees	23%	22%	28%	29%	26%	29%	28%	27%	24%

If these PNBs are excluded from the 'use of external finance' table, the proportion using external finance increases to 7 in 10 of the remaining SMEs:

Use of external finance in last 5 years

Over time – all SMEs excl PNBs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	3514	3576	3153	3220	3195	3258	3338	2854	3008
Use now	64%	66%	68%	70%	71%	66%	71%	64%	69%
Used in past but not now	5%	4%	5%	5%	6%	7%	4%	5%	5%
Not used at all	31%	29%	27%	25%	23%	27%	24%	31%	26%

Q14/15 All SMEs



The table below looks at the long term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics. Between 2012 and 2015 the proportion of PNBs increased from a third to a half of all SMEs. Smaller SMEs have always been more likely to meet the definition of a PNB but the proportion of the largest SMEs that are PNBs has almost doubled since 2012:

Permanent non-borrowers					
Over time – all SMEs					
Row percentages	2012	2013	2014	2015	H1 2016
All	34%	40%	43%	47%	48%
0 emp	37%	44%	48%	51%	52%
1-9 emps	25%	28%	33%	36%	38%
10-49 emps	18%	22%	26%	29%	28%
50-249 emps	15%	17%	26%	28%	26%
Minimal external risk rating	31%	37%	41%	41%	42%
Low	29%	35%	44%	38%	43%
Average	36%	40%	45%	45%	48%
Worse than average	34%	40%	43%	51%	50%
Agriculture	26%	37%	40%	41%	42%
Manufacturing	32%	41%	42%	43%	46%
Construction	33%	41%	45%	52%	45%
Wholesale/Retail	26%	32%	34%	38%	41%
Hotels & Restaurants	28%	33%	39%	40%	42%
Transport	29%	33%	40%	44%	45%
Property/ Business Services	38%	43%	46%	48%	55%
Health	47%	52%	54%	51%	59%
Other	37%	38%	46%	47%	45%

All SMEs



As already reported, the proportion of all SMEs using external finance has decreased over time, while the proportion that meet the definition of a PNB has increased. The table below shows that the relationship between these two elements is different over time for those with employees to those without:

Use of external finance and PNBs					
Over time					H1
Row percentages	2012	2013	2014	2015	2016
0 employees:					
• Use external finance	38%	35%	32%	32%	29%
• Permanent non-borrower	37%	44%	48%	51%	52%
All with employees					
• Use external finance	59%	57%	51%	51%	49%
• Permanent non-borrower	24%	27%	32%	35%	36%

All SMEs from 2012

Amongst 0 employee SMEs, the proportion using external finance and the proportion that met the definition of a PNB were the same in 2012. Since then, use of external finance has decreased, and the proportion meeting the definition of a PNB has increased such that in 2015 there was a 19 percentage point gap between the two figures (32% were using external finance while 51% met the definition of a PNB). Early indications for 2016 are that the gap has increased slightly again to 23 points as use of external finance reduced.

For SMEs with employees, in 2012 twice as many were using external finance (59%) as met the definition of a PNB (24%). Since then there has been a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB. As a result, the gap reduced from 35 to 16 percentage points by the end of 2015 and early indications for 2016 are that the gap has narrowed again to 13 points as use of external finance reduced.



PNBs are now a major influence on the overall position of SMEs on access to finance. Additional analysis has therefore been conducted, to understand the types of SME that fit the PNB definition.

The table below summarises the differences between PNBs and other SMEs on a range of key measures. PNBs are as likely to be profitable and almost as likely to hold £10,000 or more in credit balances. However, they remain less likely to be international, to innovate or to be planning to grow:

PNBs	Further analysis YEQ2 2016
Made a profit	PNBs were slightly more likely to have made a profit in the previous 12 months (82%) than non-PNBs (79%). Over time the proportion making a profit has increased in both groups – in 2012 74% of PNBs reported making a profit compared to 66% of non-PNBs – but the gap between them has narrowed.
Hold £10k+ in credit balances	21% of PNBs held more than £10,000 in credit balances, compared to 25% of those who were not PNBs. Over time the proportion holding £10,000 or more has increased in both groups – in 2012 17% of PNBs reported holding such a sum compared to 16% of non-PNBs.
Minimal/Low external risk rating	20% of PNBs were rated a minimal or low risk, compared to 25% of non-PNBs. Over time the proportion with a minimal or low risk rating has increased in both groups – in 2012 14% of PNBs had such a rating compared to 17% of non-PNBs.
International	PNBs were less likely to import and/or export. 13% were international compared to 20% of non-PNBs. This proportion has increased more slowly over time for PNBs (7% were international in 2012) compared to non-PNBs (12% in 2012).
Innovation	PNBs were less likely to have innovated (32%) than non-PNBs (42%). Neither group has changed much over time. In 2012, 33% of PNBs and 43% of non-PNBs innovated.
Ambition	38% of PNBs planned to grow in the coming 12 months compared to 52% of non-PNBs. Since 2012, the proportion of PNBs planning to grow has varied between 37% and 43% with no clear pattern over time. For non-PNBs, 47% were planning to grow in 2012 but since then 51-52% have planned to grow each year.
Mentors	In a question asked for the first time in 2016, 10% of PNBs said they had a mentor to help the business, slightly lower than the 13% of non-PNBs with a mentor.



To explore this further, and to understand which factors in combination predicted a PNB, further detailed (CHAID) analysis was undertaken for the Q2 2015 report. All the usual business demographic variables (size, sector, region, growth, profitability etc) were included.

In summary, this showed that the best predictor of being a PNB was turnover. Other common themes seen across size bands, showed that SMEs were more likely to be a PNB if:

- 'Access to Finance' was not seen as a barrier
- They had not had a self-reported credit issue (such as a bounced cheque)
- They did not receive trade credit
- They had not put personal funds into the business
- They had not experienced a previous decline from a bank
- They held higher credit balances
- 'Cash flow and late payment' was not rated as a barrier

This highlights that being a PNB is linked to already having enough funds within the business. These PNBs are not using external finance but neither are they likely to be using trade credit or to have injected personal funds (which are outside the PNB definition) and nor is cash flow or late payment causing them issues.

These PNBs have indicated that they are unlikely to be interested in borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the 'All SME' figure, which excludes these Permanent non-borrowers and provided an alternative figure that might be described as 'All SMEs with a *potential* interest in external finance'.



A wider definition of 'Total business funding'

The Permanent non-borrowers described in the previous section are defined by their non-use of, or appetite for, external finance (loans, overdrafts etc), and that definition will be maintained to provide consistent analysis over time.

The addition of the questions on trade credit does, though, allow for an analysis of the use of 'total business funding' by SMEs in a wider sense, i.e. including both trade credit received and injections of personal funds. Note that the amount of trade credit received is not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ2 2016:

- 36% of SMEs were using **external finance** as defined earlier in this chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 15% of SMEs were not using external finance but were receiving **trade credit**
- And finally, a further 12% of SMEs were using neither external finance, nor trade credit, but had seen an **injection of personal funds** into the business

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increases the proportion of SMEs using business funding from 36% to 63% and this has changed very little for the period for which this data is available, as the table below shows:

Use of business funding			
Over time – all SMEs	2014	2015	H1 2016
<i>Unweighted base:</i>	20,055	20,046	9000
Use external finance	37%	37%	34%
Do not use finance but do use trade credit	15%	16%	16%
Do not use the above but injected personal funds	12%	11%	12%
<i>Total business funding</i>	63%	64%	62%

Q15d All SMEs from Q2 2012



Looking specifically at YEQ2 2016 in more detail, there remained a bigger ‘uplift’ amongst smaller SMEs when this wider business funding definition was applied:

Wider definition of business funding		0	1-9	10-49	50-249
YEQ2 16 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	19,007	3800	6203	6103	2901
Use external finance	36%	31%	49%	60%	62%
Do not use finance but do use trade credit	15%	15%	18%	18%	16%
Do not use the above but injected personal funds	12%	14%	7%	1%	1%
<i>Total business funding</i>	63%	60%	74%	80%	79%

Q14y/y4 All SMEs from Q3 2014

The proportion using business funding did not vary as much by age of business (56-67%) as by size of business (60-79%). Whilst 0 employee SMEs were the least likely to be using business funding, analysis by age of business showed that Starts were somewhat more likely to be using business funding than older SMEs and saw a much greater uplift between use of external finance and total business funding (28% to 67%).

By sector, the proportion using business funding varied from 53% of those in the Health sector to 73% of those in Manufacturing.

PNBs by their very definition are not currently using external finance. Adding use of trade credit and injections of personal funds results in 37% of PNBs using any business funding. If those who had injected personal funds and/or used trade credit were excluded from the PNB definition, the proportion of PNBs would reduce from 47% to 29% of all SMEs.

For those that do not meet the definition of a PNB, the uplift is from 68% of these SMEs using external finance to 86% using business funding.



Attitudes to finance

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore demand for finance amongst SMEs. Most recently, two statements were added in Q1 2016 and are reported for the first time here.

The first two statements below have been asked consistently since Q3 2014. In the latest period, YEQ2 2016, 7 in 10 SMEs agreed that their aim was to pay down debt and then remain debt free if possible, with little variation by size:

“Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible”

YEQ2 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	3800	6203	6103	2901
Strongly agree	38%	38%	39%	34%	30%
Agree	33%	32%	35%	38%	39%
Neither/nor	20%	21%	17%	18%	20%
Disagree	6%	6%	6%	7%	8%
Strongly disagree	3%	3%	3%	3%	3%
Total ‘Agree’	71%	70%	74%	72%	69%

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 74%. Amongst those currently using external finance it was 79% (v 66% amongst those not using external finance).

By sector the most likely to agree with the statement were those in Agriculture or Wholesale/Retail (both 75%) while the least likely to agree were those in the Health or Transport sectors (both 66%). There was little variation in levels of agreement by external risk rating or age of business.



The second long-standing statement (from Q3 2014) saw just under half of SMEs agreeing that they were happy to use external finance to help the business grow, increasing by size of SME:

“As a business we are happy to use external finance to help the business grow and develop”

YEQ2 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	3800	6203	6103	2901
Strongly agree	11%	11%	13%	14%	13%
Agree	33%	31%	37%	41%	41%
Neither/nor	20%	19%	19%	23%	27%
Disagree	25%	26%	21%	18%	14%
Strongly disagree	11%	13%	9%	5%	4%
Total ‘Agree’	44%	42%	50%	55%	54%

Q238a5 All SMEs from Q3 2014

Willingness to use external finance was higher amongst larger SMEs overall. Amongst those with any employees, agreement with this statement was 51%. Other groups more likely to agree included those in the Agricultural sector (51%). Previous analysis revealed that a key predictor of being prepared to use finance to grow was to be already using external finance and amongst those using finance, 57%

agreed with this statement, compared to 37% of those not currently using external finance.

Those planning to grow were more likely to agree with this statement (52%) than those not planning to grow (38%).

To understand this willingness to use external finance in more detail, additional analysis has been undertaken on this question.



The table below allocates all SMEs to one of four categories, depending on whether they are currently using external finance and whether they agreed that they would be willing to use external finance in future to help the business develop and grow:

Combined analysis: Use of external finance and willingness to use in future

YEQ2 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	3800	6203	6103	2901
Use external finance and willing to use in future	20%	17%	30%	37%	42%
Use external finance but not willing to use in future	16%	14%	19%	22%	25%
Do not use it but willing to	24%	25%	21%	16%	17%
Do not use it and not willing to	40%	44%	30%	23%	25%

Q15/Q238a5 All SMEs

It shows that:

- 1 in 5 SMEs (20%) were currently using finance and agreed that they would be willing to use it in future, increasing by size of SME to 42% of those with 50-249 employees.
- The remaining users of finance (16% of all SMEs) did not agree that they would be willing to use finance in future (the equivalent of 44% of all users of finance).
- A quarter of all SMEs (24%) were not using external finance but agreed that they would be willing to use it to help the business develop and grow.
- The remainder, 4 in 10 SMEs, were non-users who would not be willing to use finance and this was more common amongst 0 employee SMEs (44% compared to 25% of those with 50-249 employees). Three quarters of this group met the definition of a PNB.



As has already been stated, analysis in Q4 2015 showed that use of external finance was a key predictor of willingness to use finance in the future.

- Amongst those using external finance, willingness to use it again increased further if they were planning to grow and/or they had the characteristics of larger SMEs (a limited company, 50-249 employees or turnover £2-25m).
- Amongst those not currently using external finance, willingness to use it in future increased if the owner/MD was aged under 30 and they were planning to grow by 20% or more.

From Q3 2015 another statement explored demand for finance further: “Our current plans for the business are based entirely on what we can afford to fund ourselves”. As the table below shows, 8 in 10 SMEs agreed with this statement, decreasing by size:

“Our current plans for the business are based entirely on what we can afford to fund ourselves”

YEQ2 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	3800	6203	6103	2901
Strongly agree	40%	42%	37%	28%	24%
Agree	40%	39%	42%	42%	41%
Neither/nor	11%	11%	12%	16%	21%
Disagree	7%	6%	8%	11%	13%
Strongly disagree	2%	2%	2%	2%	2%
Total ‘Agree’	80%	81%	79%	70%	65%

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 77% agreed with this statement. Agreement with this statement did not vary much by whether the SME was currently using external finance or not (79% v 81%). There was little variation by age of business (79-82%) and only a slight increase by risk rating (77% if have a minimal risk rating to 82% if have a worse than average risk rating).



Two further demand related statements were added from Q1 2016 and are reported for the first time here. Both show levels of agreement declining slightly by size:

“We never think about whether we could/should use more external finance”

H1 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	9000	1800	2900	2900	1400
Strongly agree	15%	15%	13%	11%	7%
Agree	32%	33%	31%	25%	22%
Neither/nor	23%	23%	24%	29%	35%
Disagree	23%	21%	25%	28%	27%
Strongly disagree	7%	7%	7%	7%	8%
Total ‘Agree’	47%	48%	44%	36%	29%

Q238a5 All SMEs from Q1 2016

“We will accept a slower growth rate rather than borrowing to grow faster”

H1 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	9000	1800	2900	2900	1400
Strongly agree	27%	28%	26%	21%	15%
Agree	44%	44%	43%	42%	37%
Neither/nor	19%	19%	20%	23%	33%
Disagree	8%	7%	10%	12%	13%
Strongly disagree	2%	2%	1%	2%	2%
Total ‘Agree’	71%	72%	69%	63%	52%

Q238a5 All SMEs from Q1 2016



Half of SMEs didn't think about using (more) finance in the business while 7 in 10 were prepared to accept slower growth that was self-funded. Amongst those with employees, 41% agreed that they never thought about using (more) external finance and 68% that they would accept a slower self-funded growth rate.

Those not currently using external finance were more likely to agree that they never thought about finance (50%) than those who were using finance (41%). However they were only slightly more likely (72%) than those who were using finance (69%) to agree about preferring self-funded growth.

Agreement with both statements was higher if the SMEs met the definition of a PNB (51% never thought about finance and 74% were prepared to accept slower self-funded growth).

There were no clear patterns by age or risk rating and those planning to grow in the next 12 months were just as likely to agree with these statements as their peers.

With the changes and additions made to these statements, analysis over time is somewhat limited, but is shown here for half year periods from H2 2014 where available for each statement:

Attitudes to finance				
Over time – all SMEs				
All agreeing – row percentages	H2 2014	H1 2015	H2 2015	H1 2016
Repay existing finance and remain debt free	71%	74%	75%	67%
Happy to use finance to help business grow	42%	45%	45%	43%
Plans based on what can afford ourselves	-	-	80%	80%
Accept slower growth rather than borrow	-	-	-	71%
Never think about using more external finance	-	-	-	47%

[Q238a5 All SMEs from H214](#)

This shows that a consistent 4 in 10 have agreed that they are happy to use external finance to help the business grow, but that more, around 7 in 10, would prefer to be debt free and/or would accept a slower growth rather than borrowing to grow faster.



Two final attitude statements cover other aspects of using external finance.

The second of the statements added in Q3 2015 was “If our bank were unable to help us with the finance we needed, we would be happy for them to pass on our request to an alternative lender”. As the table below shows, 4 in 10 SMEs agreed with this statement, with relatively little variation by size:

“If unable to help, happy for bank to pass on our request to an alternative lender”

YEQ2 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	19,007	3800	6203	6103	2901
Strongly agree	10%	9%	11%	9%	8%
Agree	30%	28%	33%	34%	32%
Neither/nor	20%	20%	20%	23%	29%
Disagree	26%	27%	25%	24%	23%
Strongly disagree	14%	15%	12%	9%	9%
Total ‘Agree’	40%	37%	44%	43%	40%

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 43% agreed with this statement. Those currently using external finance were more likely to agree with this statement (48%) than those who were not (34%).

Starts were the most willing to have their details passed on (46%), with agreement then declining by age of business to 35% for those trading for more than 15 years. There was less of a difference by external risk rating (37% if have a minimal risk rating to 41% if have a worse than average risk rating).



Finally, a statement amended in Q3 2015 concerning interest rates. Previously, 3 in 10 SMEs agreed that they would struggle if interest rates were to rise by 2% or more. The new statement asked whether they would struggle if their *cost of borrowing* were to increase by this amount. To reflect this, the table below is based just on those SMEs that are currently using external finance:

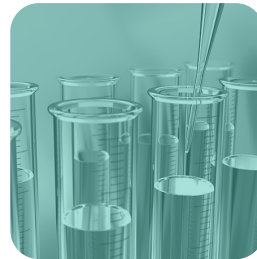
“If our cost of borrowing were to increase by 2% or more, the business would be struggling”

YEQ2 16 – all SMEs using external finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	9876	1207	3101	3719	1849
Strongly agree	11%	12%	11%	7%	5%
Agree	19%	18%	23%	20%	15%
Neither/nor	22%	22%	21%	23%	24%
Disagree	35%	36%	34%	38%	42%
Strongly disagree	12%	12%	11%	12%	15%
Total ‘Agree’	30%	30%	34%	27%	20%

Q238a5 All SMEs from Q3 2015 using external finance

Amongst those using external finance 3 in 10 (30%) felt they would struggle if the cost of borrowing were to rise by 2% or more, declining slightly by size of SME to 20% of those with 50-249 employees.

6. An initial summary of all overdraft and loan events



This chapter provides

the full definition of each borrowing event together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs have been asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q2 2016. Where year-ending data is provided this is YE Q2 2016.



Key findings

YEQ2 2016, demand for new and renewed loan or overdraft facilities remained limited with 6% of SMEs reporting such an application in the 12 months prior to interview.

- Larger SMEs remained more likely to have made such an application (1 in 10 of those with employees compared to 1 in 20 of those with 0 employees).
- Demand has declined over time. In 2012, 11% of SMEs reported an application for new or renewed facilities. This then reduced to 7% for 2015 and 6% for the first half of 2016, across all size bands and risk ratings and also once the PNBs were excluded.

Overdraft applications remained somewhat more common than loan applications but both have declined over time. In 2012, 8% of SMEs had applied for a new or renewed overdraft and 4% for a new or renewed loan. In the first half of 2016, 4% had applied for such an overdraft and 2% for such a loan.

Almost half of SMEs with an overdraft said that it had been automatically renewed by the bank, the equivalent of 7% of all SMEs.



All SMEs reported on activities occurring in the 12 months prior to interview concerning borrowing on loan or overdraft. These borrowing events have been split into three types, defined as follows:

- Type 1, where the SME had applied for a new facility or to renew/roll over an existing facility
- Type 2, where the bank had sought to cancel an existing borrowing facility or renegotiate an existing facility
- Type 3, where the SME had sought to reduce an existing borrowing facility or pay off an existing facility.

This chapter provides analysis on loan and overdraft events reported in interviews conducted to YE Q2 2016. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. Where possible, analysis has also been shown over time.

The rolling aggregate of demand/activity

The table below shows the percentage of all SMEs interviewed in recent quarters that reported a loan or overdraft borrowing event in the 12 months prior to interview. Type 1 events remained the most common. In 2016 to date SMEs have been somewhat less likely to report a borrowing event:

Borrowing events in the previous 12 months									
All SMEs – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Type 1: New application/renewal	8%	8%	7%	8%	7%	8%	7%	6%	6%
Applied for new facility (any)	5%	5%	4%	5%	3%	4%	4%	3%	3%
Renewed facility (any)	4%	5%	4%	4%	4%	4%	4%	3%	3%
Type 2: Cancel/ renegotiate by bank	3%	5%	3%	4%	3%	3%	3%	2%	2%
Type 3: Chose to reduce/ pay off facility	2%	3%	1%	3%	2%	2%	2%	1%	1%

Q25/26 All SMEs



In the previous chapter of this report it was noted that almost half of SMEs met the definition of a Permanent non-borrower and therefore appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result.

In Q2 2016, 10% of SMEs (excluding the PNBs) reported a Type 1 event in the 12 months prior to interview, at the lower end of the range seen over recent quarters:

Borrowing events in the previous 12 months

All SMEs, excluding

PNBs over time

By date of interview

Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
2014	2014	2014	2015	2015	2015	2015	2016	2016

Unweighted base:	3514	3576	3153	3220	3195	3258	3338	2854	3008
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Type 1: New application/renewal	13%	14%	13%	15%	13%	14%	12%	11%	10%
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Applied for new facility (any)	8%	7%	8%	10%	6%	8%	6%	6%	6%
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Renewed facility (any)	7%	8%	8%	7%	8%	8%	7%	6%	6%
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Type 2: Cancel/renege by bank	5%	8%	6%	8%	6%	5%	5%	5%	5%
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Type 3: Chose to reduce/pay off	4%	4%	2%	6%	3%	3%	3%	2%	2%
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Q25/26 All SMEs



Events in the 12 months prior to interview, by key demographics

The remainder of this chapter looks in more detail at the types of SME that were more or less likely to report any of the loan or overdraft events specified. In order to provide robust sub-sample groups, these are reported below for YE Q2 2016, and, unless otherwise stated, are based on all SMEs.

The table below shows how SMEs with employees were more likely to have experienced a Type 1 event:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YE Q2 16 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
Type 1: New application/renewal	6%	5%	10%	11%	10%
Applied for new facility (any)	3%	3%	5%	5%	4%
- applied for new loan	2%	1%	3%	3%	3%
- applied for new overdraft	2%	2%	3%	3%	1%
Renewed facility (any)	4%	3%	6%	8%	7%
- renewed existing loan	1%	1%	2%	3%	3%
- renewed existing overdraft	3%	2%	5%	6%	6%
Type 2: Cancel/renege by bank	3%	2%	4%	5%	4%
Bank sought to renegotiate facility (any)	2%	2%	3%	4%	3%
- sought to renegotiate loan	1%	1%	1%	2%	2%
- sought to renegotiate overdraft	1%	1%	2%	2%	2%
Bank sought to cancel facility (any)	1%	1%	2%	2%	2%
- sought to cancel loan	1%	1%	1%	1%	1%
- sought to cancel overdraft	*	*	1%	1%	1%
Type 3: Chose to reduce/pay off facility	1%	1%	2%	3%	2%
- reduce/pay off loan	1%	1%	2%	2%	2%
- reduce/pay off overdraft	1%	*	1%	1%	1%

Q25/26 All SMEs – does not include automatic renewal of overdraft facilities



Excluding those SMEs with no employees increases the incidence of Type 1 events to 10% of SMEs with employees, of Type 2 events to 4% and of Type 3 events to 2%.

Experience of events varied relatively little by risk rating, albeit those with a low risk rating were somewhat more likely to report a Type 1 event:

Borrowing events in the previous 12 months

YEQ2 16 – all SMEs	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	19,007	2965	5907	4231	4276
Type 1: New application/renewal	6%	8%	10%	6%	5%
Applied for new facility (any)	3%	3%	4%	4%	3%
- applied for new loan	2%	2%	2%	2%	2%
- applied for new overdraft	2%	1%	3%	2%	2%
Renewed facility (any)	4%	6%	7%	3%	3%
- renewed existing loan	1%	1%	3%	1%	1%
- renewed existing overdraft	3%	6%	6%	3%	2%
Type 2: Cancel/renege by bank	3%	3%	4%	3%	2%
Bank sought to renegotiate facility (any)	2%	2%	3%	2%	2%
- sought to renegotiate loan	1%	1%	1%	1%	1%
- sought to renegotiate overdraft	1%	1%	2%	1%	1%
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%
- sought to cancel loan	1%	1%	1%	1%	1%
- sought to cancel overdraft	*	*	*	*	*
Type 3: Chose to reduce/pay off facility	1%	2%	2%	1%	1%
- reduce/pay off loan	1%	2%	1%	1%	1%
- reduce/pay off overdraft	1%	1%	1%	1%	*

Q25/26 All SMEs with external risk rating



Those in Property/Business Services were somewhat less likely to report a Type 1 event:

Borrowing events in the previous 12 months

YEQ2 16 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Type 1: New application/ renewal	11%	9%	6%	10%	10%	5%	4%	5%	8%
Applied for new facility (any)	5%	5%	4%	4%	6%	2%	2%	3%	4%
- applied for new loan	3%	2%	2%	2%	4%	2%	1%	2%	2%
- applied for new overdraft	3%	3%	3%	3%	2%	1%	1%	2%	2%
Renewed facility (any)	8%	5%	2%	6%	5%	3%	3%	3%	4%
- renewed existing loan	4%	1%	*	2%	3%	1%	1%	1%	1%
- renewed existing overdraft	6%	4%	2%	6%	4%	2%	2%	3%	3%
Type 2: Cancel/ renegotiate by bank	6%	4%	2%	2%	5%	3%	2%	3%	2%
Bank sought to renegotiate facility (any)	5%	3%	2%	1%	4%	2%	2%	2%	2%
- sought to renegotiate loan	2%	1%	1%	1%	2%	1%	1%	1%	1%
- sought to renegotiate overdraft	4%	2%	1%	1%	2%	1%	1%	1%	1%
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%	1%	*	1%	1%
- sought to cancel loan	1%	1%	1%	1%	1%	1%	*	1%	*
- sought to cancel overdraft	1%	*	1%	*	*	*	*	*	*
Type 3: Chose to reduce/ pay off facility	3%	2%	1%	2%	2%	2%	1%	1%	1%
- reduce/pay off loan	2%	1%	1%	1%	2%	1%	1%	1%	1%
- reduce/pay off overdraft	1%	1%	*	1%	1%	1%	*	*	1%

Q25/26 All SMEs



The table below repeats this detailed analysis for all SMEs once the Permanent non-borrowers have been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increases as a result from 6% to 12% of remaining SMEs:

Borrowing events in the previous 12 months		
YEQ2 16 – all SMEs	Total	All excl. PNBs
Unweighted base:	19,007	12,458
Type 1: New application/renewal	6%	12%
Applied for new facility (any)	3%	7%
- applied for new loan	2%	3%
- applied for new overdraft	2%	4%
Renewed facility (any)	4%	7%
- renewed existing loan	1%	2%
- renewed existing overdraft	3%	6%
Type 2: Cancel/renege by bank	3%	5%
Bank sought to renegotiate facility (any)	2%	4%
- sought to renegotiate loan	1%	2%
- sought to renegotiate overdraft	1%	2%
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	1%	1%
- sought to cancel overdraft	*	1%
Type 3: Chose to reduce/pay off facility	1%	3%
- reduce/pay off loan	1%	2%
- reduce/pay off overdraft	1%	1%

Q25/26 All SMEs/all excluding the Permanent non-borrowers



Other business demographics showed limited variation in incidence of a Type 1 event YEQ2 2016:

Demographic	Incidence of Type 1 events reported YEQ2 2016
Age of business	The incidence of Type 1 events varied only slightly by age of business. 5% of Starts reported a Type 1 event compared to 8% of those trading for 10-15 years or 7% of those trading for more than 15 years.
Profitable SMEs	Those who had made a loss were more likely to report a borrowing event (10%), compared to those who had made a profit (6%) or broken even (4%).
Growth	Those who had grown in the past year were slightly more likely to have had a Type 1 event: Grown 20%+ 12% Grown by less than this 8% Not grown in last yr 6%.
Importers/exporters	Those engaged in international trade were also only slightly more likely to have had an event (8%) than those who were not (6%).

The next analysis focuses specifically on Type 1 events and on the SMEs more or less likely to report such an event over time.

The first table below shows the proportion reporting a Type 1 event over recent quarters, overall and by key demographics. This shows a broadly stable picture between Q2 2014 and Q4 2015 with slightly lower levels of application in 2016 to date primarily due to SMEs with employees.

The subsequent table takes the longer term view from 2012. This shows the decline in Type 1 borrowing events (a new or renewed loan or overdraft facility) from 11% of all SMEs in 2012 to 6% in the first half of 2016, seen across all size and risk rating bands. Since 2012, the proportion of PNBs (who by definition have not had a Type 1 event) has increased, but even amongst remaining SMEs the proportion reporting an event has declined from 16% to 11%.



Had any Type 1 event

New application/renewal

By date of interview

Over time – row percentages

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	8%	8%	7%	8%	7%	8%	7%	6%	6%
0 employee	6%	6%	5%	6%	4%	7%	5%	4%	5%
1-9 employees	13%	14%	12%	12%	13%	10%	12%	9%	8%
10-49 employees	12%	18%	12%	16%	12%	11%	13%	12%	10%
50-249 employees	9%	16%	12%	9%	10%	8%	13%	10%	8%
Minimal external risk rating	10%	10%	9%	5%	8%	7%	11%	6%	6%
Low external risk rating	9%	8%	8%	10%	10%	13%	9%	10%	7%
Average external risk rating	7%	10%	6%	6%	7%	8%	7%	6%	5%
Worse than average external risk rating	8%	7%	7%	8%	4%	5%	6%	5%	5%
Agriculture	15%	15%	14%	10%	13%	15%	10%	11%	5%
Manufacturing	10%	11%	11%	9%	6%	10%	12%	7%	7%
Construction	6%	8%	6%	4%	4%	6%	5%	6%	6%
Wholesale/Retail	12%	10%	10%	12%	8%	15%	6%	10%	7%
Hotels & Restaurants	9%	10%	8%	11%	8%	7%	16%	9%	9%
Transport	8%	5%	5%	7%	6%	6%	6%	5%	4%
Property/Business Services etc.	6%	6%	6%	7%	6%	5%	6%	2%	4%
Health	8%	6%	6%	6%	3%	5%	7%	4%	5%
Other Community	9%	11%	5%	8%	10%	9%	7%	7%	8%
All SMEs excluding Permanent non-borrowers	13%	14%	13%	15%	13%	14%	12%	11%	10%

Q26 All SMEs: base size varies by category



The longer term view shows the decline in Type 1 borrowing events (a new or renewed loan or overdraft facility) from 2012:

Type 1 borrowing events					
Over time – all SMEs					
Row percentages	2012	2013	2014	2015	H1 2016
All	11%	8%	8%	7%	6%
0 emp	9%	6%	6%	5%	4%
1-9 emps	16%	13%	12%	12%	8%
10-49 emps	19%	15%	15%	13%	11%
50-249 emps	19%	14%	12%	10%	9%
Minimal external risk rating	13%	9%	10%	8%	6%
Low	13%	10%	9%	11%	8%
Average	10%	7%	7%	7%	5%
Worse than average	11%	7%	7%	6%	5%
Agriculture	18%	13%	14%	12%	8%
Manufacturing	11%	9%	10%	9%	7%
Construction	10%	7%	7%	5%	6%
Wholesale/Retail	14%	10%	10%	10%	9%
Hotels & Restaurants	16%	12%	9%	11%	9%
Transport	10%	9%	6%	6%	4%
Property/ Business Services	10%	6%	6%	6%	3%
Health	6%	5%	6%	5%	5%
Other	10%	5%	8%	8%	7%
All excl PNBs	16%	13%	13%	13%	11%

Q26 All SMEs



The remainder of this chapter provides some further information on the proportion of SMEs that reported a Type 1 new or renewed loan or overdraft event in the 12 months prior to interview, both over time and by key demographics. It also includes data on the proportion of overdrafts that have been ‘automatically renewed’ by the bank, rather than a formal review being conducted (something which has not been included in the data reported in the first part of this chapter).

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remained rare and at stable levels. No further detail is therefore provided on these events in this report, and from Q3 2014 no further questions were asked about the detail of these events. This will be reviewed should the proportion of SMEs reporting such events start to increase.

Subsequent chapters of this report investigate those SMEs that have applied for a new overdraft or loan facility or to renew an existing one (a Type 1 event), and the outcome of that application by application date.

- SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. Those that had experienced more than one event in a category were asked which had occurred most recently and were then questioned on this most recent event. Base sizes may therefore differ from the overall figures reported above.

While reflecting on these events, it is important to bear in mind that 36% of SMEs currently use external finance while less than 1 in 10 reported one of the Type 1 borrowing ‘events’ in the previous 12 months. Indeed, half of SMEs might be considered to be outside the borrowing process – the Permanent non-borrowers described earlier.

A later chapter reports on those SMEs that had not had a borrowing event in the 12 months prior to interview, and explores why this was the case.



Loan and overdraft applications

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview has remained fairly stable over recent quarters, albeit the results for 2016 to date are at the lower end of the range seen. This was also true once the Permanent non-borrowers were excluded:

Overdraft events in previous 12 months

All SMEs – over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Applied for a new overdraft	3%	2%	2%	3%	2%	2%	2%	2%	2%
Renewed an existing overdraft	4%	4%	3%	3%	3%	4%	3%	3%	3%
Any Type 1 overdraft event	6%	5%	5%	5%	4%	5%	5%	4%	4%
Any Type 1 overdraft event excluding PNBs	9%	9%	9%	10%	9%	10%	9%	8%	8%

Q26 All SMEs



The incidence of Type 1 **loan** events in the 12 months prior to interview has been stable, and remained low. In 2016 to date 2% of SMEs have reported a loan event (4% once the PNBs are excluded), slightly lower than previously seen:

Loan events in previous 12 months

All SMEs – over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Applied for a new loan	3%	3%	2%	3%	2%	2%	2%	1%	2%
Renewed an existing loan	1%	2%	1%	1%	1%	2%	1%	1%	1%
Any Type 1 loan event	4%	4%	3%	4%	3%	4%	3%	2%	2%
Any Type 1 loan event excl PNBs	6%	7%	6%	7%	5%	7%	5%	4%	4%

Q26 All SMEs

Looking at the longer term picture, since 2012 there has been something of a decline in Type 1 applications for both loans and overdrafts:

Type 1 borrowing events Over time – all SMEs	2012	2013	2014	2015	H1 2016
Any Type 1 overdraft event	8%	6%	5%	5%	4%
Any Type 1 loan event	4%	3%	3%	3%	2%
Any Type 1 overdraft (excl PNBs)	12%	10%	9%	9%	8%
Any Type 1 loan (excl PNBs)	6%	5%	6%	6%	4%



Further analysis was undertaken to explore the proportion of applications being made in each quarter, in order to establish whether any change in demand for Type 1 loan/overdraft finance can be identified. Respondents have had fewer opportunities to nominate a Type 1 borrowing event that occurred in Q2 2016 (which has only appeared as an option in one quarter of the SME Finance Monitor), compared to other quarters like Q4 2014 which has appeared as an option in 5 quarters (the maximum number possible).

If all applications made and reported from Q1 2014 to date had been distributed evenly over that period then half of them should have been made in 2014, 43% in 2015 and 7% in the first 2 quarters of 2016:

- Overdrafts follow this pattern fairly closely – 49% in 2014, 44% in 2015 and 7% in 2016 to date
- Loan applications were more likely to happen in 2014 (54%), with fewer than might be expected in 2015 (39%) while 2016 to date was in line (6%)

Those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For YEQ2 2016:

- 14% of overdraft applications reported were made in a personal name, while for loans the figure was 25% (excluding DK answers).
- In both instances applicants with 0 employees were much more likely to have applied in a personal name (19% for overdrafts and 37% for loans) and more than 8 in 10 of all applications in a personal name were from 0 employee SMEs.
- For context, this means that for YEQ2 2016, the equivalent of less than 1% of **all** SMEs reported making an overdraft or loan application in their personal name, in the 12 months prior to interview.



Overdraft events – definition and further clarification

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all overdraft users reported having had an overdraft ‘event’ in the 12 months prior to interview.

To explore this further, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event were asked whether, in the previous 12

months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for YEQ2 2016 are reported below and show that almost half of overdraft holders (46%) reported that they had had such an automatic renewal, the equivalent of 7% of all SMEs:

Any overdraft activity	All with overdraft	All SMEs
YEQ2 16		
Unweighted base:	4118	19,007
Had an overdraft ‘event’	27%	4%
Had automatic renewal	46%	7%
Neither of these but have overdraft	27%	4%
No overdraft	-	84%

Q15/ 26/26a All SMEs who now have an overdraft/all SMEs

Questions asked from Q4 2012 provide some further detail on these automatic renewals:

- For YEQ2 2016, 18% of those reporting an automatic renewal said that the facility was in a personal name (slightly higher than for other overdraft applications, where 14% were in a personal name).
- The proportion of automatic renewals that were in a personal name has varied over time. Having been 21% of renewals made in 2013, it was 13% for 2014 and almost unchanged at 14% for 2015, before increasing to 22% for those reported in 2016 to date.



When this question was first asked in Q4 2011, 57% of SMEs with an overdraft reported that it had been automatically renewed in the previous 12 months, the equivalent of 13% of all SMEs. For 2012 as a whole, 50% of SMEs with an overdraft said that it had been automatically renewed, the equivalent of 11% of all SMEs.

Since then the proportion experiencing an automatic renewal has been somewhat lower, but in 2015 the proportion reporting an automatic renewal increased to 48% for the year as a whole. This is the equivalent of 8% of all SMEs (as the proportion of SMEs with an overdraft has declined over time). Initial results for 2016 show no clear trend:

Experienced an automatic renewal in previous 12 mths

By date of interview – over time Row percentages	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
SMEs with overdraft	39%	38%	39%	46%	50%	44%	49%	44%	48%
‘All SMEs’ equivalent	7%	7%	6%	8%	8%	7%	9%	6%	8%

Q15/ 26/26a All SMEs who now have an overdraft/all SMEs

Over time, with fewer SMEs having an overdraft facility at all, the proportion of total overdraft *activity* (i.e. an event or a renewal) which was accounted for by a borrowing event has remained broadly stable. In both 2012 and 2013, 40% of overdraft activity was an ‘event’. In 2014 the proportion was 42% and for both 2015 and 2016 to date it was 37%.



The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ2 2016 data to ensure robust base sizes.

For SMEs with an overdraft facility, overdraft 'events' made up a higher proportion of overdraft 'activity' if they had employees:

Overdraft activity		0	1-9	10-49	50-249
YEQ2 16 – All with overdraft	Total	emp	emps	emps	emps
Unweighted base:	4118	531	1378	1542	667
Had an overdraft 'event'	27%	24%	31%	31%	28%
Had automatic renewal	46%	48%	44%	39%	32%
% of overdraft activity that was 'event'	37%	33%	41%	44%	47%
Neither of these but have overdraft	27%	27%	25%	30%	40%

Q15/ 26/26a All SMEs

There were few differences by external risk rating but a higher proportion of overdraft activity amongst those with a low external risk rating was an 'event':

Overdraft activity					Worse/
YEQ2 16 – All with overdraft	Total	Min	Low	Avge	Avge
Unweighted base:	4118	560	1448	1017	775
Had an overdraft 'event'	27%	28%	34%	23%	28%
Had automatic renewal	46%	45%	42%	49%	44%
% of overdraft activity that was 'event'	37%	38%	45%	32%	39%
Neither of these but have overdraft	27%	26%	24%	28%	28%

Q15/ 26/26a All SMEs



Analysis by sector showed that the proportion of overdraft ‘activity’ made up by an ‘event’ varied from 43% of those with an overdraft in Agriculture to 33% in Construction:

Overdraft activity									
YEQ2 16 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	443	405	762	436	288	400	665	323	396
Had an overdraft ‘event’	31%	26%	24%	31%	32%	21%	26%	26%	27%
Had automatic renewal	41%	53%	49%	45%	44%	39%	49%	36%	48%
% of overdraft activity that was ‘event’	43%	34%	33%	41%	42%	35%	40%	42%	36%
Neither of these but have overdraft	28%	21%	27%	24%	24%	40%	25%	38%	25%

Q15/ 26/26a All SMEs

The answers to these questions reflect the SME’s perception of how their business overdraft facility had been managed by their bank. Given the low level of ‘events’ reported generally, these SMEs with an automatic renewal form a substantial group and, from Q2 2012, they have answered further questions about this automatic renewal.

This means that the definition of ‘having a borrowing event’ has been adjusted to include

these automatic renewals (see Chapter 11) and data is now available on the security and fees relating to these automatically renewed overdraft facilities (see Chapter 10). A further question about when this automatic renewal took place was added to the questionnaire for Q4 2012, and is also now incorporated into the analysis (the question about the size of this facility is no longer asked).

7.The build-up to applications for overdrafts and loans



This chapter is

the first of four covering Type 1 borrowing events in more detail and looks at the ‘build-up’ to the application, why funds were required and whether advice was sought.



Key findings

50% of overdraft applications in the 18 months to Q2 2016 were to renew an existing facility and this has been the main reason for application over time and across size bands. Loan applications in this current period were more likely to be for new money (69% v 37% of overdrafts) with 13% renewing a loan.

21% were applying for their first overdraft facility. This remained more common for smaller SMEs but over time fewer of these first time applicants (FTAs) have been Starts. 27% of loan applications were from FTAs with little change over recent quarters.

Working capital remained the main reason for an overdraft application (cited by 84% of those applying in the 18 months to Q2 2016). Loan applicants gave a wider range of reasons: A quarter (26%), were looking to fund expansion in the UK, 21% to buy premises and 21% to buy fixed assets. Two thirds (66%) were seeking all the loan funding required from the bank.

97% of overdraft applicants applied to their main bank and 98% only applied to one bank. Loan applicants were slightly less likely to apply to their main bank (although most, 88%, did) and slightly more likely to apply to more than one bank (15% v 2% for overdrafts).

Only a minority of overdraft applicants took advice before applying (9%) and this has varied little over time. Loan applicants were somewhat more likely to seek advice (17%).



The data presented thus far in this report has reflected events that had happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities. The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the security and fees relating to these facilities.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and the Q2 2013 report was the first to adopt this approach for these chapters.

Each chapter includes analysis, as far as is possible, on the extent to which loan and

overdraft applications are changing over time. For the most recent quarters (especially Q1 and Q2 2016) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for some sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YE Q2 2016 (i.e. all interviews conducted in the 4 quarters to Q2 2016, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q2 2016' (i.e. applications known to have been made between Q1 2015 and Q2 2016 and reported to date, irrespective of when the SME was actually interviewed).



Why were they applying?

Overdraft applications

This analysis is based on SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q1 2015 to Q2 2016. Within this 18 month time period, final data is now available for applications made up to the end of Q2 2015. Data on more recent applications (notably Q1 and Q2 2016) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

For context, in Q2 2016 this was the equivalent of 4% of all SMEs or around 200,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event that occurred between Q1 2015 and Q2 2016 said that they had been looking to renew an existing overdraft for the same amount (50%), and this remained more common amongst larger applicants:

Nature of overdraft event		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	emp	emps	emps	emps
Unweighted base:	1256	142	442	482	190
Renewing overdraft for same amount	50%	44%	58%	65%	68%
Applied for first ever overdraft facility	21%	24%	16%	7%	3%
Seeking to increase existing overdraft	9%	7%	13%	11%	12%
Seeking new overdraft but not first	7%	8%	6%	6%	5%
Seeking additional overdraft on another account	7%	9%	3%	4%	3%
Setting up facility at new bank	4%	4%	2%	5%	4%
Seeking to reduce existing facility	3%	3%	2%	3%	4%

Q52 All SMEs seeking new/renewed overdraft facility

Around a fifth of applicants (21%) were seeking an overdraft for the very first time

- 27% of these first time applicants were Starts.
- Over time the proportion of first time overdraft applicants that were Starts has declined somewhat. In the 18 months to Q4 2012, 48% of FTAs were Starts falling to 37% for the 18 months to Q4 2015 and now 27% for the most recent period.



From Q3 2014 an additional code was added to the question above, namely 'Applying for a new overdraft but not your first'. 7% of those applying Q1 2015 to Q2 2016 said that this was the nature of their overdraft application, with little difference by size of SME and this is now included in the table above.

Amongst applicants with employees, the proportion renewing an existing facility was

59% and the proportion of first time applicants was 14% of applications made.

Analysis in previous reports showed that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters. There have been too few applications reported to date for Q2 2016 to include in the table.

Renewals have consistently been the most common reason for an overdraft event:

Nature of overdraft event

SMEs seeking new/

renewed facility

By application date

Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
13	13	14	14	14	14	15	15	15	15	16

<i>Unweighted base:</i>	365	390	377	375	295	356	334	295	245	206	149
Renewing overdraft for same amount	56%	44%	47%	50%	51%	49%	53%	53%	51%	38%	47%
Applied for first ever overdraft facility	20%	28%	19%	18%	27%	27%	20%	14%	22%	31%	19%
Seeking to increase existing overdraft	16%	17%	21%	17%	10%	10%	5%	7%	9%	15%	16%
Setting up facility at new bank	3%	4%	6%	2%	1%	5%	6%	1%	3%	6%	1%
Seeking additional overdraft on another account	3%	2%	3%	7%	4%	4%	3%	12%	7%	7%	9%
Seeking to reduce existing facility	1%	3%	3%	3%	1%	1%	4%	5%	2%	1%	1%
A new overdraft but not first (from Q314)	-	-	-	-	6%	5%	9%	9%	9%	3%	7%

Q52 All SMEs seeking new/renewed overdraft facility. * indicates interim results as data is still being gathered on events in these quarters



Over a third of overdrafts sought were for £5,000 or less, with considerable variation by size of applicant. The median amount sought as an overdraft facility has changed relatively little over time and is currently £5,000, ranging from £3,000 amongst 0 employee SMEs seeking a facility to £131,000 for those with 50-249 employees:

Amount initially sought, where stated					
Sought new/renewed facility Q1 15-Q2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1084	125	399	409	151
Less than £5,000	39%	52%	21%	3%	2%
£5,000 – £9,999	18%	22%	13%	8%	4%
£10,000 – £24,999	22%	15%	37%	23%	15%
£25,000 – £99,999	16%	10%	24%	38%	21%
£100,000+	5%	2%	6%	27%	58%
Median amount sought	£5k	£3k	£14k	£36k	£131k

Q58/59 All SMEs seeking new/renewed overdraft facility, excluding DK/refused

As the table below shows, 8 out of 10 overdraft applicants said that the overdraft was needed for day-to-day cash flow, with little variation by size. Almost half (45%) wanted it as a safety net and this was more likely to be the case for smaller applicants. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (21%) than expansion overseas (2%):

Purpose of overdraft sought					
Sought new/renewed facility Q1 15-Q2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1256	142	442	482	190
Working capital for day to day cash flow	84%	85%	84%	77%	81%
Safety net – just in case	45%	45%	47%	40%	41%
Short term funding gap	30%	31%	31%	23%	21%
Fund expansion in UK	21%	21%	20%	18%	27%
Buy fixed assets	12%	11%	12%	12%	12%
Fund expansion overseas	2%	2%	2%	2%	5%

Q55 All SMEs seeking new/renewed overdraft facility



Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings. It was mentioned by 74% of those with a minimal external risk rating and 86-87% of those with other ratings.
- A safety net was mentioned more by those with an average risk rating (54%).
- There was a clearer difference by risk rating in the proportion seeking an overdraft for a short term funding gap: 21% with a minimal and 22% with a low risk rating compared to 32% with an average risk rating and 38% of those with a worse than average risk rating.

Looking at the purpose of the overdraft sought over recent quarters, working capital was consistently the most mentioned purpose, followed by a safety net or to fill a short term funding gap:

Purpose of overdraft

SMEs seeking new/

renewed facility –

by application date

Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
13	13	14	14	14	14	15	15	15	15	16

<i>Unweighted base:</i>	365	390	377	375	295	356	334	295	245	206	149
Working capital for day to day cash flow	81%	76%	87%	80%	78%	83%	85%	85%	83%	90%	78%
Safety net – just in case	47%	42%	48%	40%	38%	47%	42%	53%	58%	40%	29%
Short term funding gap	31%	40%	38%	31%	27%	26%	27%	34%	37%	30%	21%
Fund growth in UK	26%	22%	25%	17%	21%	17%	16%	22%	26%	25%	16%
Buy fixed assets	17%	7%	10%	19%	17%	22%	7%	14%	20%	7%	9%
Fund growth overseas	*	2%	4%	1%	5%	3%	4%	3%	*	3%	*

Q55 All SMEs seeking new/renewed overdraft facility. Q315* indicates interim results for that period as data is still being gathered on events in these quarters. NB 'Growth' replaced expansion in Q2 2013



Looking longer term, most applications have been made for working capital (79% in the 18 months to Q4 2012 and 84% in the latest period). There has been an increase in applicants looking to fund expansion in the UK (from 12% to 21%), while the proportions looking for a safety net (41% v 45% currently) or to fund a short term gap (29% v 30% currently) were very similar in the two periods.

More details around recent overdraft applications are provided below. Most SMEs applied to only one bank (their main bank) and few sought advice:

Overdraft applicants Sought new/renewed overdraft facility Q1 15-Q2 16

Applied to main bank	Almost all overdraft applications (97% in the 18 months to Q2 2016) were made to the SME's main bank. This varied little by size of applicant (96-99%).
Application made in a personal name	<p>14% of overdraft applications made in the 18 months to Q2 2016 were in a personal name. This was much more common amongst smaller applicants (20% of applicants with 0 employees, compared to 4% of applicants with 1-9 employees, 2% of applicants with 10-49 and 1% of applicants with 50-249 employees).</p> <p>Overdraft applications remained less likely to be made in a personal name than loan applications (where 19% were in a personal name for the 18 months to Q2 2016).</p>
How many banks were applied to	98% of those who had applied in the 18 months to Q2 2016 said that they had applied to one bank, with little variation by size (97-98%). Further data will be provided as base sizes increase.
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (9% amongst those applying in the 18 months to Q2 2016), and this has changed relatively little over time (it was 10% for 2013 as a whole).
Advice by size of facility	Previously, advice has been more likely to have been sought for larger overdraft facilities, but this was not the case in the current period –8% sought advice for an overdraft of £5,000 or less, 11% for an overdraft of £5-100,000, and 7% sought advice for overdrafts of more than £100,000.



Overdraft applications – a sector summary

Those in the Construction sector were more likely to be seeking their first ever overdraft (30%), while 20% of those in Agriculture were looking to increase an existing overdraft:

Overdraft activity

<u>Sought new/ renewed facility Q1 15-Q2 16</u>	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	153	129	221	144	96*	116	176	83*	138
Renewing overdraft for same amount	55%	57%	35%	48%	56%	52%	63%	41%	49%
Applied for first ever overdraft	5%	24%	30%	27%	24%	21%	12%	17%	15%
Seeking to increase existing overdraft	20%	4%	18%	8%	11%	4%	10%	5%	2%

Q52 All SMEs seeking new/renewed overdraft facility

Most SMEs approached their main bank (97%). The least likely to do so were applicants in Manufacturing, but even here almost all applied to their main bank (93%).

14% of all overdraft applicants said that the facility was applied for in their personal name. This was more likely to be the case for applicants from the Other Community (24%) and Construction (19%) sectors, compared to 3% in Agriculture and 4% in the Hotel & Restaurant sector. Overall, 98% of applications were made to one provider, with those in Construction most likely to have approached more than one bank (6%).

Those in Agriculture were seeking the highest median overdraft amount at £23,000. Across the other sectors the median amount sought ranged from £3-12,000.

The main purpose of the overdraft for all sectors was working capital, ranging from 93% of applicants in the Health sector to 74% of those in Agriculture. 61% of those in the Manufacturing sector wanted their facility as a safety net, compared to 31% of applicants in Health.

Those in Hotels and Restaurants or Transport were the most likely to have sought advice (both 15%) compared to 2% in the Other Community sector.



Loan applications

This analysis is based on SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q1 2015 to Q2 2016. Within this period, final data is now available for applications made up to Q2 2015. Data on applications in the more recent quarters (especially the first half of 2016) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q2 2016 this was the equivalent of 2% of all SMEs or around 100,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q2 2016, the same granularity of analysis is not always possible as for other areas of the report and the smaller base sizes mean the results should be treated with some caution.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 69% of loan applicants seeking a new loan (compared to 37% for overdrafts), including 27% saying this was their first ever loan (compared to 21% for overdrafts):

Nature of loan event		0 emp	1-9 emps	10-49 emps	50-249 emps
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total				
Unweighted base:	703	56*	244	271	132
New loan but not our first	42%	47%	35%	43%	41%
Applied for first ever loan	27%	25%	32%	23%	13%
Renewing loan for same amount	13%	12%	14%	9%	17%
Topping up existing loan	7%	8%	6%	8%	5%
Refinancing onto a cheaper deal	8%	9%	7%	9%	13%
Consolidating existing borrowing	2%	-	3%	5%	4%
New loan facility after switching bank	1%	-	3%	2%	6%

Q149 All SMEs seeking new/renewed loan facility. 'New loan but not first' combination of codes 'New loan for new purchase' and 'New loan as hadn't had one recently'



As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 37% of first time applicants were Starts. The proportion of first time loan applicants who were Starts was lower than in previous years, but stable across more recent periods. In the 18 months to Q4 2013, 46% of first time applicants were also Starts, compared to 34% for the 18 months to Q4 2015 and 37% for the current period.

Excluding applicants with 0 employees increases the proportion of first time applications slightly from 27% to 30%.

Analysis in previous reports has shown that the application process for a loan, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters where sufficiently robust sample sizes exist (insufficient data currently exists for applications made in 2016). Most applications were for new facilities, shown in the first two rows of the table, but over time fewer applications have been for a *first* facility:

Nature of loan event

SMEs seeking new/ renewed facility – By application date	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base:	187	193	217	196	224	167	202	191	158	128	140
New loan but not our first	39%	32%	39%	33%	45%	41%	43%	38%	39%	41%	37%
Applied for first ever loan	45%	42%	41%	43%	28%	30%	28%	28%	32%	28%	24%
Renewing loan for same amount	7%	16%	5%	9%	13%	5%	7%	25%	10%	10%	5%
Topping up existing loan	1%	3%	7%	12%	11%	11%	6%	2%	11%	1%	18%
Refinancing onto a cheaper deal	2%	4%	5%	2%	2%	4%	15%	3%	5%	16%	13%
Consolidating existing borrowing	3%	*	2%	*	1%	3%	*	2%	2%	1%	2%
New facility after switching banks (new)	4%	2%	1%	1%	*	7%	1%	1%	*	2%	1%

Q149 All SMEs seeking new/renewed loan facility. Q315* indicates interim results for that period as data is still being gathered on events in these quarters



The initial amount sought for a loan was typically higher than for an overdraft (13% of loans sought were for less than £5,000 compared to 39% of overdrafts sought). The median loan amount sought was £15,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought were for £100,000 or less:

Amount initially sought, where stated		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	emps	emps	emps	emps
Unweighted base:	599	51*	212	225	111
Less than £5,000	13%	20%	6%	2%	*
£5,000 – £9,999	18%	26%	11%	6%	1%
£10,000 – £24,999	31%	39%	27%	11%	2%
£25,000 – £99,999	16%	7%	27%	27%	18%
£100,000+	21%	9%	29%	54%	79%
Median amount sought	£15k	£8k	£24k	£95k	£294k

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused

Loan applicants were also asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q2 2016 are shown below, with most applicants (66%) seeking all the funding they required from the bank:

Proportion of funding sought from bank		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	emps	emps	emps	emps
Unweighted base:	670	54*	237	251	128
Half or less of total sum required	14%	14%	15%	14%	10%
51-75% of sum required	12%	13%	10%	13%	10%
76-99% of sum required	8%	8%	9%	10%	17%
All of sum required sought from bank	66%	66%	66%	62%	63%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused



There was relatively little difference in the proportion seeking all the funding from the bank by size of applicant or by risk rating.

More detailed analysis by date of loan application shows that in each period, the majority of applicants sought all the funding they required from the bank. This was notably the case between H1 2013 and H2 2014. In 2015 a slightly lower proportion had sought all the funding (69% in H2 2015):

Proportion seeking all funding from the bank

Over time – all seeking loan	H1	H2	H1	H2	H1	H2	H1	H2*
Row percentages	2012	2012	2013	2013	2014	2014	2015	2015
All loan applicants	64%	69%	78%	75%	76%	75%	60%	69%
All applicants with 0-9 employees	64%	69%	78%	75%	77%	76%	60%	70%
All applicants with 10-249 employees	67%	70%	76%	74%	67%	68%	60%	66%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused

Overall, these funds were likely to have been sought either to fund expansion in the UK (26%) or to buy premises or fixed assets (both 21%), with clear variation by size of applicant:

Purpose of loan

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	703	56*	244	271	132
Fund expansion in UK	26%	20%	33%	28%	37%
Buy premises	21%	15%	27%	32%	36%
Buy fixed assets	21%	16%	26%	24%	30%
Develop new products/services	20%	21%	21%	16%	10%
Buy motor vehicles	22%	30%	14%	11%	9%
Replace other funding	8%	5%	12%	15%	12%
Fund expansion overseas	1%	-	2%	2%	2%
Take over another business	1%	-	2%	3%	5%

Q150 All SMEs seeking new/renewed loan facility



The table below shows the most common reasons for seeking a new loan by application date up to Q4 2015 (the latest for which robust data is available). In the second half of 2015 a higher proportion of applications were for motor vehicles:

Purpose of loan											
SMEs seeking new/ renewed facility – by application date	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base:	187	193	217	196	224	167	202	191	158	128	140
Fund expansion in UK	37%	35%	39%	34%	35%	26%	13%	32%	21%	15%	23%
Premises	28%	19%	21%	29%	14%	21%	21%	29%	27%	8%	24%
Buy fixed assets	28%	20%	26%	25%	25%	20%	14%	11%	19%	21%	19%
Develop new products/services	13%	21%	24%	20%	17%	11%	17%	17%	20%	29%	11%
Buy motor vehicles	18%	9%	18%	5%	17%	19%	23%	13%	11%	34%	27%
Fund expansion overseas	3%	1%	2%	*	2%	3%	3%	1%	2%	1%	-

Q150 All SMEs seeking new/renewed loan facility. * indicates interim results as data is still being gathered on events in these quarters

Looking longer term:

- A similar proportion of the loan applications made in the 18 months to Q4 2012 were to fund UK expansion (32%), compared to 26% in the latest 18 month period to Q2 2016.
- The proportion looking to buy fixed assets has decreased (32% v 21% currently).



Further details about the loan applications made are summarised in the table below. Loan applicants were somewhat more likely than overdraft applicants to approach a bank other than their own (although most didn't):

Loan applicants	Sought new/renewed loan facility Q1 15-Q2 2016
Applied to main bank	<p>88% of loan applications were made to the SME's main bank, compared to 97% of overdraft applications.</p> <p>There was little difference by size of applicant but those looking for more than £100k were less likely to look elsewhere (9%) than those seeking smaller amounts (15-17%).</p>
Application made in a personal name	<p>19% of loan applications made in the 18 months to Q2 2016 were in a personal rather than a business name. This was more common amongst smaller applicants (26% of applicants with 0 employees applied in a personal name and 71% of those applying in a personal name were 0 employee SMEs). Those applying for more than £100k were less likely to be applying in a personal name (9%).</p> <p>Personal applications for loans were also more common overall than for overdraft applications (where 14% were in a personal name).</p>
How many banks were considered	<p>In a new question from Q1 2016, loan applicants were asked how many banks they <i>considered</i> applying to. 25% of applicants asked had considered applying to more than one bank but, as reported below, 15% actually did so.</p>
How many banks were applied to	<p>85% of those who applied in the 18 months to Q2 2016 said that they had applied to one bank, with limited variation by size (83-87%). This is somewhat lower than the 98% of overdraft applicants who only applied to one bank. Those seeking a larger loan (£100k+) were somewhat more likely to apply to more than one bank (24%).</p>
Advice sought	<p>A minority of loan applicants in the 18 months to Q2 2016 had sought external advice before applying (17%) but they remained more likely to have done so than overdraft applicants (9%). 0 employee applicants were less likely to have sought advice (11%) compared to around a quarter of those with employees.</p>
Advice by size of loan facility	<p>Advice was more likely to be sought for larger amounts of loan borrowing. While 11% of those looking to borrow less than £25,000 sought advice, this increased to 36% of those seeking £25-100,000 and 26% of those seeking to borrow more than £100,000.</p>



Loan applications – a sector summary

Analysis by sector is somewhat limited as currently no sectors have more than 100 applicants for the most recent period. These results should therefore be treated with caution and as indicative:

Loan activity

Sought new/renewed facility

Q1 15-Q2 16

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	97*	75*	96*	84*	76*	63*	99*	53*	60*
Applied for first ever loan	16%	36%	30%	25%	37%	29%	18%	14%	40%
New loan (other)	50%	54%	39%	31%	20%	42%	45%	76%	46%
Renewing loan for same amount	21%	5%	2%	24%	20%	7%	19%	6%	2%

Q149 All SMEs seeking new/renewed loan facility

Most SMEs approached their main bank (88%). The least likely to do so were applicants in the Health sector (where 61% of applications were made to the main bank). 19% of all loan applicants said that the facility was applied for in their personal name and this was more likely to be the case for applicants in Health (49%) compared to 5% in Agriculture.

The median loan amounts sought varied from £38k in the Property/Business Services sector to £7k in the Other Community Sector. Those in Agriculture were more likely to be seeking all the funding required from the bank (75%) while applicants from Manufacturing were less likely (48%). 15% overall applied initially to more

than one bank and this was more likely to be the case for those in Transport (22%).

For most sectors, the main purpose of the loan was either UK expansion or the purchase of premises. Those in Wholesale/Retail, Agriculture and Property/Business Services were more likely to be seeking funds for UK expansion, those in Hotels & Restaurants were more likely to be funding premises while those in Construction and Transport were more likely to be funding vehicles.

Advice was sought by 17% of loan applicants overall with wide variations across sectors (albeit on limited base sizes). 34% in the Hotel & Restaurant sector sought advice compared to 5% in the Other Community sector.

8. The outcome of the application/renewal



This chapter details

what happened when the application for the new/renewed facility was made. It covers the bank's initial response through to the final outcome.



Key findings

81% of all new and renewed loan and overdraft applications made in the 18 months to Q2 2016 resulted in a facility:

- This has increased steadily over time. In the 18 months to Q4 2012, 69% of such applications resulted in a facility.
- Almost all renewals have been successful in each period, so the increase overall is due to increases in success rate for new money applications (54% to 66%) and for first time applicants in particular (41% to 61%).

The initial response from the bank was to offer 77% of overdraft applicants and 60% of loan applicants what they wanted. This was more likely to be the case for larger SMEs and those looking to renew an existing facility and almost all went on to take the facility they had been offered.

14% of overdraft applicants and 26% of loan applicants were initially declined by the bank and this was more likely to be the case for smaller applicants, those applying for the first time and those with a worse than average risk rating.

- Around 1 in 6 declined loan or overdraft applicants were made aware of the appeals process (with very few going on to appeal). Around 1 in 8 were offered an alternative form of finance and/or were offered/sought external advice. Around two thirds said none of these events occurred when they were declined.
- Most of those initially declined ended the process with no facility.



At the end of the application process 84% of overdraft applicants in the 18 months to Q2 2016 had a facility (76% offered what they wanted and 8% with a facility ‘after issues’).

- Applicants with employees or a minimal/ low risk rating remained more likely to be successful, as did those renewing an existing facility.
- Overdraft success rates increased from 74% of applications made in the 18 months to Q4 2013 to 86% of applications made in the 18 months to Q4 2015, with increases seen across all sizes of SME and also for first time applicants (34% to 68%).
- Initial data for overdraft applications made in Q1 2016 suggests a slightly lower success rate (80%). This may in part be due to the profile of applicants – the model which predicts success rates based on the applicants in a given quarter suggested 82% should be successful in Q1 2016 compared to 85% of applicants in the first half of 2015.
- Including those who saw their overdraft automatically renewed by the bank increases current success rates from 84% to 93%.

72% of loan applicants in the 18 months to Q2 2016 ended the application process with a facility (56% offered what they wanted and 16% with a facility ‘after issues’).

- Applicants with 10-249 employees or a minimal risk rating remained more likely to be successful, as did those renewing an existing facility.
- Loan success rates increased from 58% of applications made in the 18 months to Q4 2013 to 73% of applications made in the 18 months to Q4 2015, with increases seen across all sizes of SME. In contrast to overdrafts, there has been little increase in success rates for first time applicants (45% to 51%).



- Current data for loan applications made in 2015 suggests a declining success rate (to 64% for Q4 2015 itself). This may in part be due to the profile of applicants – the model which predicts success rates based on the applicants in a given quarter suggested 69% should be successful in Q4 2015 compared to 77% of applicants in Q1 2015.



This chapter follows the application journey from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as

having taken place from Q3 2015 onwards remains interim.

8% of loan and 5% of overdraft applicants in the 18 months to Q2 2016 had not received an initial response to their application by the time of our survey. Details of these applications were included in the data in the preceding chapter but are excluded from the remainder of this analysis.

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, by quarter of application since Q3 2013.

Final outcome (Overdraft+Loan)

SMEs seeking new/

renewed facility – by
date of application

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3* 2015	Q4* 2015	Q1* 2016
Unweighted base:	531	589	537	582	443	531	505	423	354	329	201
Offered what wanted and took it	62%	56%	63%	64%	70%	68%	72%	64%	77%	69%	63%
Took facility after issues**	11%	16%	16%	11%	18%	10%	11%	14%	8%	10%	9%
Have facility (any)	73%	72%	79%	75%	88%	78%	83%	78%	85%	79%	72%
Took another form of funding	4%	6%	8%	7%	2%	6%	1%	6%	3%	*	14%
No facility	23%	23%	14%	18%	10%	16%	16%	16%	12%	21%	14%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters. ** typically the amount initially offered or the terms and conditions relating to the proposed facility such as security, the interest rate or the fee

The table shows that from Q3 2014 onwards around 8 in 10 applications have been successful. Initial data for Q1 2016 suggests a somewhat lower success rate with more applicants taking another form of funding, but this is still very much interim data.



Analysis in previous reports has shown that the outcome of applications reported initially for a given quarter can be quite different from those reported subsequently as more data is gathered, and results for the most recent quarters should always be viewed in this context. Full quarterly data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.

The table below summarises the outcome for the different types of application included in this chapter over a longer time period, based on applications made in a series of 18 month periods. Data in the first 3 columns is now

complete and the data for the 18 months to Q4 2015 will be completed at the end of 2016.

The current position for the 18 months to Q2 2016 is that 81% of all loan and overdraft applications have been successful. Renewals remained more likely to be successful (99%) than applications for new money (66%), and overdraft applications more likely to be successful (84%) than loans (72%). At this stage, these most recent success rates were typically somewhat lower than for the equivalent applications to Q4 2014 and this will be monitored as more data is gathered:

% of applicants ending process with facility – Summary table

Over time – row percentages By 18 month period of application	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15*	Q1 15 Q2 16*
All loans and overdrafts	69%	68%	77%	82%	81%
Loans and overdrafts - New money	54%	49%	65%	70%	66%
• First time applicants	41%	39%	55%	61%	61%
• Other new money	70%	69%	74%	75%	69%
Loans and overdrafts - Renewals	94%	96%	97%	100%	99%
All overdrafts	74%	74%	83%	86%	84%
All loans	59%	58%	66%	73%	72%

All SMEs applying for a facility in the period specified, base size varies by category * Interim data

Taking a longer term view, the table above shows that overall success rate for loans and overdrafts combined has increased over time. For the 18 months to both Q4 2012 and Q4 2013, two thirds of applications resulted in a facility, increasing to 77% for the 18 months to Q4 2014 and 81% currently. This is due to the increase in success rates for new money, as almost all renewals in each period have resulted in a facility.

Whilst first time applicants remained less likely to end the process with a facility than those who have borrowed before, their success rates have improved such that 6 in 10 first time applicants in the most recent periods ended the process with a facility. Success rates for other new money applications also increased over time.



More detailed analysis of all Type 1 applications (i.e. loan and overdraft combined) is provided later in this chapter. Before that analysis, the next section looks at the initial response from the bank to the application made and then provides more detail on overdraft applications specifically, and then on loan applications.

How SMEs got to the final outcome – the initial response from the bank

This analysis is based on SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q1 2015 to Q2 2016 (irrespective of when they were interviewed) who have received a response from the bank.

The tables below record the initial response from the bank to applications made in this period. The initial response to 77% of overdraft applications was to offer the SME what it wanted, compared to 60% of loan applications. For both loans and overdrafts, larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft)		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	emp	emps	emps	emps
Unweighted base:	1200	135	420	461	184
Offered what wanted	77%	71%	86%	91%	94%
Offered less than wanted	6%	7%	3%	3%	4%
Offered unfavourable terms & conditions	4%	4%	3%	3%	1%
Declined by bank	14%	18%	7%	2%	1%

Q63 All SMEs seeking new/renewed overdraft facility that have had response



Initial response (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	652	50*	224	254	124
Offered what wanted	60%	53%	64%	79%	89%
Offered less than wanted	8%	9%	8%	9%	5%
Offered unfavourable terms & conditions	6%	3%	9%	6%	6%
Declined by bank	26%	35%	20%	6%	*

Q158 All SMEs seeking new/renewed loan facility that have had response

Additional analysis below shows that larger SMEs, those with a better risk rating and those renewing an existing facility were all more likely to receive a positive initial response from the bank:

Initial response

All seeking facility Q1 2015 to Q2 2016

Initial response to applicants with employees	87% were initially offered the overdraft they wanted and 67% the loan they wanted. Such applicants were less likely to have been declined at this stage – 6% of overdraft applicants with employees and 17% of such loan applicants were initially declined by the bank.
Applicants more likely to be offered what they wanted	Those applying to renew an existing facility: 97% were offered the overdraft they wanted, 90% the loan. Those with a minimal external risk rating: 94% were offered the overdraft they wanted, 92% the loan.
Applicants more likely to receive initial decline	Those applying for their first ever facility: 29% were initially declined for a first overdraft, 47% for a first loan. Those with a worse than average external risk rating: 17% initially declined if applying for an overdraft, 46% if applying for a loan.



The table below looks at the initial response to overdraft applications over recent quarters by date of application. From the end of 2014 onwards, a higher proportion of applicants were offered what they wanted (78% for Q1 2016):

Initial response to application

SMEs seeking

new/ renewed

overdraft facility

By date of application

Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*	Q1*
13	13	14	14	14	14	15	15	15	15	16

Unweighted base (Overdraft):	348	379	356	367	285	340	320	280	236	197	142
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Offered what wanted and took it	72%	65%	72%	73%	73%	79%	77%	72%	81%	76%	78%
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Any issues (amount or T&C)	17%	12%	16%	11%	9%	9%	8%	12%	9%	14%	3%
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Declined overdraft	11%	23%	13%	16%	18%	11%	15%	16%	10%	10%	19%
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Initial outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

With fewer loan applications made each quarter, it is harder to discern a pattern to the initial response over time, however levels of decline have typically been lower in recent quarters:

Initial response to application

SMEs seeking new/

renewed loan facility

By date of application

Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*
13	13	13	14	14	14	14	15	15	15	15

Unweighted base (Loan)	176	183	210	181	215	158	191	185	143	118	132
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Offered what wanted and took it	28%	53%	45%	57%	57%	66%	49%	66%	48%	72%	62%
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Any issues (amount or T&C)	6%	16%	20%	8%	9%	18%	22%	18%	27%	5%	2%
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Declined loan	65%	31%	35%	34%	35%	16%	29%	16%	25%	22%	36%
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Initial outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters



No further analysis has been undertaken on these initial responses to applications, as analysis by date of application shows a fairly consistent pattern between initial response and final outcome. The report concentrates instead on providing more analysis of the final outcome of the applications and how this has changed over time.

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft/loan applications sought Q1 2015 to Q2 2016, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the journeys are summarised below. Three quarters of overdraft applicants (76%) and almost 6 in 10 loan applicants (58%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

All seeking facility Q1 15 - Q2 16	Overdraft	Loan
Unweighted base:	1200	652
Initially offered what they wanted and went on to take the facility with no issues	76%	58%
Initially offered what they wanted, but had issues before they got facility	1%	3%
Had issues with the initial offer, and now have a facility after issues	6%	11%
Were initially turned down, but now have a facility	1%	3%
Had issues with the initial offer made so took alternative funding instead	*	*
Were initially turned down, so took alternative funding instead	4%	3%
Initially offered what wanted but now have no facility at all	-	*
Had issues with the initial offer made and now have no facility at all	2%	3%
Initially turned down and now have no facility at all	9%	22%

Q63/158 All SMEs seeking new/renewed overdraft or loan facility that have had response



80% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 20% had had issues with the offer made so did not take the facility.

For loans, 89% of the applicants who ended the process with no facility had also been initially declined by the bank, leaving 1 in 10 that were

made an offer but in the end did not take the facility (almost all of them were offered a loan with terms and conditions they did not want to accept).

This is the equivalent of 2% of all overdraft applicants and 3% of all loan applicants in the last 18 months receiving an offer but ending the process with no facility.

The loan and overdraft journeys from initial application to final outcome are reported on separately below.



Profile of overdraft applicants by initial response

There continued to be differences in the demographic profile of overdraft applicants receiving each initial response from the bank and these are summarised in the table below. Note that due to limited base sizes, it is no longer possible to separate out those initially offered less than they wanted and those who cited issues with the terms and conditions of the overdraft offered, so these are combined into the 'Had issues with offer' column below.

Profile of overdraft applicants <u>Sought</u> new/renewed facility Q1 15-Q2 16	All with response	Offered what wanted	Had issues with offer	Initially declined
<i>Unweighted base:</i>	1200	1052	85*	63*
No employees	62%	57%	74%	83%
Have employees	38%	43%	26%	17%
Starts	10%	9%	9%	16%
Trading 2-9 years	30%	24%	48%	56%
Trading 10 years+	59%	67%	43%	28%
Minimal/low risk rating	31%	35%	28%	11%
Average/worse than average risk rating	69%	65%	72%	89%
Renewing existing facility	52%	65%	14%	2%
Applying for first ever overdraft	19%	15%	21%	40%
Applying for new overdraft but not first	7%	3%	3%	30%

All SMEs seeking new/renewed overdraft facility that have had response

The table shows the difference in profile between the three groups. Those initially offered what they wanted were typically larger, more established, businesses with a better risk rating profile. They were also more likely to be looking to renew an existing facility. By contrast, the small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. They were also more likely to be seeking new funding.



The subsequent journey – those who received an offer of an overdraft

Summarised below for all applications made in the 18 months Q1 2015 to Q2 2016 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small:

Initial offer	Subsequent events – all seeking overdraft Q1 2015 to Q2 2016
Offered what wanted (77% of applicants) Q64-65	99% of those offered what they wanted went on to take their facility with no issues. Those who experienced a delay or issue said this was typically supplying further information, or waiting for a decision or valuations.
Issue: offered less than wanted (6% of applicants) Q87-95	<p>15% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were:</p> <ul style="list-style-type: none">• No/insufficient security - 31% of those offered less than they wanted• Credit history issues (21%)• Had too much borrowing already (9%), applied for too much (4%), or a need for more equity in the business (2%)• <1% of applicants said the bank offered them less due to the affordability of repayments (a new code). <p>At the end of the process:</p> <ul style="list-style-type: none">• 68% ended up accepting the amount originally offered (almost all, 67% at the original bank).• 17% managed to negotiate a higher facility at the original bank (none at another bank).• 2% took some other form of funding (almost always a loan from the same bank)• 15% ended the process with no facility at all. <p>Most of those who now have an overdraft obtained 80% or more of the amount they had originally sought.</p>

Continued



Continued

Issue: offered unfavourable T&C (4% of applicants)

Q96-97

The unfavourable terms and conditions were most likely to relate to:

- the proposed interest rate – mentioned by 28% of these applicants
- the proposed fee – 26%
- security (the amount, type sought or cost of putting it in place) –14%

At the end of the process:

- 34% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – almost all at the bank they had originally applied to (33%, with 1% at another bank).
- 11% accepted the deal they were offered (almost all at the original bank).
- 13% took other funding (typically funding in a personal name),
- 42% decided not to proceed with an overdraft.



The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined (14% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q1 2015 to Q2 2016
Reasons for decline Q70	<p>Those declined were asked for the reasons behind the initial decline. 20% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given):</p> <ul style="list-style-type: none">• 45% said the decline related to their personal and/or business credit history• 11% mentioned issues around security• Also mentioned were too much existing borrowing, a weak balance sheet, more equity needed or asking for too much• 1% gave the recently added answer code that the bank did not think they could afford the repayments
Advice and alternatives Q71a	<p>This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section.</p> <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• 18% said they were made aware of the appeals process (all by the bank)• 12% were offered an alternative form of finance by the bank• 14% were referred to external sources of help and advice (9% by the bank, and 9% sought it themselves)• 68% said that none of these events occurred



Initially declined

Subsequent events – all seeking overdraft Q1 2015 to Q2 2016

Appeals

Q73-75

From April 2011, an appeals procedure has been in operation. 18% of applicants initially declined Q1 2015 to Q2 2016 said they were made aware of the appeals process, all by their bank.

On limited base sizes, there were indications that awareness of the appeals process has stabilised after previous increases: amongst those applying in 2012, 13% said that they were made aware of the appeals process, increasing to 17% for 2013 and then 22% for 2014. Awareness of appeals for 2015 to date is 20%.

To maximise base sizes, of all overdraft applications declined since Q1 2014, 33 were made aware of the appeals process having initially been declined, with 4 SMEs going on to appeal. In 1 instance the bank changed its decision, in 3 the original decision was upheld.

- Those who did not appeal typically said that they accepted the bank's decision (a new code), or that it was too much hassle and/or they did not think it would change anything.

Outcome

Q81-84

At the end of this period:

- 69% of applicants initially declined had no funding at all.
- 8% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier.
- Some secured alternative funding (23%), with mentions of facilities in a personal name, friends/family or a business credit card.



The final outcome – overdraft

At the end of the various journeys described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on SMEs that made an application and had received a response for a new or renewed overdraft facility during the most recent 18 month period of Q1 2015 to Q2 2016, irrespective of when they were interviewed.

Most of these applicants (76%) had the overdraft facility they wanted, and a further 8% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank's offer. 12% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

Final outcome (Overdraft)	All overdraft Type 1 applicants
<u>Sought</u> new/renewed facility Q1 15-Q2 16	
Unweighted base:	1200
Offered what wanted and took it	76%
Took overdraft after issues	8%
Have overdraft (any)	84%
Took another form of funding	4%
No facility	12%

All SMEs seeking new/renewed overdraft facility that have had response

Before looking at the detailed results for overdraft applications made in the latest 18 month period, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods. To show the longer term context, this now reports on applications made from Q3 2012 onwards, in 18 month periods to Q2 and Q4 of each year, with the exception of the most recent 18 month periods which are shown in full (albeit on interim data).

This table shows a consistent success rate over recent 18 month periods for overdraft applicants (83-86%) compared to previous periods (74% of overdraft applicants were successful in the 18 months to Q4 2013). Larger applicants and those with a better external risk rating remained more likely to end the process with a facility. There has been an improvement over time in the success rate for first time overdraft applicants while those in Construction have seen something of a decline.



% of applicants ending process with overdraft facility

Over time – row percentages

By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15*	Q4 14 Q1 16*	Q1 15 Q2 16*
All SMEs	74%	77%	83%	85%	86%	85%	84%
0 employee	68%	70%	78%	80%	82%	81%	80%
1-9 employees	79%	83%	88%	91%	92%	92%	92%
10-49 employees	91%	92%	93%	94%	96%	96%	96%
50-249 employees	96%	97%	95%	96%	97%	97%	98%
Minimal external risk rating	96%	95%	95%	97%	98%	96%	98%
Low external risk rating	91%	91%	93%	94%	95%	95%	94%
Average external risk rating	83%	83%	92%	90%	92%	91%	89%
Worse than average external risk rating	59%	63%	72%	79%	81%	82%	81%
Agriculture	90%	91%	93%	95%	95%	94%	93%
Manufacturing	71%	68%	76%	84%	88%	87%	85%
Construction	75%	80%	83%	80%	72%	69%	66%
Wholesale/Retail	69%	70%	78%	81%	85%	85%	83%
Hotels & Restaurants	65%	73%	82%	90%	91%	94%	94%
Transport	53%	55%	67%	82%	87%	91%	94%
Property/Business Services etc.	71%	75%	82%	91%	94%	93%	95%
Health	87%	88%	94%	80%	82%	80%	81%
Other Community	94%	94%	96%	85%	87%	86%	83%
First time applicants	34%	40%	54%	66%	68%	68%	67%
Increasing an existing facility	78%	72%	77%	73%	85%	79%	76%
Renewals	98%	99%	99%	100%	100%	100%	99%

All SMEs applying for an overdraft in the period specified, base size varies by category. Q315* indicates interim results for that period



Overdraft final outcome – applications made Q1 2015 to Q2 2016

By size of business, overdraft applicants with more than 10 employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely to have a facility. Despite improving success rates, those with 0 employees remained more likely to end the process with no facility:

Final outcome (Overdraft)					
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1200	135	420	461	184
Offered what wanted and took it	76%	71%	84%	88%	93%
Took overdraft after issues	8%	9%	8%	8%	5%
Have overdraft (any)	84%	80%	92%	96%	98%
Took another form of funding	4%	4%	3%	1%	*
No facility	12%	16%	6%	2%	2%

All SMEs seeking new/renewed overdraft facility that have had response

Amongst applicants with employees, 93% ended the process with an overdraft facility (85% offered what they wanted and 8% had an overdraft after issues). 5% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a difference for those rated a worse than average risk, where 8 in 10 ended the process with an overdraft facility compared to 9 in 10 or more in the other risk categories (albeit this is an improving picture over time):

Final outcome (Overdraft)					
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	Min	Low	Average	Worse/ Avge
Unweighted base:	1200	175	432	274	228
Offered what wanted and took it	76%	91%	84%	77%	72%
Took overdraft after issues	8%	7%	10%	12%	9%
Have overdraft (any)	84%	98%	94%	89%	81%
Took another form of funding	4%	2%	4%	*	5%
No facility	12%	*	2%	11%	14%

All SMEs seeking new/renewed overdraft facility that have had response



There were also some differences in success rate by sector, with applicants in Construction remaining the least likely to have been successful (66%) and the most likely to end the process with no facility (24%):

Final outcome (Overdraft)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	150	124	211	136	87*	111	166	80*	135
Offered what wanted and took it	89%	81%	58%	76%	86%	86%	83%	62%	76%
Took overdraft after issues	4%	4%	8%	7%	8%	8%	12%	19%	7%
Have overdraft (any)	93%	85%	66%	83%	94%	94%	95%	81%	83%
Took another form of funding	3%	1%	9%	3%	-	4%	2%	10%	1%
No facility	5%	15%	24%	14%	6%	2%	3%	10%	16%

All SMEs seeking new/renewed overdraft facility that have had response

First time applicants remained more likely than others to end the process with no facility (31%). However, the current success rate for first time applicants, at 67%, maintained the improvement seen over time for these applicants (in the 18 months to Q4 2013, 34% of FTAs were successful):

Final outcome (Overdraft)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	1 st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	1200	125	134	751
Offered what wanted and took it	76%	59%	63%	96%
Took overdraft after issues	8%	8%	13%	3%
Have overdraft (any)	84%	67%	76%	99%
Took another form of funding	4%	2%	20%	-
No facility	12%	31%	5%	*

All SMEs seeking new/renewed overdraft facility that have had response (does not include automatic renewals)



As reported earlier, a new overdraft code has been included since Q3 2014 “Applying for a new overdraft but not our first”. On still limited base sizes, success rates for this group appear to be somewhat lower than for first time applicants. More analysis will be conducted as sample sizes increase.

The final piece of combined analysis for applications made in the 18 months to Q2 2016 shows the outcome by the age of the business. The older the business, the more likely they were to end the process with an overdraft facility:

Final outcome (Overdraft)

<u>Sought</u> new/renewed facility Q1 15-Q2 16		2-5	6-9	10-15	15+
By age of business	Starts	yrs	yrs	yrs	yrs
Unweighted base:	74*	117	107	205	697
Offered what wanted and took it	70%	48%	78%	84%	86%
Took overdraft after issues	2%	24%	2%	5%	6%
Have overdraft (any)	72%	72%	80%	89%	92%
Took another form of funding	4%	5%	6%	4%	2%
No facility	24%	24%	13%	7%	5%

All SMEs seeking new/renewed overdraft facility that have had response

The success rate for older businesses is likely to be impacted by the type of application being made. 48% of the Starts in the table above and 48% of applicants trading for 2-5 years were applying for their first overdraft. Amongst the oldest applicants, 5% were applying for their first overdraft and this group were much more likely to be renewing an overdraft (67% v 34% of Starts).



For the last few quarters a consistent 4 in 10 applications have been for £5,000 or less. A further 4 in 10 applications were for between £5,000 and £25,000 with the remainder, around 1 in 5, for more than £25,000.

A qualitative assessment of overdraft outcome by amount **applied for** over time shows that:

- The outcome for those applying for larger overdrafts (£25,000+) has remained relatively consistent over time, and 90% or more of such applicants now had an overdraft.
- 6 in 10 applications for the smallest overdrafts (under £5,000) were successful in 2012 and 2013. The success rate improved for 2014 to around 7 in 10, which has been maintained for 2015 and 2016 to date.
- Those in the middle (who applied for £5-25,000) saw a reduction in success rates to the end of 2013, from around 90% to around 70% of these applicants having an overdraft. Since then success rates have increased back to the 90% level previously seen.

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context for the pricing information that is provided in that chapter.



Final outcome by date of application – overdrafts

The table below shows the final outcome for Type 1 overdraft events by the individual quarter **in which the application was made**, for those recent quarters where robust numbers were available. This shows that since the start of 2014 at least 8 out of 10 overdraft applicants have ended the process with a facility:

Final outcome (Overdraft)											
SMEs seeking new/ renewed facility											
By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
Unweighted base:	348	379	356	367	285	340	320	280	236	197	142
Offered what wanted and took it	72%	64%	68%	71%	73%	78%	77%	71%	80%	74%	77%
Took overdraft after issues	9%	10%	17%	13%	15%	11%	8%	9%	9%	12%	3%
Have overdraft (any)	81%	74%	85%	84%	88%	89%	85%	80%	89%	86%	80%
Took other funding	4%	5%	7%	4%	1%	4%	1%	6%	3%	*	14%
No facility	15%	21%	8%	12%	11%	7%	14%	14%	8%	13%	7%

Final outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of the profile of applicants over time based on the analysis in this and previous reports that size, risk rating and purpose of facility all affect the outcome of applications.



Over the quarters for which robust data is available, there were a number of trends that might be expected to have an effect on the outcome of an overdraft application:

- The proportion of applicants with a worse than average risk rating increased from 43% in 2010 to 53% for 2012. It then dropped over subsequent years (48% in 2013, 45% for 2014) to 40% for 2015 to date. Initial data for applications made in 2016 shows an increase to 60% of applicants with a worse than average risk rating.
- The proportion of first time applicants increased from 25% in 2010 and 2011 to 30% in 2012. It then dropped back again (26% for 2013 and 23% for 2014) to 21% for 2015 to date. Initial data for applications made in 2016 shows 18% of applicants were applying for their first facility.
- Starts made up 13% of applicants in 2013, increasing to 16% for 2014. In 2015 to date the proportion is somewhat lower at 13% and for 2016 just 3% of applicants have been Starts.

To understand this more fully, further analysis was undertaken using regression modelling. This takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for overdrafts should be. This equation can then be applied to a sub-set of overdraft applicants (in this case all those that applied in a certain quarter) to predict what the overdraft success

rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.) as these factors had been shown to be key influencers on the likelihood of success in a funding application.



From the start of 2014 the model has predicted a fairly consistent overdraft success rate in excess of 80%:

Final outcome (Overdraft)

SMEs seeking new/
renewed facility

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
Unweighted base:	348	379	356	367	285	340	320	280	236	197	142
Have overdraft (any)	81%	74%	85%	84%	88%	89%	85%	80%	89%	86%	80%
Predicted success rate	84%	79%	84%	84%	85%	83%	85%	85%	83%	80%	82%
Difference	-3	-5	+1	-	+3	+6	-	-5	+6	+6	-2

Final outcome of overdraft application by date of application

Comparisons between the actual and modelled success rates show differences over time:

- In 2013, the actual overdraft success rates achieved were somewhat lower than the model predicted.
- In the second half of 2014, actual success rates increased and moved ahead of those predicted.
- The current picture for 2015 is also mixed, with actual success rates ahead of those predicted for the second half of the year.



The impact of automatic renewals on overdraft success rates

A considerable number of SMEs had their overdraft automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates.

The table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts are included. There have been more automatic overdraft renewals than Type 1 events, so the impact is marked with the overall overdraft success rate increasing from 84% to 93%:

Final outcome (Overdraft)	Type 1 events	Type 1 + automatic renewal
Sought new/renewed facility Q1 15-Q2 16		
<i>Unweighted base:</i>	1200	2514
Offered what wanted and took it	76%	32%
Took overdraft after issues	8%	3%
<i>Automatic renewal</i>	-	58%
Have overdraft (any)	84%	93%
Took another form of funding	4%	2%
No facility	12%	5%

All SMEs seeking new/renewed overdraft facility that have had response



The impact of personal borrowing on overdraft applications

14% of those making an overdraft application in the past 18 months (Q1 2015 to Q2 2016) said that the facility they had sought was in a personal capacity and these were typically smaller SMEs looking to borrow a smaller amount:

- 89% of personal overdraft applicants had 0 employees (v 58% of business applicants)
- 50% had a worse than average risk rating (v 42% of business applicants)
- 79% were applying for £5,000 or less (v 33% of business applicants)

In terms of the outcome of the overdraft application by whether it was a personal or business application, base sizes remain limited. However, the data available has fairly consistently suggested that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (68% v 88% of business applicants) and somewhat more likely to have ended the process with no facility (22% v 10% of business applicants).

Amongst those who reported the automatic renewal of an overdraft facility between Q1 2015 to Q2 2016, 14% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (84% of those automatically renewing a personal facility).



Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q1 2015 to Q2 2016) receiving each initial answer from their bank varied. Note that due to small base sizes the 'offered less than wanted' and 'offered unfavourable T&C' groups have been combined into a 'Had issues with the offer' column for this analysis, to boost the base size:

Profile of loan applicants <u>Sought</u> new/renewed facility Q1 15-Q2 16	All with response	Offered what wanted	Had issues with offer	Initially declined
<i>Unweighted base:</i>	652	498	88*	66*
No employees	53%	47%	45%	70%
Have employees	47%	53%	55%	30%
Starts	20%	13%	14%	39%
Trading 2-9 years	26%	24%	23%	31%
Trading 10 years+	54%	63%	63%	30%
Minimal/low risk rating	37%	43%	48%	15%
Average/worse than average risk rating	63%	57%	52%	85%
Renewing existing facility	14%	20%	9%	*
Applying for first ever loan	27%	19%	22%	49%
Applying for new loan but not first	42%	43%	59%	30%

All SMEs seeking new/renewed loan facility that have had response

The table shows similar differences in profile between the three groups to those seen for overdraft applicants. The small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating and almost all were seeking new funding.



The subsequent journey – those that received the offer of a loan

Summarised below for all loan applications made in the 18 months Q1 2015 to Q2 2016 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain small.

Initial bank response Subsequent events – all seeking loan Q1 2015 to Q2 2016

Offered what wanted
(60% of applicants)

Q159-164

94% of those offered what they wanted went on to take the loan with no problems.

5% took the loan after some issues (typically having to supply more information, waiting for a decision to be made or for security valuations).

Almost all took the full amount they had originally asked for.

1% of these applicants decided not to proceed with the loan they had been offered.

Issue: Offered less
than wanted
(8% of applicants)

Q180-190

Note that there are just 43 respondents for this section, and so results are qualitative at best.

4% of applicants said that they had not been given a reason for being offered less than they wanted. The main reasons given included:

- Security issues (a quarter of these SMEs).
- Credit issues (1 in 10).
- Around 1 in 10 mentioned applying for too much or for too little or having too much borrowing already.

At the end of the process:

- 6 in 10 accepted the lower amount offered (from the original bank or elsewhere).
- 1 in 5 managed to negotiate a better deal, predominantly with another bank.
- 1% took other borrowing.
- 1 in 5 ended the process with no facility.

The SMEs in this group who obtained a loan were likely to have received more than 50% of the amount they had originally sought.

Continued



Continued

Issue: Offered unfavourable T&C (6% of applicants)

Q191-195

Note that there are just 45 respondents for this section.

The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (half of these SMEs).

The proposed fee was mentioned by 1 in 5 of these applicants, and 1 in 5 mentioned issues around security (level, type requested and/or cost).

By the end of the process:

- Around a third managed to negotiate a better deal (half at the original bank).
- Half accepted the deal offered, again most with the original bank.
- Less than 5% took another form of funding.
 - 1 in 5 applicants ended the process with no facility.

For those with a facility, the amount of such loans was typically 70% or more of their original request.



The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (26% of applicants – 66 respondents).

Initially declined	Subsequent events – all seeking loan Q1 2015 to Q2 2016
Reasons for decline Q165	<p>10% of the SMEs initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given).</p> <p>The main reasons given were:</p> <ul style="list-style-type: none">• 52% said that the decline related to their personal and/or business credit history (especially smaller applicants).• 4% mentioned issues around security.• 7% said that they had too much existing borrowing.
Advice and alternatives Q166-7 and 171-175	<p>This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section.</p> <p>Those initially declined were asked which of a series of events had occurred after that decline:</p> <ul style="list-style-type: none">• 15% said they were made aware of the appeals process (15% by the bank and 7% by someone else).• 15% were offered an alternative form of finance by the bank.• 11% were referred to external sources of help and advice (6% by the bank, and 6% sought it themselves).• 65% said that none of these events occurred.



Initially declined

Subsequent events – all seeking loan Q1 2015 to Q2 2016

Appeals

Q168-170

From April 2011, an appeals procedure was introduced. Amongst this group of applicants who were initially declined, 15% said that they were made aware of the appeals process. Awareness of the appeals system has varied between 8% and 14% since 2012 and is 11% for 2015 to date.

Taking a longer-term view to maximise base sizes, of all loan applications reported on the Monitor from Q1 2014, 35 SMEs were made aware of the appeals process having initially been declined. 13 went on to appeal: in 5 instances the bank changed its decision, in 6 the original decision was upheld and 2 were still waiting to hear at the time of interview.

Those who didn't appeal typically accepted the banks decision (a new code) and/or didn't think it would have changed anything.

Outcome

Q176-179

At the end of this period:

- 6% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier.
- 14% had secured alternative funding, with friends/family most likely to be mentioned.
- 81% of those initially declined did not have a facility at all.



The final outcome – loan

At the end of the various loan journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. This section is based on SMEs that made an application and had received a response for a new or renewed loan facility during the most recent 18-month period of Q1 2015 to Q2 2016, irrespective of when they were interviewed.

Three quarters (72%) of loan applicants now have a loan facility. 24% of applicants ended the process with no facility.

Final outcome (Loan)	All loan Type 1 applicants
<u>Sought</u> new/renewed facility Q1 15-Q2 16	
Unweighted base:	652
Offered what wanted and took it	56%
Took loan after issues	16%
Have loan (any)	72%
Took another form of funding	4%
No facility	24%

All SMEs seeking new/renewed loan facility that have had response

Before looking at the results for loan applications made in the latest 18 month period in more detail, the summary table below records the proportion who ‘Have loan (any)’ for a series of 18 month periods, stretching back to Q3 2012, by key demographics. As for overdrafts, this shows a series of 18 month periods ending in Q2 and Q4 of each year, apart from the more recent (and interim) 18 month periods of data.

Over the periods shown in the table success rates have improved from around 60% to around 70% of loan applicants. Improvements were seen across all size bands and risk ratings with the exception of those with a worse than average risk rating. First time loan applicants have not seen the increase in success rates reported by those seeking a first overdraft.



% of applicants ending process with loan facility

Over time – row percentages

By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15*	Q4 14 Q1 16*	Q1 15 Q2 16*
All SMEs	58%	58%	66%	69%	73%	68%	72%
0 employee	52%	52%	59%	62%	65%	57%	66%
1-9 employees	61%	63%	72%	76%	78%	77%	76%
10-49 employees	85%	85%	87%	88%	92%	93%	93%
50-249 employees	87%	92%	94%	95%	96%	98%	97%
Minimal external risk rating	82%	75%	80%	89%	98%	99%	98%
Low external risk rating	78%	79%	85%	83%	88%	86%	88%
Average external risk rating	63%	64%	74%	73%	83%	83%	85%
Worse than average external risk rating	46%	47%	52%	51%	52%	43%	52%
Agriculture	86%	86%	86%	91%	94%	94%	93%
Manufacturing	67%	74%	83%	87%	59%	60%	56%
Construction	56%	53%	58%	56%	63%	57%	60%
Wholesale/Retail	47%	49%	63%	66%	74%	70%	75%
Hotels & Restaurants	55%	48%	55%	66%	70%	65%	66%
Transport	42%	47%	48%	51%	43%	45%	55%
Property/Business Services etc.	58%	57%	63%	68%	87%	86%	92%
Health	57%	54%	76%	78%	86%	79%	79%
Other Community	62%	69%	72%	75%	71%	63%	74%
First time applicants	45%	45%	55%	53%	51%	45%	49%
Other new facility	60%	59%	71%	78%	85%	80%	80%
Renewals	89%	82%	76%	82%	96%	96%	100%

All SMEs applying for a loan in the period specified, base size varies by category CARE re interim data. Q315* indicates interim results for that period



Final outcome – loan applications made Q1 2015 to Q2 2016

By size of business, smaller loan applicants remained less likely to end the process with a facility. 97% of applicants with 50-249 employees had a loan, while 3 in 10 of the smallest applicants ended the process with no facility:

Final outcome (Loan)		0	1-9	10-49	50-249
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	emps	emps	emps	emps
Unweighted base:	652	50*	224	254	124
Offered what wanted and took it	56%	53%	58%	71%	79%
Took loan after issues	16%	13%	18%	22%	18%
Have loan (any)	72%	66%	76%	93%	97%
Took another form of funding	4%	5%	2%	1%	-
No facility	24%	29%	23%	5%	3%

All SMEs seeking new/renewed loan facility that have had response

Amongst loan applicants with employees, 80% ended the process with a loan (61% were offered what they wanted and 19% had the loan after issues). 19% ended the process with no loan facility.

Compared to overdrafts, there was a clearer difference in outcome by external risk rating. Applicants with a worse than average external risk rating were much less likely to have ended the process with a facility:

Final outcome (Loan)					Worse/ Avge
<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	Min	Low	Avge	Avge
Unweighted base:	652	111	235	142	113
Offered what wanted and took it	56%	83%	60%	72%	38%
Took loan after issues	16%	15%	28%	13%	14%
Have loan (any)	72%	98%	88%	85%	52%
Took another form of funding	4%	-	*	-	9%
No facility	24%	1%	12%	15%	40%

All SMEs seeking new/renewed loan facility that have had response where risk rating known



Smaller sample sizes of applicants restrict the scope for analysis by sector, and the results below should be viewed as indicative in all sectors (results for Health are not shown as the sample is now below 50). Those in Agriculture and Property/Business Services remained the most likely to end the process with a loan, while those in the Transport sector were less likely to end the process with a facility:

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	89*	69*	92*	78*	73*	58*	91*		55*
Offered what wanted and took it	87%	51%	50%	62%	46%	46%	62%		67%
Took loan after issues	6%	5%	10%	13%	20%	9%	30%		7%
Have loan (any)	93%	56%	60%	75%	66%	55%	92%		74%
Took another form of funding	-	2%	-	*	4%	10%	2%		18%
No facility	7%	42%	40%	24%	30%	35%	7%		8%

All SMEs seeking new/renewed loan facility that have had response



Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process. Those applying for their first loan remained more likely to end the process with no facility (39%). Most other applicants were successful:

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16	Total	1 st loan	New loan	Renew loan
Unweighted base:	652	154	265	95*
Offered what wanted and took it	56%	40%	58%	87%
Took loan after issues	16%	9%	22%	13%
Have loan (any)	72%	49%	80%	100%
Took another form of funding	4%	12%	*	-
No facility	24%	39%	20%	-

All SMEs seeking new/renewed loan facility that have had response



As with overdrafts, there were differences in outcome for loan applications by age of business. On limited base sizes, Starts were the least likely to have been successful (45%) – half of these Starts were applying for their first loan. Those trading for more than 15 years were the most likely to have been successful (they were much less likely to be a FTA and more likely to be renewing an existing loan facility):

Final outcome (Loan)

<u>Sought</u> new/renewed facility Q1 15-Q2 16					
By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	51*	55*	85*	103*	358
Offered what wanted and took it	38%	48%	52%	48%	72%
Took loan after issues	7%	18%	17%	21%	17%
Have loan (any)	45%	66%	69%	69%	89%
Took another form of funding	18%	-	*	-	*
No facility	38%	34%	31%	31%	11%

All SMEs seeking new/renewed loan facility that have had response

Success rates for smaller applications (under £100,000) have shown signs of increase over time. In 2013, half of such applications were successful, increasing to 6 in 10 for 2014 and almost 7 in 10 for applications to date in 2015.

Applications for larger amounts (£100,000+) were more likely to be successful and success rates have improved from around 8 out of 10 to around 9 in 10 of these larger applications.

There are currently too few applications reported for 2016 to include them in this analysis.



Final outcome by date of application – loans

The table below shows the outcome by recent quarter of application. There is no clear pattern over time but success rates for applications made in 2015 are currently somewhat higher than those made in previous years:

Final outcome (Loan)

SMEs seeking new/
renewed facility

By date of application	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base:	176	183	210	181	215	158	191	185	143	118	132
Offered what wanted and took it	27%	46%	42%	52%	54%	64%	47%	62%	45%	70%	59%
Took loan after issues	9%	15%	26%	12%	7%	24%	9%	19%	28%	6%	5%
Have loan (any)	36%	61%	68%	64%	61%	88%	56%	81%	73%	76%	64%
Took another form of funding	11%	3%	8%	9%	12%	4%	10%	*	4%	5%	-
No facility	52%	36%	24%	26%	27%	8%	34%	19%	23%	19%	36%

Final outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

To set these results in context, an analysis has been done of applicants over time based on the premise that size, risk rating and purpose of facility all affect the outcome of applications.

Over the quarters for which robust data is available:

- Starts: the proportion increased from 15% in 2010 to 23% in 2012. It then declined back to 16% for 2014 before starting to increase again (19% for 2015 and 27% for 2016 to date)
- First time applicants: the proportion increased from 30% of applicants in 2010 to 43% in 2012. Since then, the proportion of first time applicants has declined (32% in 2014, 28% for 2015) to 24% for 2016 to date
- The proportion of applicant SMEs with a worse than average external risk rating has varied over time: having been stable up to 2012 (47% in 2012 itself) the proportion increased to 53% for 2013 but was then 40% for 2014 and is currently 34% for 2015 to date. Initial indications for 2016 are that it may have increased again (currently half of 2016 applicants had a worse than average risk rating).



These are all factors that analysis has shown are likely to affect the loan success rate over time.

Further analysis was undertaken using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for loans should be. This equation can be applied to a subset of loan applicants (in this case all those that applied in a certain quarter) to predict what the loan success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.), as these factors had been shown to be key influencers on the likelihood of being successful in an application for funding.

Analysis using this approach is shown below. This shows that the predicted loan success rate was somewhat higher during 2014 than 2013, peaking at 77% for Q1 2015 but has declined somewhat since then:

Final outcome (Loan)

SMEs seeking new/

renewed facility

By date of application

	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*
	13	13	13	14	14	14	14	15	15	15	15
Unweighted base:	176	183	210	181	215	158	191	185	143	118	132
Have loan (any)	36%	61%	68%	64%	61%	88%	56%	81%	73%	76%	64%
Predicted success rate	61%	66%	65%	70%	69%	71%	71%	77%	74%	72%	69%
Difference	-25	-5	+3	-6	-8	+17	-15	+4	-1	+4	-5

Final outcome of loan application by date of application

Analysis shows that neither the higher success rate reported for applications in Q3 2014 (88%) nor the lower rate for Q4 2014 (56%) were explained by a change in the profile of applicants, as the predicted success rate remained unchanged. The declining predicted success rate during 2015 has been reflected in the actual success rates achieved.



The impact of personal borrowing on loan applications

19% of those making a loan application in the past 18 months (Q1 2015 to Q2 2016) said that the facility they had sought was in a personal capacity, compared to 14% for overdrafts.

On this currently limited sample, those applying in a personal capacity were more likely to have a worse than average external risk rating for the business (49% v 34% for those applying in a business capacity) and were less likely to have employees (27% v 52% of those applying in a business capacity) or to be seeking a loan in excess of £25,000 (28% v 40% for those applying in a business capacity).

In terms of the outcome of personal loan applications, base sizes remain limited. However, current data suggests that those applying in a personal capacity were somewhat less likely to have ended the process with a facility (63% v 74% of business applicants) and somewhat more likely to have ended the process with no facility (36% v 22% of business applicants).

Further detail will be provided in future reports, as sample sizes permit.



Outcome analysis over time – new and renewed facilities

This chapter has reported separately thus far on the overdraft and loan journeys made, from initial application to the final outcome. It has shown how, for both loans and overdrafts, those applying for new money typically had a different experience from those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for new or renewed funding, whether on loan **or** overdraft. As the summary table at the start of this chapter showed, renewals have been consistently successful with improvements seen over time in the success rates of those applying for new money, including first time applicants.

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice).

In line with the analysis elsewhere in this chapter, results are typically shown for applications made in the **last 18 months** (between Q1 2015 and Q2 2016) and which have been reported to date.

81% of all loan and overdraft applications in the 18 months to Q2 2016, and reported to date, resulted in a facility. The table below shows that those seeking to renew an existing loan or overdraft facility were more likely to have ended the process with a facility (99%) than those seeking new funds (66%). The margin between the two groups has narrowed somewhat over time as the success rate for new money improves (in earlier waves, those renewing were twice as likely to be successful as those seeking new funds):

Final outcome	New funds sought	Renewals sought
Loans and Overdrafts combined Q1 15 – Q2 16		
<i>Unweighted base of applications:</i>	890	846
Offered what wanted and took it	53%	95%
Took facility after issues	13%	4%
<i>Have facility (any)</i>	66%	99%
Took another form of funding	7%	-
No facility	28%	*

Final outcome of overdraft/loan application by type of finance sought



Further analysis looks at these applications over recent quarters and compares the outcome for renewals to the outcomes for new and specifically first time, facilities, by date of application. Around 4 in 10 of all applications involved the renewal of an existing facility.

The outcome of applications for **renewed** loans/overdrafts over recent quarters is detailed below. It shows almost all such applicants ended the process with a renewed facility:

Final outcome (Overdraft+ Loan) – renewed facilities											
By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
Unweighted base of applications:	252	242	244	255	200	237	246	193	157	129	103
Offered what wanted and took it	90%	89%	79%	79%	89%	91%	95%	97%	97%	92%	98%
Took facility after issues	8%	9%	19%	11%	11%	7%	5%	3%	3%	7%	2%
Have facility (any)	98%	98%	98%	90%	100%	98%	100%	100%	100%	99%	100%
Took another form of funding	*	*	*	6%	*	-	-	-	-	-	-
No facility	2%	1%	2%	4%	*	2%	*	-	*	-	*

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters



The final outcomes for applications for **new** funds (whether first time applicants or not) made over recent quarters are shown in the table below. It shows typically higher success rates in the most recent quarters compared to 2013, but with some variability by quarter:

Final outcome (Overdraft+ Loan) – applications for new money											
By date of application	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base of applications:	198	253	304	262	305	219	264	233	205	169	171
Offered what wanted and took it	24%	43%	40%	53%	55%	58%	59%	55%	37%	63%	58%
Took facility after issues	17%	13%	19%	13%	10%	23%	12%	10%	21%	10%	11%
Have facility (any)	41%	56%	59%	66%	65%	81%	71%	65%	58%	73%	69%
Took another form of funding	10%	7%	9%	13%	8%	3%	10%	2%	11%	6%	*
No facility	49%	38%	32%	21%	26%	16%	20%	32%	31%	21%	31%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

The success rate for new money combines the outcome of loan and overdraft applications made by first time applicants with the outcome for those who have borrowed before. First time applicants now make up a smaller proportion of all new money applications – they made up 44% of all new money applications in the 18 months to Q2 2016 compared to 66% for the 18 months to Q4 2013.



The table below shows the current success rates for new money applications made in the 18 months to Q2 2016, analysed by whether the SME was applying for a first facility or had borrowed before. Those who have borrowed before were more likely to end the process with a facility (69%) than those who were applying for the first time (61%) and this has been a consistent trend over time:

Final outcome – new money

Loans and Overdrafts combined Q1 15 – Q2 16	First time applicants	Other new money
Unweighted base of applications:	279	611
Offered what wanted and took it	52%	53%
Took facility after issues	9%	16%
Have facility (any)	61%	69%
Took another form of funding	6%	7%
No facility	34%	24%

Final outcome of overdraft/loan application by type of finance sought

Over time, the success rates for first time loan/overdraft applicants have increased, from 41% in the 18 months to Q4 2012 to 61% for the current 18 month period. As already reported, this is due to increasing success rates for first time overdraft applicants, as success rates for first time loan applicants were little changed over recent quarters:

Final outcome – first time applicants	Q3 11	Q3 12	Q3 13	Q3 14	Q1 15
Loans and Overdrafts combined	Q4 12	Q4 13	Q4 14	Q4 15*	Q2 16*
Unweighted base of applications:	840	658	493	387	279
Offered what wanted and took it	30%	27%	41%	50%	52%
Took facility after issues	11%	12%	14%	11%	9%
Have facility (any)	41%	39%	55%	61%	61%
Took another form of funding	8%	9%	6%	5%	6%
No facility	51%	53%	39%	33%	34%

Final outcome of overdraft/loan application by type of finance sought



Success rates for other new money applicants remained higher than for first applicants. Having increased steadily up to the 18 months to Q4 2015, the success rate for the latest period is somewhat lower (but still interim):

Final outcome – new money

Loans and Overdrafts combined	Q3 11	Q3 12	Q3 13	Q3 14	Q1 15
Other applications	Q4 12	Q4 13	Q4 14	Q4 15*	Q2 16*
Unweighted base of applications:	1471	668	1114	874	611
Offered what wanted and took it	52%	47%	58%	59%	53%
Took facility after issues	18%	22%	16%	16%	16%
Have facility (any)	70%	69%	74%	75%	69%
Took another form of funding	6%	8%	10%	5%	7%
No facility	23%	23%	16%	19%	24%

Final outcome of overdraft/loan application by type of finance sought

Previous analysis has shown that external risk rating has been a key predictor of success rates. Across all applications made, those applying for their first facility were the most likely to have a worse than average risk rating – for 2015 to date 62% of first time applicants had a worse than average external risk rating, compared to 30% of those renewing an existing facility.

All three applicant groups saw an increase between 2010 and 2013 in the proportion of applicants with a worse than average risk rating. Since then, fewer applicants in each of these groups have had a worse than average risk rating:

% of applicants with worse than average external risk rating

Overdraft + Loan	In	In	In	In	In	In
By year of application (base varies)	2010	2011	2012	2013	2014	2015*
First time applicants	61%	69%	71%	69%	67%	62%
Other new money	44%	49%	49%	45%	34%	35%
Renewals	33%	34%	40%	36%	29%	30%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

For the SME population as a whole, the proportion with a worse than average external risk rating rose from 50% in 2011 to 54% in 2013 but was 46% for 2015, so applicants have followed a similar pattern.

9.The impact of the application/renewal process



This chapter reports

on the experience of applying for Type 1 loan and overdraft events and the impact on the wider banking relationship.



Key findings

In a new question for 2016, all SMEs were asked to assess their relationship with their main bank.

- Most (66%) agreed that their relationship was ‘fine’ but that they ‘just use the bank for transactions and so rarely need to contact them’. This was more likely to be the case for smaller SMEs (69% of those with 0 employees compared to 44% of those with 50-249 employees).
- 22% agreed that they had a ‘strong working relationship’ and felt able to approach their bank ‘whenever needed’. This was much more likely to be the case for larger SMEs (51% of those with 50-249 employees compared to 19% of those with 0 employees).
- The final group, 12% of all SMEs, wished that they had an ‘active working relationship’ with their bank. This was the case for 1 in 8 SMEs with 9 employees or less, compared to 1 in 16 larger SMEs. Those who had been Would-be seekers of finance were also more likely to be in this category (28%).

In another new question for 2016, 73% of all overdraft applicants and 59% of loan applicants reported that they were ‘satisfied’ with the way their application has been handled.

- On the limited base sizes currently available there was a clear difference between those offered what they wanted and taking it (where 91% of overdraft applicants and 94% of loan applicants were satisfied) and those experiencing any other outcome (where 15% of overdraft applicants and 17% of loan applicants were satisfied).



- Within this second group, those who had a facility but ‘after issues’ appeared somewhat more satisfied than those who took other funding or had no facility and were also more likely to report no negative impact on the business as a result of their application.

81% of overdraft facilities and 52% of loan facilities were in place within two weeks and almost all agreed that the facility had been in place in good time for when it was needed (95% for overdrafts and 86% for loans). Those waiting more than a month for their facility remained less likely to think it was in place in good time.

73% of successful overdraft applicants and 53% of successful loan applicants in the 18 months to Q2 2016 said that the process had been ‘low effort’

- Those offered what they wanted were more likely to have rated this as a low effort experience (79% for overdrafts, 60% for loans) than those who had their facility after issues (14% for overdrafts, 25% for loans).

In another new question, most successful loans and commercial mortgages were granted for 10 years or less (49% for up to 5 years, 42% for 5-10 years). 8 in 10 said the term was what they had wanted with almost as many wishing for a shorter loan term (7%) as a longer one (12%).



This chapter reports on the impact of Type 1 loan and overdraft events on the wider banking relationship. New questions covering satisfaction with the loan and overdraft application process, the length of time the loan facility was granted for and the wider banking relationship were asked from Q1 2016 and are reported for the first time here.

Satisfaction with application process

In a new question from Q1 2016, all applicants were asked how satisfied they were with the application process they had been through. Base sizes are somewhat limited for applicants other than those offered what they wanted and so only limited reporting is possible at this stage.

The table below shows that overall 73% of overdraft applicants were satisfied with the application process. However there was a marked contrast in satisfaction between those offered what they wanted and taking it, where 91% were satisfied, and those experiencing another outcome (taking a facility after issues, taking another form of funding or having no funding) where 15% were satisfied:

Satisfaction with application process			
<u>Sought</u> new/renewed facility Q1 15-Q2 16* (interviewed from Q1 16)	All overdraft applicants	All OD offered what wanted	All other OD outcomes
<i>Unweighted base:</i>	467	403	64*
Very satisfied	51%	64%	9%
Fairly satisfied	22%	27%	6%
<i>Satisfied (any)</i>	73%	91%	15%
Neither satisfied nor dissatisfied	12%	8%	27%
Fairly dissatisfied	3%	1%	8%
Very dissatisfied	12%	1%	50%

Q100a All SMEs applying for new/renewed facility Q1 2015 to Q2 2016



It was a similar story for loan applicants, with those who were offered a loan and took it being much more likely to be satisfied (94%) than those experiencing any other outcome (including having a loan after issues) where 17% were satisfied.

Satisfaction with application process

Sought new/renewed facility Q1 15-Q2 16*
(interviewed from Q1 16)

	All loan applicants	All loan offered what wanted	All other loan outcomes
Unweighted base:	259	178	81*
Very satisfied	45%	73%	11%
Fairly satisfied	14%	21%	6%
Satisfied (any)	59%	94%	17%
Neither satisfied nor dissatisfied	7%	2%	14%
Fairly dissatisfied	2%	-	5%
Very dissatisfied	32%	4%	65%

Q195a All SMEs applying for new/renewed facility Q1 2015 to Q2 2016

For both loans and overdrafts the limited data available to date suggests that within the 'other outcome' category those who took a facility after issues were somewhat more satisfied than those who took other funding or have no facility.

This is supported by a follow up question, asked of all applicants *except* those who were offered, and took, the facility they wanted. Amongst such overdraft applicants, 4 in 10 said that the outcome of their overdraft application had had

no negative impact on their business, but almost all of these had an overdraft facility albeit 'after issues'. The same was true for the 1 in 5 loan applicants who reported no negative impact.

Across both loans and overdrafts the most commonly mentioned negative impacts were not expanding the business as they would have liked and finding running the business more of a struggle. More detail will be provided in subsequent waves as more data is gathered.



Period for which new loan facility granted

From Q1 2016 those with a new loan or commercial mortgage were asked how long the loan was granted for. Base sizes are limited at this early stage (120 respondents) but indicative results are as follows:

- 49% of new loans/commercial mortgages were for less than 5 years (more common for smaller applicants)
- 42% were for 5-10 years (with little difference by size)
- 6% were for 11-20 years (more common amongst larger applicants)
- 3% were for more than 20 years (with little difference by size).

These successful applicants were also asked whether this was the time period they had wanted the loan for:

- 81% said that it was (with little difference by size)
- 12% would have liked the loan over a longer time period
- 7% would have liked a loan over a shorter time period

More analysis will be provided as base sizes permit.



New facility granted in good time

Successful respondents were asked how long it had taken from submitting their application to putting their new facility in place and whether this was in ‘good time’ for when they needed it. In line with analysis elsewhere in this part of the report, the table below is based on all applications made in the last 18 months, Q1 2015 to Q2 2016.

8 out of 10 overdrafts were in place within 2 weeks (81%), while half of loans were in place in this time period (52%):

Successful Type 1 applicants

Time taken to put facility in place

Sought new/renewed facility Q1 15-Q2 16*

	Overdrafts	Loans
Unweighted base:	1065	540
Within 1 week	66%	34%
Within 2 weeks	15%	18%
Within 3-4 weeks	13%	20%
Within 1-2 months	5%	16%
Longer than this	2%	8%
Not in place yet	*	5%

Q101a and Q196a All SMEs that granted new/renewed facility Q1 2015 to Q2 2016, excluding DK



Further analysis is provided in the table below.

Time taken & impact Successful Type 1 applicants Q1 2015 to Q2 2016

Time taken by sector	<p>Overdrafts were more likely to be agreed within a week in the Construction (80%) and Other Community sectors (86%), compared to 51% in the Property/Business Services sector. For other sectors the proportion agreed within a week ranged from 53-71%.</p> <p>Base sizes are small for loans and there is more variability – the proportion with a facility agreed in a week ranged from 16% for applicants in Manufacturing to 54% for the Transport sector.</p>
By level of security	<p>Secured loans were less likely to be in place within a week (23%) than unsecured ones (52%), given the security processes that need to be undertaken.</p> <p>There was also a difference between secured (52%) and unsecured (75%) overdrafts that were in place within a week (overdrafts are more likely to be renewals where the security may already be in place).</p>
By size of SME	<p>Loan facilities for smaller SMEs were slightly more likely to be made available within a week (35% for loans where the SME had 0-9 employees, 23% where they had 10-249 employees) with less of a difference by size for overdrafts (66% v 62%).</p> <p>In terms of facilities being made available within a <i>month</i>, there was less of a difference by size for overdrafts (94% for smaller SMEs v 92% for larger ones) than for loans (72% for smaller SMEs v 64% for larger SMEs).</p>
In place in good time?	<p>Most applicants agreed that the facility had been put in place in good time for when it was needed, with overdraft applicants more likely to agree (95%) than loan applicants (86%).</p>
In place in good time, by size of SME	<p>The main difference was amongst smaller loan applicants. Despite typically waiting longer for their facility, larger loan applicants were more likely to agree that their facility was in place in good time:</p> <ul style="list-style-type: none"> • Amongst applicants with 0-9 employees, 95% said their overdraft was made available in good time, while for loans it was 85%. • Amongst larger applicants 95% said their overdraft was made available in good time, while for loans it was 92%.



Analysis by the length of time taken for the facility to be put in place showed that overall it was typically those waiting less than a month who were more likely to say that the facility had been put in place in good time:

- Over 90% said their overdraft facility was in place in good time if they waited less than a month compared to 64% if they had waited a month or more.
- For loans, 95% or more said their facility was in place in good time if it was received within 3 weeks. The proportion then started to drop and was 65% for those who waited a month or more (all excluding DK answers).

Analysis of the data available over time shows that a consistently high percentage of overdrafts (typically 90%+) were in place within a month, with 95%+ of respondents saying the facility was available in good time.

The pattern for loans is similarly consistent. Over recent years around 7 in 10 facilities have been in place within a month and over 8 in 10 applicants have said their facility was available in good time.



‘Effort’ required to obtain a new facility

From Q1 2014, successful Type 1 loan and overdraft applicants were asked how much effort they had to expend to get their new facility. This question is derived from various academic studies from Harvard Business School which claim that the more ‘effort’ a situation requires, the less satisfied the customer and the less likely they are to remain loyal in future. A score is given between 1 and 5 (where 5 is high effort) and the net score of low-high effort calculated. The higher the net score the better,

but negative net scores are not uncommon in other banking studies undertaken.

Overall, the overdraft application process was more likely than the loan application process to be rated a low effort experience. This, though, is due to more overdraft applicants being offered the facility they wanted (and then rating it a low effort process). Both loan and overdraft applicants who got their facility ‘after issues’ give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q1 2015 to Q2 2016
Overdraft applicants	73% of successful Type 1 overdraft applicants described the process as ‘low effort’. 13% described it as ‘high effort’, a net score of +60.
Loan applicants	53% of successful Type 1 loan applicants described the process as ‘low effort’. 26% described it as ‘high effort’, a net score of +27.
Effort if offered what wanted	79% of successful overdraft applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience. 60% of successful loan applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience.
Effort if have facility after issues	14% of those who had their overdraft facility ‘after issues’ rated it a low effort experience (compared to 79% offered what they wanted). 25% of those who had their loan facility ‘after issues’ rated it a low effort experience (compared to 60% of those offered what they wanted).



Overall bank relationship

In previous reports analysis has been provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. As the table below shows the most frequent answer in H1 2016 was that the relationship was fine, but transactional:

Nature of relationship with main bank		0	1-9	10-49	50-249
H1 2016 all SMEs	Total	emps	emps	emps	emps
Unweighted base	9000	1800	2900	2900	1400
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	28%	46%	51%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	66%	69%	59%	46%	44%
We don't have an active working relationship with our bank and wish that we had one	12%	13%	13%	7%	5%

Q220

There were clear differences by size of SME. Those with 0 employees were much more likely to describe their relationship as 'transactional' (69%) than to say they had a 'strong working relationship' (19%) and were almost as likely to wish for a more active relationship (13%). As the size of SME increases, so does the proportion with a 'strong working relationship' and amongst those with 50-249 employees this was the most common answer (51% v 44% who have a transactional relationship).

Excluding the Permanent non-borrowers increases the proportion with a 'strong relationship' slightly (to 25%). Analysis by age of business shows a slight increase with age in the proportion with a 'strong relationship': 19% of Starts had such a relationship compared to 26% of those trading for more than 20 years.



Analysis by previous borrowing behaviour shows that those who had reported a borrowing event (typically the larger SMEs) were more likely to have a ‘strong working relationship’ than those who had been Would-be seekers of finance’. The relatively small group of WBS was twice as likely as the other groups to wish that they had a more active relationship with their bank (28%):

Nature of relationship with main bank		Had an event		
H1 2016 all SMEs	Total	WBS	HNS	
<i>Unweighted base</i>	9000	1777	185	7038
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	28%	16%	21%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	66%	58%	56%	67%
We don't have an active working relationship with our bank and wish that we had one	12%	14%	28%	12%

Q24a

Analysis by future borrowing intentions shows a similar stronger relationship for those planning to apply compared to FWBS (27% v 18%) but no difference in the proportion wishing for a more active relationship (both 16%).

SMEs in Agriculture and the Hotel & Restaurant sector were more likely to have a strong working relationship (both 33%) compared to 18% of those in Transport. There was relatively little variation by sector in the proportion wanting a more active relationship (9-12% with the exception of Property/Business Services 15%).

Further analysis will be conducted as base sizes permit.

10. Rates and fees – Type 1 events



This chapter covers

the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) that occurred in the 18 months Q1 2015 to Q2 2016.



Key findings

80% of new or renewed overdrafts granted in the 18 months to Q2 2016 were for £25,000 or less and 12% were in a personal name. For loans, 78% were for £100,000 or less and 18% were in a personal name. In both instances, the larger the applicant, the larger the facility and the less likely it was to be in a personal name.

40% of overdrafts were secured. 58% of loans were secured, including 21% that were commercial mortgages. In both cases security was more likely to be required for larger facilities and larger applicants.

- Over time, there has been an increase in the proportion of smaller overdrafts that are secured (currently 31% of overdrafts of £10,000 or less are secured) and this has led to an increase in the overall proportion secured. 28% of applications made in H1 2012 were secured compared to 36% made in H2 2015.
- There has also been an increase in the proportion of loans that are secured (excluding commercial mortgages). In H1 2012, 33% of loans were secured, increasing to 49% in the latter half of 2015.

Of those who knew, 41% said that their overdraft was on a variable rate. Loans were less likely to be on a variable rate (24%).

- Variable rate overdrafts were more likely to be the case for larger facilities (67% of overdrafts of £100,000 or more were on a variable rate).
- This was also the case for loans, with 35% of loans granted for more than £100,000 being on a variable rate.



16% of successful overdraft applicants and 44% of successful loan applicants did not pay a fee for this facility.

- The median overdraft fee paid was £118 and 7 in 10 paid a fee that was the equivalent of 2% or less of the facility granted.
- The median loan fee paid was £75 and 8 in 10 paid a fee that was the equivalent of 2% or less of the facility granted.



This chapter covers the security and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) which occurred between Q1 2015 and Q2 2016.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. These automatically renewed overdrafts are reported on separately towards the end of this chapter.

From Q1 2016, this element of the questionnaire was revised, simplifying the question on security and removing the questions on the margin or fixed rate charged for a facility.

Overdrafts: context

The price of a facility will be a function, at least in part, of the size of the facility and the business it is granted to, whether it is secured or not, and whether it is a personal or business facility:

Successful overdraft applications	Further analysis Q1 2015 to Q2 2016
Size of applicant	<p>Of all new overdrafts successfully applied for Q1 2015 to Q2 2016:</p> <ul style="list-style-type: none">• 59% were granted to 0 employee SMEs• 33% to 1-9 employee SMEs• 7% to 10-49 employee SMEs• 1% to 50-249 employee SMEs
Size of facility	<p>80% of new/renewed overdrafts granted between Q1 2015 and Q2 2016 were for £25,000 or less.</p> <p>This varied by size of applicant from 91% of overdrafts granted to SMEs with 0 employees to 36% of those granted to SMEs with 50-249 employees.</p>
Personal facilities	<p>12% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This varied from 18% of overdrafts granted to 0 employee businesses to 1% of those with 50-249 employees.</p>



Analysis of the size of the overdraft facility granted by recent application date is reported below. Between 2011 and 2013, an increasing proportion of overdrafts were agreed for more than £5,000 (from 52% to 60%). Since then, around 6 in 10 applications have been for £5,000 or more:

Overdraft facility granted

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15	Q1* 16
Unweighted base:	309	337	318	338	261	314	301	256	218	187	130
Less than £5,000	46%	34%	49%	42%	37%	37%	37%	48%	42%	40%	32%
£5-25,000	37%	40%	32%	30%	35%	43%	40%	34%	45%	39%	35%
£25,000+	17%	26%	20%	28%	28%	20%	22%	19%	12%	21%	32%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

From Q1 2016, those who had successfully applied for an overdraft were asked a simplified question about the security pertaining to that facility, as shown in the table below. The headline categories remained the same as in previous waves allowing this 2016 data to be combined with previous data. 4 in 10 Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q1 2015 and Q2 2016) were secured:

Security required (Overdraft)

<u>Successfully sought</u> new/renewed overdraft Q1 15 – Q2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	1049	110	361	413	165
Any security	40%	34%	48%	57%	63%
Property (business/personal)	32%	28%	37%	42%	46%
Other security (any)	10%	7%	14%	19%	21%
No security required	60%	66%	52%	43%	37%

Q 105a All SMEs with new/renewed overdraft excluding DK



The larger the facility, the more likely it was to be secured. For overdrafts successfully applied for between Q1 2015 and Q2 2016:

- 31% of overdrafts granted for less than £10,000 were secured
- 40% of overdrafts granted for £10-24,999 were secured
- 66% of overdrafts granted for £25-99,999 were secured
- 77% of overdrafts granted for £100,000 or more were secured.

Over the longer term, more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Larger facilities remained more likely to be secured:

% of overdraft facilities that were secured

By application date	H1	H2	H1	H2	H1	H2	H1	H2
Row percentages	2012	2012	2013	2013	2014	2014	2015	2015*
All overdrafts	28%	34%	35%	34%	36%	33%	42%	36%
Overdrafts of <£10,000	18%	16%	18%	22%	24%	24%	32%	29%
Overdrafts of £10-24,999	33%	52%	49%	40%	50%	38%	45%	32%
Overdrafts of £25-100,000	54%	63%	62%	62%	53%	40%	64%	66%
Overdrafts of more than £100,000	77%	63%	72%	78%	66%	68%	74%	92%

Q 106 All SMEs with new/renewed overdraft, excluding DK

Initial indications for applications made in H1 2016 are that around half were secured.



Overdrafts: Rates

Amongst those who gave an answer, 4 in 10 (41%) said that their new/renewed overdraft was on a variable rate and this was more likely to be the case for larger facilities granted:

Type of rate (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q1 15-Q2 16 excl. DK

	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	919	309	196	227	187
Variable rate lending	41%	37%	32%	59%	67%
Fixed rate lending	59%	63%	68%	41%	33%

Q 107 All SMEs with new/renewed overdraft, excluding DK

As the table below shows, when analysed by recent date of application the proportion of lending on a variable rate has been fairly stable at around 4 in 10:

New/renewed overdraft rate

	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3* 15	Q4* 15
Unweighted base:	273	255	278	280	281	220	250	262	207	183	143
Variable rate lending	42%	43%	43%	43%	40%	38%	38%	46%	46%	37%	37%
Fixed rate lending	58%	57%	57%	57%	60%	62%	62%	54%	54%	63%	63%

Q 107 All SMEs with new/renewed overdraft, excluding DK

Questions around the margin charged for the overdraft facility are no longer asked.



Overdrafts: Fees

Most respondents (81%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £262, and this has been fairly consistent over time.

As would be expected, fees vary by size of facility granted:

Fee paid (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q1 15-Q2 16 excl. DK

	Total	Under £25k	£25-100k	£100k+
Unweighted base:	868	466	232	170
No fee paid	16%	17%	4%	29%
Less than £100	17%	21%	5%	*
£100-199	32%	38%	9%	4%
£200-399	23%	21%	41%	6%
£400-999	8%	2%	35%	15%
£1000+	4%	1%	5%	46%
Average fee paid:	£262	£130	£407	£1524
Median fee paid	£118	£95	£293	£494

Q 113/114 All SMEs with new/renewed overdraft, excluding DK

Over time, the proportion paying no fee for their overdraft has remained fairly consistent, at around 1 in 5 (it has typically been 21-22% since H2 2014).

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 28% paid a fee that was equivalent to less than 1% of the facility granted and a further 42% paid the equivalent of 1-2%.



Almost all of those borrowing £25,000 or more paid a fee which was the equivalent of 2% or less of the facility granted. This compares to around half of those with a facility of £10,000 or less:

- 57% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 77% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 98% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less

An analysis of secured and unsecured overdrafts is shown below:

Unsecured and secured overdrafts	Further analysis Q1 2015 to Q2 2016
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (90%) compared to 65% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (50%) than unsecured overdrafts (35%).
Fees	<p>Secured overdrafts were somewhat more likely to attract a fee (93%) than unsecured overdrafts (78%), and the average fee charged was higher (£445 secured compared to £148 unsecured).</p> <p>Whilst secured overdrafts typically attracted a higher fee in absolute terms, these are typically larger facilities and the fee was more likely to be the equivalent of 2% or less of the agreed facility (81%) than was the case for unsecured overdrafts (65%).</p>



Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility and fees by the external risk rating of the SME granted the facility. Businesses with a minimal/low risk rating typically had a larger facility and paid somewhat less for it, relative to the size of the facility:

Further analysis by risk rating Q1 2015 to Q2 2016

Amount borrowed	Most overdrafts granted to those with an average or worse than average risk rating were for less than £25,000 (83%) compared to 69% of those granted to SMEs with a minimal or low risk rating.
Security	<p>Those with a minimal or low risk rating were more likely to have a secured overdraft (52%) than those with an average or worse than average rating (35%).</p> <p>For both groups, those borrowing more than £25,000 were more likely to have a secured facility (74% for minimal/low and 64% for average/worse than average).</p>
Variable rates	There was no difference in the type of interest rate by risk rating (41% on a variable rate for both those with a minimal/low or average/worse than average risk ratings).
Fees	<p>There was relatively little difference in the proportion who paid a fee for their overdraft (87% for minimal/low and 83% for average/worse than average).</p> <p>Those with a minimal/low risk rating paid a higher fee in absolute terms (£430 v £203 for those with an average or worse than average risk rating) but this remained more likely to be the equivalent of 2% or less of the agreed facility (76%) than was the case for those with an average or worse than average risk rating (67%).</p>



Overdraft terms: Analysis by sector

Overall in the 18 months Q1 2015 to Q2 2016, 80% of overdrafts successfully applied for were facilities of £25,000 or less. By sector this varied relatively little (between 77% and 91%), with the exception of Agriculture where 53% of overdrafts granted were for less than £25,000.

As the table below shows, secured overdrafts were:

- More common for overdrafts in Agriculture (59%) – these are typically larger facilities as reported above
- Somewhat less common for overdrafts in the Transport sector (25%)

Type 1 overdraft

Successfully sought

new/ renewed overdraft

Q1 15-Q2 16 excl. DK

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	135	110	167	123	76*	100	150	68*	120
Any security	59%	44%	33%	47%	36%	25%	37%	54%	36%
- property	52%	29%	21%	44%	30%	22%	27%	51%	24%
No security	41%	56%	67%	53%	64%	75%	63%	46%	64%

Q 106 All SMEs with new/renewed overdraft excluding DK



Overall, 4 in 10 successful Type 1 overdrafts were on a variable rate (41%). On limited base sizes, overdrafts granted to SMEs in Wholesale/Retail and Manufacturing were less likely to be on a variable rate:

Type 1 overdraft rate

Successfully sought new/
renewed overdraft

Q1 15-Q2 16 excl. DK

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Com m
Unweighted base:	125	94*	143	104	68*	95*	133	57*	100
Variable rate lending	52%	29%	48%	28%	44%	36%	57%	41%	36%
Fixed rate lending	48%	71%	52%	72%	56%	64%	43%	59%	64%

Q 107 All SMEs with new/renewed overdraft excluding DK

Whilst those in Agriculture paid on average a higher fee, this is a reflection of the larger overdraft facilities successfully applied for in this sector, given that they were more likely than many other sectors to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees

Successfully sought new/
renewed overdraft

Q1 15-
Q2 16 excl. DK

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base (varies):	106	92*	132	98*	72*	83*	128	58*	99*
No fee paid	18%	16%	15%	21%	20%	19%	14%	24%	2%
Average fee paid	£537	£332	£237	£233	£213	£161	£294	£245	£194
Equivalent of 2% or less paid*	81%	50%	78%	81%	68%	47%	59%	65%	90%

Q 113/114 All SMEs with new/renewed overdraft excluding DK * where both fee and facility known – SMALL BASE



Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is available on the fees and security pertaining to overdraft facilities that were automatically renewed. The table below shows this data for all automatic renewals that occurred between Q1 2015 and Q2 2016.

14% of these automatic renewals were in a personal name (v 12% of Type 1 overdrafts granted). They were in many ways quite similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary Q1 15-Q2 16	Automatically renewed	Type 1 overdraft event
<i>Unweighted base (varies by question):</i>	1314	1115
Any security required	30%	40%
Facility on a variable rate (excluding DK)	35%	41%
No fee	25%	16%
Average fee paid	£254	£262

All SMEs with new/renewed overdraft, excluding DK



Loans: Context

As with the overdraft section above, this section is based on SMEs that had made an application for a new or renewed loan facility during the latest 18 month period which for this report is between Q1 2015 and Q2 2016.

The price of a facility will be a function, at least in part, of the size of the facility and of the business granted that facility, whether it is secured or not, and whether it is a personal or business facility:

Successful loan applications	Further analysis Q1 2015 to Q2 2016
Size of applicant	<p>Of all new loans successfully applied for between Q1 2015 and Q2 2016:</p> <ul style="list-style-type: none">• 48% were granted to 0 employee SMEs• 39% to 1-9 employee SMEs• 11% to 10-49 employee SMEs• 2% to 50-249 employee SMEs
Size of facility	<p>78% of new/renewed loans granted in the period Q1 2015 to Q2 2016 were for £100,000 or less. By size of applicant this varied from 89% of loans granted to SMEs with 0 employees to 37% of loans granted to those with 50-249 employees.</p>
Personal facilities	<p>18% of successful new/renewed loans in this period were applied for in a personal name rather than that of the business. 86% of these loans were for £100,000 or less (albeit this is based on a small number of loans).</p> <p>29% of 0 employee SMEs with a new/renewed loan said the facility was in a personal name, decreasing by size of SME to 4% of successful applicants with 50-249 employees.</p> <p>Personal facilities will typically be priced differently to business facilities, so as an indication 19% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 11% of loans £100k+.</p>



Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and trends over time are not clear with some variation across individual quarters:

Loan facility granted	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*
By date of application	13	13	14	14	14	14	15	15	15	15
<i>Unweighted base:</i>	141	164	152	177	133	163	166	122	107	112
Less than £25k	45%	63%	59%	64%	72%	52%	63%	41%	63%	56%
£25-99k	41%	27%	23%	21%	12%	14%	13%	16%	20%	31%
More than £100k	14%	10%	19%	15%	16%	33%	24%	43%	16%	13%

All successful loan applicants that recall amount granted

Loans: Security

21% of all loans were commercial mortgages. These were much more likely to have been granted for £100,000+ and in this most recent period varied relatively little by size of applicant:

- 20% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 30% of successful applicants with 10-49 employees
- 22% of successful applicants with 50-249 employees

All other successful loan applicants were asked whether any security was required for their loan. In line with the changes made to the questions about the security required for overdraft facilities, these questions have also been simplified and are reported in the new format below.



As the table below shows, smaller SMEs remained more likely to have an unsecured loan:

Security required (Loan)		0-9	10-49	50-249
<u>Successfully sought</u> new/renewed loan	Q1 15-Q2 16	Total	emp	emps
Unweighted base:		558	212	229
Commercial mortgage		21%	20%	22%
Secured business loan		37%	36%	48%
Property (business/personal)		29%	28%	36%
Other security (any)		11%	10%	16%
Unsecured business loan		42%	44%	30%

Q 198a All SMEs with new/renewed loan excl. DK

Including commercial mortgages, of new/renewed loans successfully applied for in Q1 2015 to Q2 2016:

- 41% of loans granted for less than £25,000 were secured
- 72% of loans granted for £25,000 to £100,000 were secured
- 89% of those granted for more than £100,000 were secured



Analysis by date of application at the half year level, shows that most loans granted for more than £100,000 (*excluding* commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, but such security has become more likely over time. Currently then, around half of all loans that were not commercial mortgages were secured:

% of loan facilities that were secured

Application date	H1	H2	H1	H2	H1	H2	H1	H2
Row percentages	2012	2012	2013	2013	2014	2014	2015	2015*
All loans (excluding commercial mtges)	33%	33%	26%	35%	31%	34%	45%	49%
Loans of <£100,000 (excl commercial mtges)	28%	18%	17%	31%	24%	20%	38%	43%
Loans of £100,000 or more (excl commercial mtges)	69%	78%	82%	76%	72%	83%	73%	91%

Q 200 All SMEs with new/renewed loan, excluding DK and those with commercial mortgage

Loans: Rates

Amongst those who knew, 76% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained somewhat more common for loans than overdrafts (where 59% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted

<u>Successfully sought</u> new/renewed loan Q1 15-Q2 16	Total	<£100k	£100k+
Unweighted base:	484	282	202
Variable rate lending	24%	22%	35%
Fixed rate lending	76%	78%	65%

Q 201 All SMEs with new/renewed loan, excluding DK

Analysis by when the application took place showed that typically around 7 in 10 loans have been on a fixed rate, with no clear trend over time.



Analysis by size of loan over time is more qualitative in nature due to limited sample sizes. It suggests that between 7 and 8 in 10 loans under £100,000 were on a fixed rate. Recent loans above £100,000 were somewhat less likely to be on a fixed rate, with currently around two thirds being on a fixed rate.

Loans: Fees

76% of respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan)			
<u>Successfully sought</u> new/renewed loan Q1 15-Q2 16	Total	<£100k	£100k+
Unweighted base:	403	231	172
No fee paid	44%	46%	38%
Less than £100	6%	8%	2%
£100-199	14%	17%	4%
£200-399	9%	10%	6%
£400-999	14%	15%	12%
£1000+	14%	6%	38%
Average fee paid:	£1436	£367	£4734
Median fee paid	£75	£46	£299

Q 207/208 All SMEs with new/renewed fixed rate loan, excluding DK

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 56% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 27% paid between 1-2%:

- 80% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 93% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less.

The proportion paying the equivalent of 2% or less has been around 8 in 10 each year with the exception of 2012 when around 7 out of 10 paid a fee of this proportion.



An analysis of unsecured and secured loans (including commercial mortgages) is shown below:

Unsecured and secured loans Further analysis Q1 2015 to Q2 2016

Amount borrowed	Almost all unsecured loans were for less than £100,000 (94%) compared to 66% of secured loans.
Fixed rates	Unsecured loans were as likely to be on a fixed rate (78%) as secured loans (74%).
Fees	<p>Secured loans were somewhat more likely to attract a fee (63%) than unsecured loans (47%), and the average fee charged was higher (£2135 secured compared to £459 unsecured).</p> <p>Whilst secured loans typically attracted a higher fee in absolute terms, this remained more likely to be the equivalent of 2% or less of the agreed facility (90%) than was the case for unsecured loans (75%).</p>

Loan terms: Analysis by risk rating

Sample sizes also permit analysis of size of facility and fees by external risk rating. Those with a minimal/low external risk rating remained more likely to be typically borrowing more and paying a lower variable rate:

Risk rating Further analysis Q1 2015 to Q2 2016

Amount borrowed	Most successful applicants with an average or worse than average risk rating were borrowing less than £100,000 (87%) compared to 67% of those with a minimal or low risk rating.
Security	61% of loans to minimal/low risk SMEs were secured, compared to 54% of those made to those with an average/worse than average risk rating.
Fixed rates	73% of loans to minimal/low risk SMEs were on a fixed rate v 75% of those made to SMEs with an average/worse than average risk rating.
Fees	<p>Those with a minimal/low risk rating were somewhat more likely to pay a fee at all (64% v 47% with an average/worse than average risk rating).</p> <p>Those with a minimal or low risk rating paid a higher average fee (£2489 v £839 for those with an average or worse than average risk rating). This reflects the larger facilities granted as they were more likely to have paid the equivalent of 2% or less as a fee (73% v 88% for those with an average or worse than average risk rating).</p>



Loan terms: Analysis by sector (indicative)

Note that the small proportion of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even across an 18 month time period. This section continues to be included, but can provide only *indicative* loan data, and no figures are shown where a sector has fewer than 50 respondents answering.

78% of new/renewed loans agreed between Q1 2015 and Q2 2016 were for £100,000 or less

with relatively little variation across those sectors where comparisons are possible.

As the table below shows, across those sectors where sufficient data is available, new/renewed loans in the Property/Business Services sector were more likely to have been commercial mortgages, while those in Manufacturing were more likely to be unsecured:

Type 1 loan

<u>Successfully sought new/ renewed loan Q1 15-Q2 16</u>	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	83*	57*	73*	69*	56*	-	82*	-	-
Commercial mtge	20%	12%	7%	26%	24%		37%		
Secured loan	40%	24%	38%	34%	46%		42%		
Unsecured loan	40%	64%	55%	40%	30%		21%		

Q 198/199 All SMEs with new/renewed loan excluding DK

There are too few respondents by sector to report on fixed v variable lending or on fees.

11. Why were SMEs not looking to borrow in the previous 12 months?



This chapter looks

at those that had not had a borrowing event, to explore whether they wanted to apply for loan/overdraft finance in the previous 12 months and any barriers to applying.



Key findings

YEQ2 2016, SMEs remained more likely to have been a Happy non-seeker of finance (81%). 15% of all SMEs reported a borrowing event (including the automatic renewal of an overdraft) while 4% were Would-be seekers of finance who had wanted to apply for a loan or overdraft but felt that something stopped them.

- The proportion of Happy non-seekers has increased over time, from 68% of SMEs in 2012 to 83% in the first half of 2016.
- The proportion reporting a borrowing event has declined over time, from 23% of SMEs in 2012 to 14% in the first half of 2016.
- The proportion of Would-be seekers has also declined over time, having been 10% in 2012

Would-be seekers are now asked one single question as to why they did not apply for a loan and/or overdraft facility. Discouragement and the process of borrowing remained the main barriers:

- 41% of WBS felt discouraged from applying. This was much more likely to be the case for smaller WBS (42% of those with 0-9 employees compared to 9% of those with 10-249 employees). This remained more likely to be indirect discouragement (where the SME believes they will be declined and so does not apply) than direct discouragement.
- 19% cited the process of borrowing as the main barrier to application (typically the expense). This was much more likely to be the case for larger WBS (19% of those with 0-9 employees compared to 40% of those with 10-249 employees).



Excluding the Permanent non-borrowers, with no apparent appetite for finance, increased the proportion of SMEs reporting an event to 29% and the Would-be seekers to 7%, but most SMEs continued to meet the definition of a Happy non-seeker of finance (65%).

Expanding the definition to include other forms of finance increased the proportion of all SMEs with a borrowing event to 24% (from 15%) but resulted in little change in the proportion of Would-be seekers (3% rather than 4%). The Happy non-seekers remained the largest group (73% from 81%).



As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks at those that had not had a borrowing event, to explore whether they had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers not only those that have had a borrowing event, but also those that have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are now entirely based on when the borrowing event in question *occurred*).

All SMEs have been allocated to one of three groups, encompassing both overdrafts and loans:

Had an event: those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility.

Would-be seekers: those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, but said something had stopped them applying for either loan or overdraft funding in the previous 12 months.

Happy non-seekers: those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, and also said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months.

Changes to definitions – a summary

Up until Q1 2016, respondents who hadn't reported a relevant loan and/or overdraft borrowing event were asked separately about wanting to apply for a loan or an overdraft. This meant that a respondent might have been allocated to two different categories, for example if they reported a loan 'event' and had also been a Would-be seeker of an overdraft. In that instance they would have been classed in this report as having had an event (due to the loan) and their answers in terms of being a Would-be seeker of an overdraft would not have been included at the analysis stage, as each respondent can only appear in one of the three categories above.

This meant that some answers (which took time to gather during the interview) were never used. So, from Q1 2016 onwards, potential Would-be seekers have been identified within the survey as those who had reported neither a loan nor an overdraft event. Such SMEs were then asked whether anything had stopped them applying for either a loan or overdraft facility and if they identified any barrier, they qualified as a would-be seeker of finance. Whilst this is a slightly different approach within the survey itself, the basis on which Would-be seekers are reported has not changed because the Monitor has only ever reported on Would-be seekers who had not had an 'event' as well.



Since the start of the Monitor a number of other adjustments have been made to this area of the questionnaire. These are summarised below but were reported in full in the Q4 2015 report:

- From the Q2 2012 report onwards, the definition of ‘had an event’ was amended to include automatic overdraft renewals, and all respondents from Q4 2011 re-classified under the new definition.
- From Q4 2012, the question used to separate the Happy non-seekers from the Would-be seekers was changed from:
 - Would you say that you would like to have an overdraft/loan facility for the business, even though you haven't applied for one?To
 - Has anything stopped you applying for an overdraft/loan, or was it simply that you felt that the business did not need one?
- In Q4 2012, the list of reasons available to Would-be seekers, explaining why they had not applied for a loan or overdraft facility was amended when the option ‘I prefer not to borrow’ was removed
- From Q3 2015, a question has been asked that allows identification of Would-be seekers of other forms of finance (such as leasing). An initial assessment of the impact this would have on the overall Would-be seekers position is provided in this chapter but the main definition has not been changed in this report.



To what extent do SMEs have an unfulfilled wish to borrow?

The table below is based on the ‘Had an event’ definition described at the start of this chapter (i.e. including automatic renewals as an ‘event’), and (from Q1 2016) the revised Would-be seeker/Happy non-seeker questions (which define these groups in the same way as previous reports).

As described earlier, the ‘Have had an event’ code includes not only applications for new or renewed loans and overdrafts (and the

automatic renewal of overdrafts), but also Type 2 and Type 3 loan and overdraft events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the ‘event’ line, the proportion of SMEs each quarter that have applied for a new/renewed facility or had an overdraft facility automatically renewed, and then those that have had a facility reduced/cancelled or have chosen to do so (the Type 2 and 3 events):

Any events (overdraft and loan)

Over time - all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Have had an event	17%	18%	15%	18%	16%	16%	17%	13%	15%
• New or (auto) renewed facility	15%	14%	13%	14%	14%	14%	15%	11%	13%
• Type 2 or 3 events	4%	6%	3%	6%	5%	4%	4%	3%	3%
Would-be seekers	5%	5%	3%	3%	2%	3%	5%	3%	2%
Happy non-seekers	78%	77%	82%	79%	82%	80%	78%	83%	83%

Q115/209 All SMEs – new definitions from Q4 2012 – shaded figures

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (83% in Q2 2016), while the proportion of Would-be seekers remained low (2% in Q2 2016). The proportion of SMEs reporting an event remained at around 1 in 6.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing events in the previous 12 months). In 2015 and H1 2016, a quarter of Happy non-seekers (25%) were using external finance and this proportion has changed little over time.

Permanent non-borrowers are by definition Happy non-seekers. The impact on the analysis above once these PNBs are removed is discussed later in the chapter.



The table below shows the small and broadly stable proportion of Would-be seekers of loan and overdraft finance over recent quarters, with smaller SMEs and those with a less favourable risk rating more likely to meet the definition:

Would-be seekers

Over time – row percentages By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	5%	5%	3%	3%	2%	3%	5%	3%	2%
0 employee	6%	6%	3%	3%	2%	4%	5%	4%	2%
1-9 employees	4%	4%	3%	4%	2%	3%	4%	3%	3%
10-49 employees	2%	2%	2%	2%	1%	2%	2%	1%	1%
50-249 employees	1%	1%	1%	1%	1%	1%	1%	*	2%
Minimal external risk rating	1%	1%	2%	1%	1%	2%	1%	3%	*
Low external risk rating	3%	1%	2%	4%	1%	2%	3%	1%	1%
Average external risk rating	3%	5%	2%	2%	2%	3%	7%	3%	2%
Worse than average external risk rating	8%	6%	5%	3%	2%	5%	6%	5%	3%
Agriculture	2%	2%	3%	2%	2%	4%	6%	3%	1%
Manufacturing	6%	4%	3%	3%	4%	4%	5%	4%	1%
Construction	6%	5%	3%	3%	2%	2%	3%	4%	1%
Wholesale/Retail	5%	4%	3%	1%	1%	6%	6%	2%	1%
Hotels & Restaurants	8%	7%	5%	5%	3%	4%	4%	3%	6%
Transport	10%	7%	8%	4%	5%	3%	5%	5%	3%
Property/Business Services etc.	3%	5%	3%	3%	2%	5%	4%	4%	3%
Health	4%	7%	1%	2%	1%	3%	1%	1%	*
Other Community	8%	8%	3%	5%	*	1%	12%	2%	3%
All excluding PNBs	9%	9%	6%	6%	4%	6%	9%	7%	4%

Q115/209 All SMEs base size varies by category



As in previous periods, SMEs with no employees were less likely to have had an 'event' than those with employees. The bigger the SME, the less likely they were to have been a Would-be seeker of external finance:

Any events (Overdraft <u>and</u> loan)			0	1-9	10-49	50-249
YEQ2 16 All SMES	Total	emp	emps	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901	
Have had an event	15%	13%	21%	24%	19%	
Would-be seekers	4%	4%	3%	1%	1%	
Happy non-seekers	81%	83%	76%	75%	80%	

Q115/209 All SMEs– new definitions from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (22%). 3% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (76%).

By risk rating, those SMEs with a worse than average risk rating remained somewhat less likely to have had an event but across all risk ratings the majority of SMEs met the definition of a Happy non-seeker:

Any events (Overdraft <u>and</u> loan)						Worse/
YEQ2 16 All SMEs with a risk rating	Total	Min	Low	Avge	Avge	
Unweighted base:	19,007	2965	5907	4231	4276	
Have had an event	15%	18%	20%	16%	13%	
Would-be seekers	4%	2%	2%	4%	5%	
Happy non-seekers	81%	80%	78%	81%	82%	

Q115/209 All SMEs– new definitions from Q4 2012

Those currently using external finance were no more or less likely to be a Would-be seeker (4% v 3% not using external finance), but remained much more likely to have had an event (39% v 2% not using external finance).



The proportion of Would-be seekers varied relatively little by sector (1-5%). More variation was seen in terms of Happy non-seekers, which accounted for 87% of those in the Health sector (who were less likely to have had an event), compared to 73% of those in Agriculture (who were more likely to have had an event):

Any events (overdraft and loan)

All SMEs YEQ2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Have had an event	23%	21%	15%	21%	20%	12%	12%	12%	18%
Would-be seekers	4%	4%	3%	4%	4%	4%	4%	1%	5%
Happy non-seekers	73%	75%	82%	75%	76%	84%	85%	87%	78%

Q115/209 All SMEs

Analysis by age of business continued to show that the older the business the more likely they were to have had a borrowing event and the less likely to be a Happy non-seeker of finance (albeit 8 in 10 SMEs that have been trading for 10 years or more do meet the definition of a HNS):

Any events (overdraft and loan)

All SMEs YEQ2 16	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	1909	2062	2207	3130	9699
Have had an event	9%	13%	15%	19%	19%
Would-be seekers	6%	5%	2%	3%	2%
Happy non-seekers	85%	82%	83%	79%	79%

Q115/209 All SMEs



Taking a longer term view, back to 2012, and accepting the slight changes to the questionnaire made over this period (and summarised at the start of the chapter) shows that the proportion of Happy non-seekers of finance has risen year on year, as fewer SMEs either reported a borrowing event or met the definition of a Would-be seeker:

Any events (overdraft and loan)					
Over time – all SMEs	2012	2013	2014	2015	H1 2016
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	9000
Have had an event	23%	17%	16%	17%	14%
Would-be seekers	10%	6%	5%	3%	3%
Happy non-seekers	68%	77%	79%	80%	83%

Q115/209 All SMEs

The impact on these longer term trends once the Permanent non-borrowers are excluded is reported later in this chapter.



An expanded definition of Would-be seekers

Mention was made earlier in this report of a new question from Q3 2015 which asked those who had not applied for any other form of finance (such as leasing or invoice discounting) whether something had stopped them applying (in much the same way as those who had not applied for a loan or an overdraft have been asked the questions that define a Would-be seeker of finance).

YEQ2 2016, 2% of those asked the question said that yes, something had stopped them applying for one of these other forms of finance. This is the equivalent of 2% of all SMEs.

It is therefore now possible to provide a revised analysis of activity:

- The 'event' category can be expanded to include not just loans and overdrafts but those who applied for another form of finance (such as invoice discounting).
- The Would-be seeker category can be expanded to include those who wanted to apply for one of these other forms of finance but felt that something stopped them.

As the table below shows, initial indications are that the impact of including Would-be seekers of other forms of finance in a revised definition of Would-be seekers overall, is minimal. The proportion with an 'event' increases from 15% to 24% and the proportion of Happy non-seekers reduces accordingly:

Any events (overdraft and loan)			
		Original definition	Revised definition
YEQ2 16			
<hr/>			
<i>Unweighted base:</i>		19,007	19,007
<hr/>			
Have had a loan/overdraft event		15%	24%
<hr/>			
Would-be seekers		4%	3%
<hr/>			
Happy non-seekers		81%	73%

Q115/209i/Q222b3 All SMEs

Further analysis will be provided as base sizes permit, but these additional Would-be seekers have not been included in any other analysis in this chapter.



Barriers to overdraft or loan application

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

As described at the start of this chapter, this is now only asked once, across both loans and overdrafts, instead of separately for each form of finance. This limits the trend data available over the longer term, but some analysis has been provided of the answers given by loan and overdraft Would-be seekers on a combined basis for 2014 and 2015.

The key reasons given in H1 2016 were:

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 48% of all Would-be seekers in 2015 and by 33% in H1 2016 (the equivalent of 1% of all SMEs)

Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 42% of all Would-be seekers in 2015 and by 45% in H1 2016 (the equivalent of 1% of all SMEs)

Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 29% of all Would-be seekers in 2015 and by 23% in H1 2016 (the equivalent of <1% of all SMEs)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 11% of all Would-be seekers in 2015 and by 15% in H1 2016 (the equivalent of 1% of all SMEs)



The table below shows the combined results for H1 2016, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above.

All reasons for not applying for loan or overdraft when wanted to

All Would-be seekers H1 16	Total	0-9 emps	10-249 emps
Unweighted base:	185	124	61*
Issues with <u>process</u> of borrowing	33%	33%	49%
-Would be too much hassle	10%	10%	6%
-Thought would be too expensive	17%	18%	16%
-Would be asked for too much security	14%	14%	7%
-Too many terms and conditions	10%	10%	13%
-Did not want to go through process	9%	9%	10%
-Forms too hard to understand	4%	4%	5%
Discouraged (any)	45%	46%	11%
-Direct (put off by bank)	20%	20%	6%
-Indirect (thought would be turned down)	34%	34%	8%
Issues with <u>principle</u> of borrowing	23%	23%	22%
-Not lose control of business	6%	6%	8%
-Can raise personal funds if needed	11%	11%	6%
-Prefer other forms of finance	5%	5%	9%
-Go to family and friends	9%	9%	10%
Economic climate	15%	15%	17%
Not the right time to apply	15%	15%	17%

Q210 All Would-be seekers SMEs that wished they had applied for an overdraft or a loan – **NEW DEFINITION**



An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying. The remaining analysis focuses on the main reason given by Would-be seekers for not having applied for an overdraft or loan in the previous 12 months.

Discouragement and the ‘process of borrowing’ have typically been the two main reasons for not applying for a facility. For the new question in H1 2016 discouragement was the main barrier for Would-be seekers with 0-9 employees whilst larger Would-be seekers were more likely to cite the ‘process of borrowing’:

Main reason for not applying for loan or overdraft when wanted to		0-9	10-249
All Would-be seekers H1 16	Total	emps	emps
<i>Unweighted base:</i>	185	124	61*
Discouraged (any)	41%	42%	9%
-Direct (put off by bank)	16%	16%	3%
-Indirect (thought would be turned down)	25%	26%	6%
Issues with <u>process</u> of borrowing	19%	19%	40%
Issues with <u>principle</u> of borrowing	17%	17%	12%
Economic climate	9%	9%	12%
<i>None of these</i>	5%	5%	22%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan

Larger Would-be seekers who cited the ‘process of borrowing’ as their main reason typically mentioned the expense, followed by the terms and conditions and not wanting to go through the process.

Amongst Would-be seekers with employees, the reasons given for not seeking a facility were similar to reasons overall. 35% reported feeling ‘discouraged’ while 33% cited the ‘process of borrowing’. Around 1 in 10 mentioned the principle of borrowing (12%) or the ‘Current economic climate’ (11%).



Analysis by external risk rating showed discouragement was also the main barrier for those with an average or worse than average external risk rating:

Main reason for not applying for loan or overdraft when wanted to

All Would-be seekers H1 16	Total	Min/ Low	Avge/ WTA
Unweighted base:	185	49*	109
Discouraged (any)	41%	6%	42%
-Direct (put off by bank)	16%	1%	18%
-Indirect (thought would be turned down)	25%	5%	23%
Issues with <u>process</u> of borrowing	19%	34%	14%
Issues with <u>principle</u> of borrowing	17%	45%	17%
Economic climate	9%	12%	11%
None of these	5%	3%	6%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan

Those with a minimal or low risk rating were less likely to have felt discouraged from applying. On a very limited base, almost half cited the principle of borrowing, mentioning in particular being able to get finance from family and friends.

Base sizes are currently too small for analysis by sector.



Previous analysis over time has tracked the reasons for not applying for an overdraft separately to those for not applying for a loan. This makes comparisons over time with the new question introduced in Q1 2016 more difficult. The table below shows, on an annual basis for 2014 and 2015, any mentions of each of the four key themes by Would-be seekers, whether they had been put off applying for a loan or an overdraft and compares them to the first results in 2016 of the new, combined, question. This shows that discouragement remained the key barrier:

Main reason for not applying for loan or overdraft when wanted to			H1
Over time – all Would-be seekers	2014	2015	2016*
Unweighted base:	620	485	185
Discouraged (any)	41%	37%	41%
Issues with <u>process</u> of borrowing	40%	34%	19%
Issues with <u>principle</u> of borrowing	15%	16%	17%
Economic climate	4%	6%	9%

Q116a/Q210a All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016

In both instances, the two main reasons for not applying have been discouragement (almost all of it indirect) and the ‘process of borrowing’. This was also true for the new, combined, question albeit with clear differences by size of Would-be seeker (the smaller WBS were more likely to have felt discouraged, the larger ones to have been put off by the ‘process of borrowing’).

The new combined question will be tracked over time in future reports.



Would-be seekers constitute a minority of all SMEs (3%). The table below shows, for the main reasons given by Would-be seekers for H1 2016, the equivalent proportion of all SMEs:

<u>Main reason for not applying</u> H1 16	Would-be seekers	All SMEs
<i>Unweighted base:</i>	185	9000
Discouraged (any)	41%	1%
-Direct (put off by bank)	16%	*
-Indirect (thought I would be turned down)	25%	1%
Issues with <u>process</u> of borrowing	19%	1%
Issues with <u>principle</u> of borrowing	17%	1%
Economic climate	9%	*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan – **NEW DEFINITION**

The equivalent of 1% of all SMEs reported having felt discouraged from applying for a loan or overdraft facility.



The effect of the Permanent non-borrower

As identified earlier in this report, half of all SMEs met the definition of a Permanent non-borrower and this proportion has increased steadily over time. If such SMEs are excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs reduces to around 2.7 million from 5 million.

29% of this group of SMEs excluding PNBs reported a borrowing event:

Any events (Overdraft <u>and</u> loan)			
YE Q2 16 – all SMES		All SMEs	All SMEs excl. PNB
Unweighted base:		19,007	12,458
Have had an event		15%	29%
Would-be seekers		4%	7%
Happy non-seekers		81%	65%

Q115/209 All SMEs

The proportion of Happy non-seekers declines to 65% but remains the largest group and 7% of these SMEs met the definition of a Would-be seeker, compared to 4% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs have been excluded. The proportion reporting an event has been broadly stable at around 30%:

Any events (overdraft <u>and</u> loan)									
All SMES, excluding PNBs – over time		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
By date of interview		2014	2014	2014	2015	2015	2015	2015	2016
Unweighted base:		3514	3576	3153	3220	3195	3258	3338	2854
Have had an event		27%	30%	29%	35%	32%	30%	30%	26%
Would-be seekers		9%	9%	6%	6%	4%	6%	9%	7%
Happy non-seekers		64%	61%	65%	59%	64%	63%	61%	67%

Q115/209 All SMEs excluding PNBs



Taking a longer term view, from 2012, and accepting the slight changes in definition in that time, shows that the proportion of SMEs (excluding the PNBs) reporting a borrowing event has been fairly stable since 2013 while the proportion of Would-be seekers of finance has declined as it has overall. Initial results for 2016 showed fewer of these SMEs reporting an event and more meeting the definition of a Happy non-seeker:

Any events (overdraft and loan)					
Over time – excl PNBs	2012	2013	2014	2015	H1 2016
Unweighted base:	15,312	14,578	13,613	13,011	5862
Have had an event	35%	28%	28%	32%	27%
Would-be seekers	15%	10%	8%	6%	5%
Happy non-seekers	51%	62%	64%	62%	67%

Q115/209 All SMEs excl PNBs

The table below shows the main reasons for not applying, using the revised ‘all SME’ definition that excludes the PNBs:

Main reason for not applying when wished to – H1 16	Would-be seekers	All SMEs excl. pnb
Unweighted base:	185	5862
Discouraged (any)	41%	2%
-Direct (put off by bank)	16%	*
-Indirect (thought I would be turned down)	25%	1%
Issues with <u>process</u> of borrowing	19%	1%
Issues with <u>principle</u> of borrowing	17%	1%
Economic climate	9%	*

Q116a/Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a loan or overdraft facility.



The longer term impact of previous declines

Separate qualitative research conducted amongst discouraged Would-be seekers revealed that a number of these SMEs felt discouraged due to a previous decline from a bank, which might have occurred a number of years before. In order to understand the impact of such declines on the wider SME population as a whole, a new question was added to the SME Finance Monitor from Q1 2014.

6% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

Previous decline by bank	All SMEs YEQ2 2016
By size of SME	<p>Smaller SMEs were somewhat more likely to report a previous decline:</p> <ul style="list-style-type: none">• 6% of 0 employee SMEs• 6% of those with 1-9 employees• 5% of those with 10-49 employees• 2% of those with 50-249 employees <p>Amongst SMEs with employees, 6% had previously been declined.</p>
Excluding the PNBs	<p>Once the PNBs were excluded, 9% of remaining SMEs had experienced a previous decline (compared to 2% of PNBs).</p>
Risk rating	<p>There was very little difference by risk rating (5% for all bands except worse than average where 6% had been declined).</p>
Use of external finance	<p>8% of those currently using external finance had experienced a previous decline, compared to 4% of those who had not used external finance in the past 5 years (and 12% of the small group that had used finance in the past but were not using it now).</p>

Amongst SMEs who had experienced a previous decline:

- 71% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 4% of all SMEs). The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant.
- By external risk rating, those declined with an average or worse than average risk rating were slightly more likely to have been made more reluctant than those with a minimal or low external risk rating.



The tables below explore this reluctance in more detail, based on all SMEs. 4% of all SMEs had been made more reluctant by a previous decline, increasing to 6% once the PNBs had been excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 16	Total	emps	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
More reluctant to apply after a decline	4%	4%	4%	3%	1%
Declined but not more reluctant	2%	2%	2%	2%	2%
Have not been declined in past	94%	94%	94%	95%	98%

Q240x and Q240y All SMEs

Impact of previous decline by bank		0	1-9	10-49	50-249
All SMEs YEQ2 16 excl PNBs	Total	emps	emps	emps	emps
Unweighted base:	12,458	1877	4022	4405	2154
More reluctant to apply after a decline	6%	7%	6%	4%	1%
Declined but not more reluctant	2%	2%	2%	2%	2%
Have not been declined in past	91%	91%	92%	94%	97%

Q240x and Q240y All SMEs excluding PNBs



Those with a poorer external risk rating were slightly more likely to have been made more reluctant by a previous decline:

Impact of previous decline by bank					Worse/ Avge
All SMEs YEQ2 16	Total	Min	Low	Avge	
Unweighted base:	19,007	2965	5907	4231	4276
More reluctant to apply after a decline	4%	3%	3%	4%	5%
Declined but not more reluctant	2%	2%	2%	1%	2%
Have not been declined in past	94%	95%	95%	95%	94%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 6% had become more reluctant to apply as the result of a previous decline, compared to 7% of those that had used finance in the past five years but were not using it currently and 3% of those who have not used external finance for at least the past 5 years.

Analysis was then undertaken to see what impact this previous decline might have had on actual use of external finance and borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Half of those who had previously been declined were using any external finance, and this did not vary much by whether that decline had made them more reluctant to seek finance or not.
- Those who had never been declined were less likely to be using external finance (35%) and more likely to qualify as a Happy non-seeker of finance (83%).
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a Would-be seeker of finance (16%) than either those not put off by their decline (10%) or those who had never been declined (3%).



Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 16	All SMEs			
Unweighted base:	19,007	612	323	18,072
Using external finance	36%	51%	46%	35%
Have had an event	15%	39%	32%	14%
Would-be seekers	4%	16%	10%	3%
Happy non-seekers	81%	45%	59%	83%

Q240x and Q240y and Q115/209 All SMEs

To put these figures in context, less than 1% of all SMEs were Would-be seekers of finance who had been made more reluctant by a previous decline (the 16% group shown above).

The table below presents the same analysis once the PNBs have been excluded. Amongst remaining SMEs there was little difference in their current use of external finance by whether they had previously been declined:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ2 16 excl PNBs	All SMEs			
Unweighted base:	12,458	547	262	11,649
Using external finance	68%	60%	63%	68%
Have had an event	29%	46%	43%	27%
Would-be seekers	7%	18%	13%	6%
Happy non-seekers	65%	36%	44%	67%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs



Just under half of those who had previously been declined reported a borrowing event, irrespective of whether that decline had made them more reluctant (46%) or not (43%). However, those who felt more reluctant were somewhat more likely to be a Would-be seeker of finance (18%) than either those who were not made more reluctant (13%) or those who had not been declined at all (6%).

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 25% of remaining SMEs were planning to apply for

finance in the next 3 months. Amongst those who had experienced a decline this proportion was higher (47%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (30% v 53% of all SMEs excluding the PNBs), with no difference in the proportion that were Future would-be seekers of finance.

Finally, the table below looks at the impact of a previous decline on attitudes to external finance:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
% agree – all SMEs YEQ2 16	All SMEs			
Unweighted base:	19,007	612	323	18,072
Repay existing finance and remain debt free	71%	81%	81%	70%
Happy to use finance to help business grow	46%	69%	57%	43%
Plans based on what can afford ourselves	80%	82%	78%	80%

Q240x and Q240y and Q238a5 All SMEs

This shows little variation in levels of agreement about basing plans on what the business can afford. Similarly, most in each group would prefer to be debt free but this came through slightly more strongly for those who had experienced a previous decline. The statement with most variation was willingness to use finance to help the business grow, where those who had experienced a previous decline were more willing to consider using finance than those who had never been declined.

12. The future



This chapter reports

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.



Key findings

In Q2 2016, 41% of SMEs expected to grow in the coming 12 months. 16% expected to grow by 20% or more, while 25% expected to grow by up to 20%.

- Larger SMEs were more likely to be planning to grow (38% of those with 0 employees planned to grow compared to 60% of those with either 10-49 or 50-249 employees).
- There has been a slight decline in the proportion planning to grow over time. In 2012, 49% of SMEs planned to grow, compared to 43% in the first half of 2016. This was due to fewer of the smallest and largest SMEs planning to grow.
- Most of those planning to grow expected to achieve this through increased sales in the UK (97% of those planning to grow). Exporters remained more likely to be planning to grow (59% in Q2 2016) and half of exporters planning to grow thought they would do so in overseas markets (53%).

68% of SMEs in Q2 2016 did not consider any of the proposed barriers to be a major obstacle to their business. The current economic climate remained the most likely major obstacle (13%), together with legislation and regulation (11%) and political uncertainty/government policy (10%).

- Larger SMEs, those planning to grow and those with an appetite for finance were all more likely to identify one or more factors as a major obstacle to their business.
- During the referendum campaign (Q1 and Q2 2016) the proportion of SMEs rating either the current economic climate or political uncertainty as major barriers did not change overall. However increases were seen across both factors for larger SMEs and those engaged in international trade and this will be monitored post the Brexit vote.



Looking forward, most SMEs in Q2 2016 expected to be Future happy non-seekers of finance (76%). This proportion has increased steadily over time, having been 63% in 2012.

13% of SMEs were Future would-be seekers of finance with most (12%) having no specific need for finance identified. Their main barrier to application, especially for larger FWBS, remained a reluctance to borrow in the current economic climate (58%).

11% of SMEs interviewed in Q2 2016 planned to apply for new or renewed finance, at the lower end of the range seen over recent quarters.

- Overall, the proportion of SMEs planning to apply has changed relatively little over time. In 2012 and 2013, 14% planned to apply and since then 13% have planned to apply.
- This is due to a relatively stable appetite for finance amongst the 0 employee SMEs. Amongst those with employees, future appetite for finance has declined somewhat (by between 3 and 6 percentage points).
- Excluding the PNBs results in something of an increase in appetite for finance over time (from 21% in 2012 to 25% in the first half of 2016).
- Half of those planning to apply would consider a core form of finance while around 1 in 8 would consider invoice finance or leasing.

All SMEs are now asked about how confident they would be about their bank agreeing to a facility, if they were to apply:

- In H1 2016, 50% of those planning to apply for bank finance were confident their bank would agree. Larger SMEs and those with a minimal or low risk rating remained more confident, and confidence has increased over time (from 42% in 2012).



- Confidence amongst Future happy non-seekers of finance for a hypothetical application was higher at 67% than amongst those planning to apply to a bank. Confidence was lowest amongst Future would-be seekers of finance (44%).

Further confidence measures asked for the first time in 2016 showed that SMEs were slightly more confident assessing products from their own bank (69%) than from another bank (61%). 6 in 10 would be confident applying to a bank other than their own for finance.

- Confidence increased by size of business and was also higher for those with no plans to apply for finance (the FHNS). As above, the Future would-be seekers were the least confident.



Having reviewed performance over the 12 months prior to interview, SMEs were then asked about the **future**. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment.

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will

not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q2 2016 data gathered between April and June, when the referendum campaign was in full swing. Virtually all these interviews were completed before the result was known and so this chapter presents a snapshot of SME sentiment immediately prior to the Brexit vote, against which future changes can be measured.



Growth plans for next 12 months

SMEs were asked about their growth plans. In Q3 2015 the answer codes to this question were adjusted to match the question asked about past growth. Thus 'Grow substantially' became 'Grow by 20% or more' and 'Grow moderately' became 'Grow but by less than 20%'.

The results reported below show that, since that change, the *net* growth figure has been broadly in line with previous quarters but the split between 'Grow by 20% or more' and 'Grow but by less than 20%' has been different to that seen previously, with more SMEs planning to grow by 20% or more:

Growth in next 12 mths

All SMEs- over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Grow by 20% or more*	9%	8%	7%	8%	6%	24%	24%	21%	16%
Grow by less than 20%*	44%	38%	36%	35%	37%	24%	23%	24%	25%
All with objective to grow	53%	46%	43%	43%	43%	48%	47%	45%	41%
Stay the same size	40%	43%	46%	48%	47%	43%	43%	46%	47%
Become smaller	3%	5%	4%	4%	4%	4%	4%	5%	6%
Plan to sell/pass on/close	4%	7%	7%	6%	6%	4%	5%	4%	5%

Q225 All SMEs *definition changed for Q3 2015

The proportion of SMEs *predicting* growth, and 20%+ growth in particular, has typically been somewhat higher than the proportion *achieving* that level of growth. SMES in Q2 2016 were somewhat less likely to be predicting growth of any kind and future waves will help to explore the extent to which this was due to uncertainty over the referendum result (which was not known at the time the data was gathered).



In Q2 2016, the smallest SMEs were less likely to be planning to grow at all (38%), but as likely to be planning to grow by 20% or more (16%):

Plans to grow in next 12 mths		0	1-9	10-49	50-249
Q2 16 only	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4500	900	1450	1450	700
Grow by 20% or more	16%	16%	19%	19%	13%
Grow by less than 20%	25%	22%	31%	41%	47%
<i>All with objective to grow</i>	41%	38%	50%	60%	60%
Stay the same size	47%	49%	45%	37%	39%
Become smaller	6%	8%	3%	2%	2%
Plan to sell/pass on/close	5%	6%	2%	1%	*

Q225 All SMEs New Question wording in Q4 2012

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over recent quarters, including by size of SME. As reported above, the overall figures are most influenced by the views of the 0 employee SMEs:

- Growth plans amongst SMEs with 0 employees have been quite volatile over time. In the latter half of 2015 there was an increase in the proportion of 0 employee SMEs planning to grow which was not maintained in 2016 (41% in Q2 2016).
- From Q2 2014, a declining proportion of SMEs with 1-9 employees had been planning to grow (59% in Q2 2014 to 51% at the start of 2015). The proportion planning to grow has remained in the low to mid 50's ever since.
- Growth ambitions amongst SMEs with 10-49 employees have been more variable. Since Q3 2015, around 6 in 10 have planned to grow.
- SMEs with 50-249 employees were consistently the most likely to be planning to grow with 7 in 10 planning to do so up to Q2 2015. Since then, around 6 in 10 have planned to grow.



Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	53%	45%	43%	43%	43%	49%	47%	45%	41%
0 employee	50%	41%	39%	39%	39%	46%	43%	41%	38%
1-9 employees	59%	55%	52%	51%	53%	54%	57%	55%	50%
10-49 employees	67%	69%	63%	65%	67%	61%	60%	58%	60%
50-249 employees	72%	68%	69%	69%	71%	64%	58%	56%	60%
Minimal external risk rating	47%	41%	40%	35%	44%	42%	38%	35%	36%
Low external risk rating	51%	41%	40%	44%	44%	47%	42%	44%	37%
Average external risk rating	49%	40%	39%	36%	37%	43%	41%	38%	35%
Worse than average external risk rating	56%	51%	50%	47%	48%	54%	54%	51%	51%
Agriculture	40%	39%	25%	32%	33%	40%	31%	34%	28%
Manufacturing	61%	44%	55%	41%	57%	53%	45%	43%	52%
Construction	43%	37%	34%	33%	31%	35%	42%	40%	33%
Wholesale/Retail	60%	53%	50%	54%	47%	60%	52%	54%	49%
Hotels & Restaurants	46%	40%	41%	45%	40%	48%	51%	49%	50%
Transport	39%	34%	34%	43%	46%	45%	44%	43%	43%
Property/Business Services etc.	56%	47%	45%	43%	48%	56%	46%	46%	40%
Health	46%	55%	50%	51%	43%	51%	46%	38%	39%
Other Community	68%	55%	49%	47%	47%	47%	59%	50%	45%
All Permanent non-borrowers	45%	38%	38%	37%	36%	42%	39%	39%	33%
All excluding PNBs	57%	50%	48%	48%	50%	54%	53%	50%	49%

Q225 All SMEs base size varies by category



The variability in predicted growth quarter on quarter makes trends harder to discern. The table below looks at annual growth plans since 2013 (the question was changed in Q4 2012) by key business demographics:

Objective to grow (any) in next 12 months				
Over time				
By date of interview – row percentages	2013	2014	2015	H1 2016
All	49%	47%	45%	43%
0 emp	46%	43%	42%	39%
1-9 emps	54%	56%	54%	53%
10-49 emps	59%	67%	63%	59%
50-249 emps	67%	71%	66%	58%
Minimal external risk rating	45%	45%	40%	35%
Low	45%	45%	44%	40%
Average	41%	42%	39%	36%
Worse than average	54%	52%	51%	51%
Agriculture	43%	37%	34%	31%
Manufacturing	51%	55%	49%	48%
Construction	41%	37%	35%	37%
Wholesale/Retail	51%	54%	53%	51%
Hotels & Restaurants	46%	45%	46%	50%
Transport	48%	37%	44%	43%
Property/ Business Services	53%	49%	48%	43%
Health	49%	49%	48%	39%
Other	52%	57%	50%	47%
PNBs	43%	40%	38%	36%
All excl PNBs	52%	52%	51%	49%

Q225 All SMEs



Analysis on an annual basis, in the table above, reveals the steady decline in the proportion planning to grow from 49% to 43%. The decline was more marked amongst the smallest, 0 employee, SMEs and also the largest, with 50-249 employees. It was also seen more amongst those with a minimal external risk rating and amongst those who met the definition of a PNB.

97% of those planning to grow said that selling to existing markets in the UK was the main way in which this growth would be achieved (the equivalent of 38% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (9% of all SMEs) than overseas (3%):

How plan to grow Q2 16	All planning to grow	All SMEs
Unweighted base:	2218	4500
Sell in the UK	97%	38%
<i>Increase sales in existing markets in UK</i>	88%	35%
<i>Sell in new markets in UK</i>	23%	9%
Sell overseas	12%	5%
<i>Increase sales in existing markets overseas</i>	9%	3%
<i>Sell in new markets overseas</i>	8%	3%

Q226 All SMEs planning to grow excluding DK/All SMEs

Exporters remained more likely to be predicting growth and in Q2 2016, 59% reported that they planned to grow compared to 40% of non-exporters. Exporters are typically larger but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees: 58% of exporters interviewed in Q2 2016 planned to grow compared to 39% of non-exporters.
- Amongst SMEs with 10-249 employees: 69% of exporters interviewed in Q2 2016 planned to grow compared to 59% of non-exporters.



As the table below shows, both exporters and non-exporters were most likely to say that they would achieve that growth through sales in the UK. Half of exporters (53%) planned to sell more overseas compared to 6% of those who were not exporting:

How plan to grow	All planning to grow who export	All planning to grow who do not export
Q2 16		
Unweighted base:	337	1881
Sell in the UK	91%	98%
<i>Increase sales in existing markets in UK</i>	81%	89%
<i>Sell in new markets in UK</i>	35%	22%
Sell overseas	53%	6%
<i>Increase sales in existing markets overseas</i>	46%	3%
<i>Sell in new markets overseas</i>	29%	5%

Q226 All SMEs planning to grow excluding DK

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table below shows that exporters have been more likely to be planning to grow each quarter than those that do not export, with predicted growth in Q2 2016 similar to that in Q2 2015:

Objective to grow (any) in next 12 months									
By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2014	2014	2014	2015	2015	2015	2015	2016	2016
Exporters	69%	58%	57%	64%	61%	69%	66%	60%	59%
Non-exporters	51%	44%	41%	40%	41%	46%	44%	43%	40%

Q225 All SMEs New Question wording in Q4 2012



The second table is based on those planning to grow and summarises how this growth is to be achieved (note that this table has been revised to exclude ‘Don’t know’ answers and thus match the analysis earlier in this chapter). Existing markets were the main target for both exporters and non-exporters:

How plan to grow

By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2014	2014	2014	2015	2015	2015	2015	2016	2016
In existing markets:									
<i>Exporters</i>	90%	87%	89%	86%	90%	86%	93%	92%	88%
<i>Non-exporters</i>	87%	84%	89%	90%	87%	90%	89%	92%	89%
New UK markets:									
<i>Exporters</i>	28%	34%	26%	40%	34%	41%	25%	38%	35%
<i>Non-exporters</i>	21%	27%	18%	19%	20%	21%	27%	19%	22%
New overseas markets:									
<i>Exporters</i>	22%	29%	24%	22%	19%	26%	13%	33%	29%
<i>Non-exporters</i>	3%	3%	3%	5%	4%	3%	3%	3%	5%

Q226 All SMEs planning to grow excluding DK



The final piece of analysis in this section takes a longer term view back to 2013. The table below shows that while growth ambitions have declined overall for SMEs (49% to 43%), and for non-exporters (48% to 41%), ambition amongst exporters increased year on year from 2013 to 2015 (60% to 65%) before declining back to 59% in the first half of 2016.

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%) before improving to 31% in the first half of 2016.

Growth plans				
Over time				
By date of interview				
Row percentages	2013	2014	2015	H1 2016
All SMEs:				
Plan to grow	49%	47%	45%	43%
<i>New markets overseas (of those planning to grow)</i>	7%	6%	6%	8%
Exporters:				
Plan to grow	60%	63%	65%	59%
<i>New markets overseas (of those planning to grow)</i>	30%	26%	20%	31%
Non exporters:				
Plan to grow	48%	45%	43%	41%
<i>New markets overseas (of those planning to grow)</i>	4%	3%	4%	4%

Q225/226 All SMEs planning to grow excluding DK



Obstacles to running the business in the next 12 months

SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). Scores have been analysed in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle

Over time, some amendments have been made to the list of factors tested.

- In Q3 2014, the following amendments were made:
 - ‘Staff related issues’ was amended to be ‘Issues recruiting and retaining skilled staff’.
 - A new factor was added ‘Political uncertainty and future government policy’.
 - Any SMEs that did not rate any of the factors 8-10 (a major obstacle) were asked whether there was anything else that they saw as an obstacle that was not on this list.
 - In Q3 2015 an additional code was included ‘The quality of management and leadership in the business’.

The latest data was collected during the referendum campaign. At an overall level there was little change in the proportion of SMEs rating either the ‘Current economic climate’ or ‘Political uncertainty and future government policy’ as major obstacles, but this was due to there being no change in the views of 0 employee SMEs. Amongst larger SMEs and notably those with 50-249 employees, and/or those who are international, both of these factors were mentioned more as major obstacles. More detail is provided below and this will be monitored over future waves.



As in all previous quarters, the economic climate remained the key issue in Q2 2016, but was rated a major obstacle by 1 in 8 SMEs compared to 1 in 3 at its peak:

- The **current economic climate** was rated as a major obstacle (8-10) by 13% of SMEs in Q2 2016. Whilst it remains the top rated barrier, this is a declining proportion of SMEs over time.
- **Legislation and regulation** was the next most important obstacle. It was rated a major obstacle by 11% of SMEs.
- 10% rated **political uncertainty/government policy** as a major obstacle but with some clear changes over time by size of SME, discussed below.
- **Cash flow and issues with late payment** was rated a major obstacle by 7% of SMEs.
- 6% rated **recruiting and retaining staff** as a major obstacle.
- 5% saw **access to external finance** as a major obstacle.
- 4% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.
- The new factor, **management and leadership skills**, was rated a major obstacle by 3% of SMEs.

The analysis below looks in detail at the barriers perceived in Q2 2016, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months			0	1-9	10-49	50-249
Q2 16 only – all SMEs		Total	emp	emps	emps	emps
Unweighted base:		4500	900	1450	1450	700
The current economic climate (mean score)		3.9	3.8	4.4	4.4	4.7
- 8-10 major obstacle		13%	13%	14%	13%	14%
- 5-7 moderate obstacle		30%	27%	36%	38%	43%
- 1-4 minor obstacle		55%	58%	48%	47%	41%
Legislation and regulation		3.4	3.1	4.0	4.2	4.4
- 8-10 major obstacle		11%	10%	13%	14%	14%
- 5-7 moderate obstacle		22%	19%	29%	31%	36%
- 1-4 minor obstacle		65%	69%	55%	52%	49%
Political uncertainty/future govt policy		3.3	3.0	3.9	4.0	4.7
- 8-10 major obstacle		10%	9%	14%	12%	16%
- 5-7 moderate obstacle		23%	20%	28%	32%	37%
- 1-4 minor obstacle		64%	67%	56%	51%	43%

Continued

Continued

Cash flow/issues with late payment	2.8	2.7	3.1	3.1	3.3
- 8-10 major obstacle	7%	7%	8%	8%	5%
- 5-7 moderate obstacle	15%	14%	18%	20%	25%
- 1-4 minor obstacle	77%	78%	72%	70%	68%
Recruiting/retaining staff	2.3	1.9	3.1	3.6	3.9
- 8-10 major obstacle	6%	5%	10%	11%	11%
- 5-7 moderate obstacle	10%	7%	19%	25%	30%
- 1-4 minor obstacle	81%	85%	69%	62%	58%
Access to external finance	2.2	2.1	2.5	2.3	2.5
- 8-10 major obstacle	5%	5%	6%	4%	2%
- 5-7 moderate obstacle	10%	8%	13%	13%	17%
- 1-4 minor obstacle	83%	85%	79%	80%	79%
Availability of relevant advice	2.2	2.1	2.4	2.5	2.6
- 8-10 major obstacle	4%	4%	4%	4%	2%
- 5-7 moderate obstacle	12%	11%	15%	13%	18%
- 1-4 minor obstacle	82%	83%	79%	79%	78%
Management and leadership skills	1.8	1.7	2.2	2.6	2.8
- 8-10 major obstacle	3%	2%	5%	6%	5%
- 5-7 moderate obstacle	8%	7%	10%	15%	19%
- 1-4 minor obstacle	87%	89%	83%	77%	75%
None of these are major obstacles	68%	70%	61%	64%	62%

Q227a All SMEs

Amongst SMEs with employees, the proportion rating each factor a major obstacle did not vary much from SMEs overall (14% for the current economic climate, 5% for access to external finance). The largest differences were for 'Legislation and regulation' (14% for those with employees) 'Political uncertainty (13%) and 'Recruiting staff' (11%).

In Q2 2016, 68% of SMEs did not rate any of these potential obstacles as a major obstacle (scoring 8-10) virtually unchanged from Q4 2015 (66%).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (94%) said that there weren't. The top other mention was terrorism (2%) while less than 1% mentioned the referendum.



The tables below focus on those scoring 8-10 for each potential obstacle. For ease, the analysis by size of SME (provided in more detail in the previous table) is summarised below:

Extent of obstacles in next 12 months

Q2 16 only – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
The current economic climate	13%	13%	14%	13%	14%
Legislation and regulation	11%	10%	13%	14%	14%
Political uncertainty/future govt policy	10%	9%	14%	12%	16%
Cash flow/issues with late payment	7%	7%	8%	8%	5%
Recruiting/retaining staff	6%	5%	10%	11%	11%
Access to external finance	5%	5%	6%	4%	2%
Availability of relevant advice	4%	4%	4%	4%	2%
Management skills	3%	2%	5%	6%	5%
None of these rated a major obstacle	68%	70%	61%	64%	62%

Q227a All SMEs

This shows that for the smallest SMEs, the 'Current economic climate' remained the main obstacle. For those with employees, 'Legislation and regulation' presented as much of a barrier.

The smallest SMEs were the most likely to say that none of these factors presented a major obstacle to their business (70%). Amongst those with employees around 6 in 10 said that none of these presented a major obstacle. Whilst the overall figures have changed little over time, those with 50-249 employees were less likely to say that none of these factors presented a major obstacle (62%) than they were in Q4 2015 (76%).



Analysis by risk rating showed that the ‘Current economic climate’ and ‘Legislation and regulation’ remained the two key barriers, with ‘Political uncertainty’ now more of a barrier, especially for those with a low external risk rating:

Extent of obstacles in next 12 months

Q2 16 only – all SMEs

8-10 impact score

Worse/
Avge

	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	4500	736	1466	1022	869
The current economic climate	13%	11%	15%	15%	13%
Legislation and regulation	11%	14%	12%	10%	10%
Political uncertainty/future govt policy	10%	10%	16%	9%	10%
Cash flow/issues with late payment	7%	4%	8%	6%	8%
Recruiting/retaining staff	6%	5%	8%	4%	8%
Access to external finance	5%	2%	4%	3%	8%
Availability of relevant advice	4%	2%	3%	3%	5%
Management skills	3%	3%	4%	3%	3%
None of these rated a major obstacle	68%	71%	62%	72%	67%

Q227a All SMEs for whom risk ratings known



The table below shows that in Q2 2016, there were more differences in perceived obstacles between those with plans to grow and those with no plans than had been seen in earlier waves. Those planning to grow were more likely in particular to see ‘Political uncertainty’ as a barrier and also ‘Access to finance’, and as a result were less likely to say that none of these factors were a major obstacle.

The next table also shows that clear differences were seen on almost all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 75% said that none of them were.

Extent of obstacles in next 12 months

Q2 16 only – all SMEs

8-10 impact score

Total

Plan to
grow

No plans
to grow

PNB

Not PNB

Unweighted base:	4500	2296	2204	1492	3008
The current economic climate	13%	14%	12%	9%	17%
Legislation and regulation	11%	11%	10%	9%	12%
Political uncertainty/future govt policy	10%	13%	8%	8%	12%
Cash flow/issues with late payment	7%	9%	6%	4%	10%
Recruiting/retaining staff	6%	9%	4%	4%	8%
Access to external finance	5%	8%	3%	2%	8%
Availability of relevant advice	4%	5%	3%	2%	5%
Management skills	3%	4%	3%	2%	4%
None of these rated a major obstacle	68%	62%	72%	75%	61%

Q227a All SMEs



Clear differences in perceived obstacles continued to be seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to:

Extent of obstacles in next 12 months

Q2 16 only – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	4500	1192	3308	1816
The current economic climate	13%	19%	11%	14%
Legislation and regulation	11%	16%	9%	10%
Political uncertainty/future govt policy	10%	14%	9%	11%
Cash flow/issues with late payment	7%	15%	5%	6%
Recruiting/retaining staff	6%	11%	5%	6%
Access to external finance	5%	13%	2%	4%
Availability of relevant advice	4%	9%	2%	2%
Management skills	3%	6%	2%	3%
None of these rated a major obstacle	68%	53%	73%	68%

Q227a All SMEs

Those with plans/aspirations to apply were more likely to see each of these issues as major obstacles. 73% of Happy non-seekers said that none of these were a major obstacle, compared to 53% of those with plans/aspirations to apply.

The Future happy non-seeker category described above includes those SMEs that met the

definition of a Permanent non-borrower, which indicates that they are unlikely to borrow. Such SMEs have been excluded from the Happy non-seeker definition in the final column above. This increases most of the scores slightly, and reduces the proportion saying that none of these factors presents an obstacle from 73% to 68%.

Analysis of international businesses shows that they continued to be more likely to rate the current economic climate as a major obstacle than their domestic peers (17% v 12%) and similarly the issue of access to finance (8% v 5%). Overall, 59% of international SMEs did not rate any of the factors tested as a major obstacle compared to 69% of domestic SMEs.



The economic climate was the most likely to be rated as a major obstacle to running the business by SMEs overall and in most sectors, together with legislation and regulation, notably in Agriculture, where political uncertainty was also more likely to be seen as an obstacle:

Extent of obstacles in next 12 months

Q2 16 only – all SMEs

8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	300	375	800	450	300	500	900	375	500
The current economic climate	15%	15%	10%	15%	16%	15%	14%	10%	12%
Legislation and regulation	19%	14%	10%	11%	14%	15%	9%	9%	8%
Political uncertainty/future govt policy	18%	13%	9%	11%	13%	11%	10%	7%	8%
Cash flow/issues with late payment	13%	6%	7%	6%	5%	9%	6%	6%	9%
Recruiting/retaining staff	3%	7%	6%	6%	12%	8%	6%	4%	4%
Access to external finance	4%	5%	5%	7%	6%	8%	3%	7%	4%
Availability of relevant advice	1%	3%	2%	6%	5%	7%	2%	3%	5%
Management skills	4%	4%	4%	4%	6%	5%	2%	2%	1%
None of these rated a major obstacle	63%	66%	74%	62%	63%	60%	69%	74%	69%

Q227 All SMEs

Three quarters of SMEs in the Health or Construction sectors said that none of these were major obstacles, compared to 6 in 10 of those in the Transport sector.



Obstacles to running the business in the next 12 months – over time

The summary table below shows the proportion of SMEs rating each factor a major obstacle across the most recent nine waves of the Monitor. The current economic climate was the most likely to be rated a major obstacle in all quarters, and the proportion has been stable over recent quarters:

Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of interview	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
The current economic climate	17%	16%	14%	13%	14%	13%	13%	13%	13%
Legislation and regulation	12%	12%	11%	12%	11%	13%	10%	11%	11%
Political uncertainty/ future govt policy	-	12%	9%	10%	9%	10%	9%	10%	10%
Cash flow/issues with late payment	10%	9%	8%	8%	9%	9%	8%	8%	7%
Recruiting/retaining staff*	3%	7%	6%	6%	6%	6%	8%	6%	6%
Access to external finance	8%	7%	6%	6%	5%	6%	6%	5%	5%
Availability of relevant advice	6%	5%	6%	4%	4%	6%	5%	4%	4%
Management skills	-	-	-	-	-	7%	5%	5%	3%
None of these rated a major obstacle	65%	64%	69%	68%	68%	64%	66%	67%	68%

Q227 All SMEs



The tables below provide a longer term view back to 2012 to identify changes over time:

Extent of obstacles in next 12 months					
Over time – all SMEs 8-10 impact score	2012	2013	2014	2015	H1 2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
The current economic climate	34%	27%	17%	13%	13%
Legislation and regulation	13%	13%	12%	11%	11%
Political uncertainty/future govt policy	-	-	-	10%	10%
Cash flow/issues with late payment	13%	11%	9%	9%	8%
Recruiting/retaining staff	3%	3%	5%	6%	6%
Access to external finance	11%	10%	7%	6%	5%
Availability of relevant advice	6%	6%	5%	5%	4%
Management skills	-	-	-	-	4%

Q227a All SMEs

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier. There has also been something of a decline in mentions of most of the other barriers with the exception of staff where there has been a slight increase (and a slight change in wording in 2014 to emphasise recruitment and retention).

The Q1 and Q2 2016 data was gathered during the referendum campaign and, with a Brexit vote, perceptions about barriers to doing business may change in future. The table below shows the changes between 2015 and 2016 for two key barriers, the economic climate and political uncertainty, by size of SME but also amongst those engaged in international trade.



The tables below show that both factors were increasingly likely to be cited as barriers over time by larger SMEs and those engaged in international trade, while smaller SMEs gave more consistent ratings across this period:

The current economic climate

8-10 impact score		Q1	Q2
Row percentages	2015	2016	2016
All SMEs	13%	13%	13%
0 employees	12%	12%	13%
1-9 employees	14%	14%	14%
10-49 employees	10%	11%	13%
50-249 employees	8%	12%	14%
Exporters	18%	11%	20%
Importers	14%	11%	16%

Q227a All SMEs

Political uncertainty and future govt policy

8-10 impact score		Q1	Q2
Row percentages	2015	2016	2016
All SMEs	9%	10%	10%
0 employees	9%	9%	9%
1-9 employees	12%	12%	14%
10-49 employees	9%	10%	12%
50-249 employees	7%	10%	16%
Exporters	8%	9%	13%
Importers	10%	12%	12%

Q227a All SMEs

Access to finance is the key theme of this report but an issue that has been less likely to be rated a barrier by SMEs over time. The table below shows these changes over recent quarters by key demographics. Access to finance remains more of a barrier for those with a future appetite for finance, but again, the proportion citing it as a barrier is declining over time.



Access to finance – 8-10 impact scores

Over time – row percentages	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	14	14	14	15	15	15	15	16	16
All SMEs	8%	7%	6%	6%	5%	6%	6%	5%	5%
0 employee	9%	7%	6%	6%	4%	5%	5%	5%	5%
1-9 employees	8%	10%	9%	8%	6%	8%	8%	6%	6%
10-49 employees	6%	6%	5%	5%	4%	6%	5%	5%	4%
50-249 employees	4%	3%	3%	4%	3%	2%	2%	2%	2%
Minimal external risk rating	4%	4%	7%	4%	5%	3%	3%	2%	2%
Low external risk rating	4%	5%	5%	7%	2%	5%	3%	3%	4%
Average external risk rating	7%	6%	4%	5%	4%	5%	5%	5%	3%
Worse than average external risk rating	11%	9%	8%	8%	5%	6%	8%	5%	8%
Agriculture	5%	6%	7%	4%	5%	4%	6%	5%	4%
Manufacturing	12%	4%	5%	3%	4%	4%	6%	6%	5%
Construction	7%	7%	5%	4%	3%	5%	5%	3%	5%
Wholesale/Retail	10%	10%	11%	9%	6%	9%	5%	4%	7%
Hotels & Restaurants	10%	13%	8%	9%	6%	8%	10%	9%	6%
Transport	10%	11%	12%	8%	5%	7%	9%	9%	8%
Property/Business Services etc.	8%	6%	4%	8%	5%	6%	6%	4%	3%
Health	4%	10%	4%	2%	2%	3%	5%	4%	7%
Other Community	12%	5%	7%	5%	6%	5%	4%	4%	4%
Use external finance	12%	11%	10%	10%	7%	8%	8%	7%	6%
Plan to borrow/FWBS	17%	17%	13%	18%	13%	13%	14%	14%	13%
Future Happy non-seekers	4%	3%	4%	2%	2%	3%	3%	2%	2%
All SMEs excluding PNBs	12%	11%	10%	10%	8%	9%	9%	8%	8%

Q227a_2 All SMEs, base sizes vary



Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew has changed relatively little over time, albeit the proportion planning to renew/apply in Q2 2016 (11%) was at the lower end of the range seen across recent quarters:

% likely in next 3 months									
All SMEs – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Will have a need for (more) external finance	10%	11%	8%	9%	7%	9%	10%	11%	9%
Will apply for more external finance	8%	9%	7%	8%	6%	7%	8%	9%	7%
Renew existing borrowing at same level	9%	10%	8%	9%	7%	8%	10%	8%	7%
Any apply/renew	14%	15%	13%	14%	11%	12%	16%	14%	11%
Reduce the amount of external finance used	9%	9%	7%	8%	8%	8%	9%	8%	7%
Inject personal funds into business	16%	20%	14%	16%	14%	18%	17%	17%	15%

Q229 All SMEs

The lower level of planned application/renewal in Q2 2016 (11%) was due to a lower appetite for finance across all sizes of SME with the exception of those with 50-249 employees where appetite for finance was stable, but lower than in some other groups at 13%. This is explored in more detail later in this chapter.

In all quarters to date, more SMEs have identified a need for finance than thought they

would apply for it (although the gap is narrow in Q2 2016 - 9% v 7%). The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported subsequently (by different SMEs). Whilst 11-16% of SMEs have said that they *planned* to apply for finance, annual levels of application have typically been around 8%.



Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

% likely in next 3 months

All companies – over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	2999	2826	2822	2927	2794	2876	2997	2670	2833
Any new equity	4%	5%	5%	3%	2%	3%	5%	3%	4%

Q229 All companies

In Q2 2016 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees and these SMEs remained more likely to anticipate an injection of personal funds (16%) than an application for new/renewed finance (10%). The largest SMEs with 50-249 employees also had a lower appetite for finance (13%) but in this case very few were planning an injection of personal funds (4%):

% likely in next 3 months

Q2 16 only – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
Will have a need for (more) external finance	9%	8%	11%	9%	9%
Will apply for more external finance	7%	7%	8%	8%	7%
Renew existing borrowing at same level	7%	6%	10%	12%	10%
Any apply/renew	11%	10%	15%	16%	13%
Reduce the amount of external finance used	7%	6%	8%	10%	9%
Inject personal funds into business	15%	16%	13%	6%	4%

Q229 All SMEs

Amongst SMEs with employees, 15% had plans to apply/renew in the next 3 months and 11% believed they would have a need for (more) external finance.



Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding of SMEs. Between 2012 and 2014 there was a decline in the proportion of SMEs that had injected personal funds. Since then, around 3 in 10 have reported an injection of funds. The proportion of SMEs planning to inject personal funds in the 3 months after interview has followed a similar pattern but at lower levels, with 1 in 6 of those interviewed in H1 2016 planning an injection of funds:

Injections of personal funds past and future					H1
Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Have injected personal funds	43%	38%	29%	28%	27%
Plan to inject personal funds	24%	20%	16%	16%	16%

Q 15d/Q229-5 All companies

The table below shows how the injections of personal funds past and present have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (69% in Q2 2016). The proportion that had both put in funds in the past *and* planned to do so in future (9% in Q2 2016) has changed relatively little:

Injections of personal funds	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
All SMEs – over time	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Have injected personal funds and likely to do so again	11%	12%	9%	10%	9%	12%	11%	11%	9%
Have not put in personal funds but likely to do so	5%	8%	5%	6%	5%	6%	6%	6%	6%
Have injected personal funds but unlikely to do so again	19%	16%	20%	16%	17%	18%	18%	18%	16%
Have not put in personal funds and not likely to do so	65%	64%	66%	68%	69%	64%	65%	64%	69%

Q229/Q15d-d2 All SMEs



Turning back to future applications for external finance there has been limited variation in the proportion of SMEs planning to apply/renew (11-16% over recent quarters):

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	14%	15%	13%	14%	11%	12%	16%	14%	11%
0 employee	13%	12%	11%	12%	9%	11%	14%	14%	10%
1-9 employees	18%	23%	19%	18%	16%	16%	20%	16%	15%
10-49 employees	15%	23%	16%	20%	19%	17%	20%	20%	16%
50-249 employees	13%	17%	15%	14%	15%	12%	13%	14%	13%
Minimal external risk rating	18%	15%	10%	13%	9%	11%	19%	12%	10%
Low external risk rating	13%	11%	13%	19%	14%	14%	14%	14%	13%
Average external risk rating	11%	16%	10%	14%	12%	13%	16%	12%	10%
Worse than average external risk rating	15%	15%	16%	12%	11%	11%	16%	15%	14%
Agriculture	18%	17%	13%	19%	18%	19%	18%	15%	13%
Manufacturing	18%	17%	15%	14%	16%	16%	17%	16%	15%
Construction	13%	12%	11%	10%	10%	11%	12%	17%	8%
Wholesale/Retail	17%	25%	18%	16%	10%	15%	19%	14%	12%
Hotels & Restaurants	14%	21%	15%	16%	14%	14%	20%	17%	13%
Transport	19%	11%	15%	12%	12%	14%	14%	14%	16%
Property/Business Services etc.	11%	12%	12%	16%	11%	12%	15%	12%	10%
Health	11%	16%	8%	10%	6%	8%	12%	11%	11%
Other Community	16%	15%	11%	13%	9%	12%	19%	17%	15%
Objective to grow	19%	21%	16%	20%	15%	17%	23%	21%	18%
No objective to grow	9%	10%	10%	9%	8%	8%	9%	9%	7%
All SMEs excluding PNBs	23%	25%	24%	27%	21%	23%	28%	28%	22%

Q229 All SMEs base size varies by category



The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows a stable picture overall (due to the 0 employee SMEs) but with a slight increase in appetite for finance once the PNBs are excluded:

% likely to apply or renew in next 3 months					
Over time					H1
By date of interview – row percentages	2012	2013	2014	2015	2016
All	14%	14%	13%	13%	13%
0 emp	12%	12%	11%	12%	12%
1-9 emps	20%	19%	20%	17%	15%
10-49 emps	21%	17%	18%	19%	18%
50-249 emps	19%	16%	14%	14%	13%
Minimal external risk rating	16%	12%	13%	13%	11%
Low	17%	13%	14%	15%	14%
Average	13%	13%	12%	14%	11%
Worse than average	15%	14%	14%	12%	14%
Agriculture	18%	16%	15%	18%	14%
Manufacturing	16%	13%	16%	16%	15%
Construction	14%	13%	11%	11%	12%
Wholesale/Retail	16%	18%	19%	15%	13%
Hotels & Restaurants	17%	15%	16%	16%	15%
Transport	14%	16%	15%	13%	15%
Property/ Business Services	12%	13%	11%	13%	11%
Health	11%	12%	11%	9%	11%
Other	16%	12%	14%	13%	16%
All excl PNBs	21%	23%	24%	25%	25%

Q229 All SMEs



Amongst those planning to apply or renew in the next 3 months, working capital has been the most frequently mentioned purpose of future funding over recent quarters (now excluding DK answers in line with similar questions elsewhere in this report):

Use of new/renewed facility

All planning to seek/renew

Over time excl DK

By date of interview

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	766	996	769	842	747	761	850	750	642
Working capital	51%	53%	64%	63%	57%	57%	57%	56%	60%
Plant & machinery	33%	27%	21%	24%	22%	25%	28%	24%	21%
UK growth*	37%	32%	24%	28%	25%	30%	28%	30%	23%
Premises	12%	13%	8%	6%	10%	7%	8%	11%	7%
New products or services	13%	11%	5%	9%	5%	7%	6%	12%	9%
Growth overseas*	6%	8%	5%	6%	5%	4%	8%	6%	4%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013 NOW EXCL DK

Taking a longer term view back to 2012 shows relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of plant and machinery and more mentions of funding new products and services in 2016 to date:

Use of new/renewed facility

All planning to seek/renew – over time

	2012	2013	2014	2015	H1 2016
Unweighted base:	3717	3316	3310	3200	1392
Working capital	63%	62%	57%	59%	58%
Plant & machinery	27%	27%	26%	25%	23%
UK growth*	21%	28%	30%	28%	27%
Premises	7%	7%	10%	7%	9%
New products or services	10%	9%	9%	7%	11%
Growth overseas*	3%	5%	6%	6%	5%

Q230 All planning to apply for/renew facilities in next 3 months excl DK. *Growth replaced expansion in Q2 2013



The table below details what types of finance those planning to apply would consider for their new/renewed finance over recent quarters. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance. Data is shown from Q3 2014 onwards as this was when loans and commercial mortgages were separated into

two individual categories, making this comparison possible over time.

Consideration over time of any of the core lending products (overdrafts, loans and credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using the new summary categories introduced from Q1 2016:

% of those seeking/renewing finance that would consider form of funding

Over time By date of interview	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	1023	787	860	772	776	891	771	672
Core product (loan, O/D, credit card)	66%	61%	57%	63%	61%	57%	52%	52%
Commercial mortgage	13%	13%	12%	11%	9%	10%	18%	16%
Leasing/invoice finance	29%	26%	31%	29%	28%	29%	23%	16%
Other	49%	45%	48%	45%	49%	49%	30%	22%
None of these	21%	23%	23%	25%	25%	28%	33%	41%

Q233 All SMEs seeking new/renewing finance in next 3 months

In all quarters consideration has been highest for the core products. 17% of potential applicants in 2015 said that they would **only** consider one or more of the core products, somewhat lower than in 2012 (26%), but early indications are of an improvement in 2016 (24%).

The proportion saying 'none of these' was stable at around 1 in 4 but is higher in the most recent quarters. This will be monitored in future waves to see if it appears to be as a result of simplifying the question (as SMEs are no longer prompted with every individual type of finance in the other category).



The table below shows levels of consideration in Q2 2016 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding					
Q2 16 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	672	97*	218	252	105
Core product (loan, od, credit card)	52%	52%	54%	39%	50%
Commercial mortgage	16%	13%	21%	21%	24%
Leasing/invoice finance	16%	14%	18%	20%	26%
Other	22%	21%	25%	19%	29%
<i>None of these</i>	41%	42%	36%	46%	42%

Q233 All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changes by size of SME. Whilst those with 0 employees who planned to apply were much more likely to consider core forms of finance than any other, larger SMEs were more likely to consider a range of funding.

Amongst SMEs with employees, 51% would consider one or more core products for their future lending, 21% a commercial mortgage, 19% leasing or invoice finance and 24% some other form of funding. 38% said they would not consider any of these.



Application confidence

Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to their request (note that this excludes those planning to apply who only considered one of the other forms of finance specified or did not nominate any form of finance).

In Q2 2016, half of these prospective applicants (53%) were confident that the bank would lend to them, maintaining the higher levels of confidence seen in recent quarters:

Confidence bank would lend									
All planning to seek finance	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Over time by date of interview	14	14	14	15	15	15	15	16	16
Unweighted base:	538	699	526	592	494	522	586	433	377
Very confident	25%	18%	31%	23%	25%	28%	21%	23%	22%
Fairly confident	18%	28%	23%	26%	24%	32%	31%	25%	31%
Overall confidence	43%	46%	54%	49%	49%	60%	52%	48%	53%
Neither/nor	31%	23%	19%	21%	22%	17%	24%	33%	22%
Not confident	26%	30%	28%	29%	28%	23%	24%	19%	25%
Net confidence (confident – not confident)	+17	+16	+26	+20	+21	+37	+28	+29	+26

Q238 All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 68% in Q2 2016.



Over the longer term, there has been a steady increase since 2012 in levels of confidence amongst applicants, with half of prospective applicants now confident their bank will agree:

Confidence bank would agree to lend					H1
All planning to apply – over time	2012	2013	2014	2015	2016
<i>Unweighted base:</i>	2933	2477	2337	2194	810
Very confident	15%	14%	24%	24%	23%
Fairly confident	27%	25%	23%	29%	27%
<i>Overall confidence</i>	42%	39%	47%	53%	50%
Neither/nor	23%	30%	24%	21%	28%
Not confident	35%	31%	29%	26%	22%
<i>Net confidence (confident – not confident)</i>	+10	+8	+18	+27	+28

Q238 All SMEs seeking new/renewing finance in next 3 months

As the table below shows, larger prospective applicants with 10-249 employees and those with a minimal/low external risk rating have always been more confident of success:

Overall confidence bank would lend					
All planning to seek finance - over time		0-9	10-249		Av/Worse
By date of interview	Total	emps	emps	Min/low	than ave
Q2 2014	43%	42%	67%	60%	41%
Q3 2014	46%	45%	70%	77%	44%
Q4 2014	54%	53%	65%	58%	54%
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%

Q238 All SMEs seeking new/renewing finance in next 3 months



A longer term view shows that the improvement in overall confidence year on year was seen amongst both larger and smaller potential applicants and also those with a minimal/low risk rating. There has been less of a change in levels of confidence amongst those with an average or worse than average risk rating:

Confidence bank would agree to lend					
All planning to apply – over time					
Row percentages	2012	2013	2014	2015	H1 2016
All	42%	39%	47%	53%	50%
0-9 employees	41%	37%	46%	52%	49%
10-49 employees	58%	60%	66%	70%	73%
Minimum/Low risk rating	57%	67%	65%	66%	76%
Average/WTa risk rating	40%	35%	45%	48%	44%

Q238 All SMEs seeking new/renewing finance in next 3 months

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that overall confidence in H1 2016 remained at around 6 in 10 for those planning to renew (64%) but was somewhat lower amongst those planning to apply for new facilities (41%).

In both instances larger SMEs were more confident of success. Analysis over time shows confidence for renewals improving steadily while levels of confidence for those applying for new money remained more stable:

- For renewals confidence was 56% for 2014, 60% for 2015 and 64% for H1 2016
- For new facilities confidence was 39% for 2014, 42% for 2015 and 41% for H1 2016

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 99% compared to a confidence level of 64%, while for new funds the success rate in the same period was 66% against a confidence level of 41%.



In a new question asked for the first time in Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. The table below shows the results for the first half of 2016 and how confidence increased by size of SME:

Confidence bank would say yes if asked		0	1-9	10-49	50-249
All not planning to apply to bank H1 16	Total	emp	emps	emps	emps
Unweighted base:	8190	1670	2634	2608	1278
Very confident	33%	31%	37%	45%	46%
Fairly confident	30%	29%	33%	36%	37%
Overall confidence	63%	60%	70%	81%	83%
Neither/nor	24%	25%	19%	14%	14%
Not confident	13%	15%	11%	5%	3%
Net confidence (confident – not confident)	+50	+45	+59	+76	+80

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months

Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below shows the confidence for this group (shown as 'all others planning to apply') and for those who expect to be Future would-be seekers or Future happy non-seekers of finance:

Confidence bank would say yes if asked		All planning	All others	Future	Future
H1 16		to apply	planning to	WBS	HNS
		to bank	apply		
Unweighted base:	810	633	986	6571	
Very confident	23%	31%	17%	36%	
Fairly confident	27%	26%	27%	31%	
Overall confidence	50%	57%	44%	67%	
Neither/nor	28%	25%	27%	23%	
Not confident	22%	19%	29%	10%	
Net confidence (confident – not confident)	+28	+38	+15	+57	

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months



These initial results show that those who had no need or plans to apply (the Future happy non-seekers) were the most confident that if they were to approach their bank they would be successful. Those who planned to apply but did not nominate a bank product were the next most confident, suggesting that it was not a fear of rejection that was affecting their choice of funding vehicle. The least confident of these three groups was the Future would-be seekers.

By sector, confidence that the bank will say yes amongst those planning to apply was highest for those in Agriculture (70%) and lowest for those in the Transport sector (42%) with little variation otherwise by sector (47-53%). Amongst those thinking hypothetically about an application, confidence the bank would agree was again higher in Agriculture (69%)

and also Wholesale/Retail (also 69%). The lowest level of 'hypothetical' confidence was amongst those in the Hotel & Restaurant sector (59%) with again little variation across the other sectors (60-65%).

Confidence amongst those planning to grow that the bank would say yes to an application is somewhat mixed. Of those currently planning to apply for bank finance, confidence amongst those also planning to grow is 51% compared to 60% of those not planning to grow. Amongst those thinking hypothetically about an application, confidence amongst Future Happy non-seekers varies little by whether the SME also plans to grow (65% if planning to grow, 68% if not) whilst amongst Future would-be seekers there is more of a difference (39% confident if also planning to grow, 46% if not).



Those not planning to seek or renew facilities in the next 3 months

In Q2 2016, 11% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (89%) with no such plans. A third of that majority (31%) were current users of external finance, the rest were not. This means that, for Q2 2016, 61% of all SMEs neither used external finance nor had any immediate plans to apply for any. This proportion increased from 50% in 2011 to 60% for 2014 and has been stable since (59% for 2015).

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- those that were happy with the decision because they did not need to borrow (more) or already had the facilities they needed – the Future happy non-seekers
- those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the Future would-be seekers.

These Future would-be seekers can then be split into 2 further groups:

- those that had already identified that they were likely to need external finance in the coming 3 months (and could foresee barriers to an application to meet that need).
- those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge.

As reported later in this chapter, very few of the Future would-be seekers had an actual need for finance already identified, and thus they are somewhat different from the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for a loan or overdraft that they had not applied for.

There have been no changes over time to these definitions, unlike the equivalent question for *past* behaviour featured earlier in this report (although the option ‘I prefer not to borrow’ as a reason why Future would-be seekers were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour).



The picture for recent quarters is reported below. Three quarters of SMEs in Q2 2016 met the definition of a Future happy non-seeker and this has changed little over recent waves:

Future finance plans

All SMEs – over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Plan to apply/renew	14%	15%	13%	14%	11%	12%	16%	14%	11%
Future would-be seekers – with identified need	1%	2%	1%	1%	*	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	17%	14%	11%	10%	10%	11%	11%	11%	12%
Happy non-seekers	68%	69%	75%	75%	79%	76%	73%	74%	76%

Q230/239 All SMEs

Amongst SMEs with employees in Q2 2016, 15% had plans to apply/renew while 12% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 73%.

As reported earlier, a quarter of past Happy non-seekers were users of external finance. A similar proportion of Future happy non-seekers identified above were using external finance (28% for the first half of 2016). This has declined over time from 37% in 2012.



As has been discussed elsewhere in this report, around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group has been excluded, resulting in a higher proportion planning to apply (22% in Q2 2016) and fewer Future happy non-seekers (55% - although they remain the largest single group, as overall):

Future finance plans

SMEs excluding PNB- over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	3514	3576	3153	3220	3195	3258	3338	2854	3008
Plan to apply/renew	23%	25%	24%	27%	21%	23%	28%	28%	22%
Future would-be seekers – with identified need	1%	3%	2%	3%	1%	2%	1%	2%	1%
Future would-be seekers – no immediate identified need	28%	24%	21%	18%	20%	20%	19%	22%	22%
Happy non-seekers	48%	48%	53%	53%	58%	55%	52%	49%	55%

Q230/239 All SMEs excluding the Permanent non-borrowers

The tables below take a longer term view on changes in future appetite for finance from 2012, both overall and once the Permanent non-borrowers are excluded.



Future demand for finance has remained virtually unchanged since 2012. The proportion of Future would-be seekers has halved in that time, as the proportion of Future happy non-seekers has increased:

Future finance plans					H1
Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Plan to apply/renew	14%	14%	13%	13%	13%
Future would-be seekers	23%	18%	16%	11%	12%
Happy non-seekers	63%	68%	71%	76%	75%

Q230/239 All SMEs

Once the Permanent non-borrowers were excluded, more SMEs were planning to apply or renew and this proportion has increased slightly over recent years to 25% of SMEs for H1 2016. The proportion of Future would-be seekers has fallen, as the proportion of Future happy non-seekers has increased but less markedly than for SMEs overall:

Future finance plans					H1
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016
Unweighted base:	15,312	14,578	13,613	13,011	5862
Plan to apply/renew	21%	23%	24%	25%	25%
Future would-be seekers	35%	30%	28%	21%	23%
Happy non-seekers	44%	47%	49%	54%	52%

Q230/239 All SMEs

The Future would-be seekers are a group of interest as they represent a measure of ‘unmet’ demand. The table below looks at the profile of this group over recent quarters.



The table below shows how the proportion of Future would-be seekers has been stable over recent quarters (but, as already reported, at lower levels than were seen in previous years):

Future would-be seekers									
Over time – row percentages	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
All SMEs	18%	16%	12%	11%	11%	12%	12%	12%	12%
0 employee	18%	18%	12%	11%	11%	13%	12%	12%	13%
1-9 employees	19%	12%	12%	12%	10%	10%	11%	10%	13%
10-49 employees	16%	8%	9%	9%	7%	7%	9%	9%	8%
50-249 employees	18%	8%	8%	10%	8%	7%	9%	11%	14%
Minimal external risk rating	10%	13%	12%	7%	9%	11%	7%	12%	11%
Low external risk rating	13%	13%	8%	11%	9%	9%	15%	10%	6%
Average external risk rating	17%	15%	10%	12%	11%	11%	12%	14%	11%
Worse than average external risk rating	21%	18%	16%	11%	11%	13%	10%	11%	14%
Agriculture	16%	15%	15%	7%	8%	7%	11%	17%	11%
Manufacturing	14%	13%	9%	7%	13%	10%	7%	11%	12%
Construction	19%	20%	13%	13%	13%	13%	10%	12%	17%
Wholesale/Retail	20%	12%	11%	12%	12%	15%	15%	11%	13%
Hotels & Restaurants	21%	16%	12%	12%	12%	13%	13%	11%	14%
Transport	18%	16%	14%	15%	12%	7%	12%	12%	14%
Property/Business Services	18%	18%	12%	9%	10%	11%	11%	10%	10%
Health	15%	15%	11%	11%	15%	15%	18%	14%	11%
Other Community	16%	12%	11%	10%	3%	10%	13%	14%	10%
All SMEs excluding PNBs	29%	27%	23%	21%	21%	22%	21%	23%	24%

Q230/239 All SMEs * shows overall base size, which varies by category



To understand this further, the table below shows all the reasons given by Future would-be seekers in Q2 2016 for thinking that they would not apply for finance in the next three months. It highlights the continued reluctance to borrow in the current environment (especially amongst larger FWBS), whether due to the predicted performance of their business specifically, or the economic climate more generally:

Reasons for not applying (all mentions)			
All Future would-be seekers Q2 16 only	Total	0-9 emps	10-249 emps
Unweighted base:	520	292	228
Reluctant to borrow now (any)	58%	57%	83%
-Prefer not to borrow in economic climate	42%	42%	43%
-Predicted performance of business	18%	17%	40%
Issues with <u>principle</u> of borrowing	6%	6%	2%
-Not lose control of business	4%	5%	2%
-Can raise personal funds if needed	1%	1%	*
-Prefer other forms of finance	1%	1%	*
-Go to family and friends	1%	1%	*
Issues with <u>process</u> of borrowing	24%	25%	6%
-Would be too much hassle	17%	17%	4%
-Thought would be too expensive	10%	10%	1%
-Bank would want too much security	1%	1%	1%
-Too many terms and conditions	1%	1%	1%
-Did not want to go through process	*	*	-
-Forms too hard to understand	1%	1%	1%
Discouraged (any)	15%	16%	9%
-Direct (Put off by bank)	3%	3%	1%
-Indirect (Think I would be turned down)	14%	14%	9%

Q239 Future would-be seekers SMEs



Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow now, at 56%, remained the main reason for not applying for external finance in Q2 2016. The proportion of Future would-be seekers who gave the 'process of borrowing' as their main reason has increased since the start of 2015 and was 22% in Q2:

Main reason for not applying

Future would-be seekers – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	14	14	14	15	15	15	15	16	16
Unweighted base:	876	580	544	514	455	445	525	466	520
Reluctant to borrow now (any)	58%	53%	61%	54%	55%	58%	52%	44%	56%
-Prefer not to borrow in economic climate	42%	40%	37%	37%	34%	36%	34%	21%	40%
-Predicted performance of business	16%	13%	24%	17%	22%	22%	19%	23%	16%
Issues with <u>principle</u> of borrowing	4%	5%	5%	10%	7%	3%	1%	4%	4%
Issues with <u>process</u> of borrowing	15%	15%	13%	16%	18%	17%	22%	19%	22%
Discouraged (any)	15%	13%	9%	13%	9%	18%	15%	23%	12%
-Direct (Put off by bank)	*	2%	*	1%	3%	*	*	3%	2%
-Indirect (Think I would be turned down)	15%	11%	9%	12%	6%	18%	15%	20%	10%
None of these	8%	14%	12%	7%	11%	4%	10%	10%	6%

Q239/239a Future would-be seekers SMEs



Analysis over the longer term from 2013 shows the decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There has been a small but steady increase in the proportion mentioning the process of borrowing (hassle, expense, security etc):

Main reason for not applying				
Future would-be seekers – over time	2013	2014	2015	H1 2016
Unweighted base:	3241	2765	1939	986
Reluctant to borrow now (any)	64%	59%	55%	50%
Discouraged (any)	14%	13%	14%	17%
Issues with <u>process</u> of borrowing	12%	15%	18%	20%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%
Other	2%	3%	1%	2%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where the economic climate is little mentioned and the two key reasons have been discouragement and the ‘process of borrowing’.

When these Future would-be seekers were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. Over time, the main barriers to borrowing have been shown to be somewhat different for the two groups.

Results for these SMEs are reported on a two quarter rolling basis to boost the limited base sizes of Future would-be seekers with an identified need.



Amongst the limited number of SMEs with an identified need for finance, a ‘reluctance to borrow’ in the current economic climate (30%) has typically taken turns with discouragement (29%) as the main reason for not having applied. In recent periods however, the ‘process of borrowing’ has been as likely to be mentioned as the main reason:

Main reason for not applying

Future would-be seekers with identified need	Q2-3 2014	Q3-4 2014	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016
Unweighted base:	103	86*	68*	65*	60*	73*	60*	53*
Reluctant to borrow now (any)	30%	38%	42%	30%	26%	25%	28%	30%
-Prefer not to borrow in economic climate	18%	17%	26%	26%	23%	21%	24%	24%
-Predicted performance of business	12%	22%	16%	4%	2%	4%	3%	6%
Issues with <u>principle</u> of borrowing	6%	6%	11%	14%	10%	7%	-	1%
Issues with <u>process</u> of borrowing	25%	20%	9%	10%	15%	35%	33%	30%
Discouraged (any)	23%	26%	28%	29%	43%	31%	31%	29%
- Direct (Put off by bank)	*	*	1%	1%	1%	-	14%	14%
-Indirect (Think I would be turned down)	23%	26%	27%	27%	42%	31%	18%	15%
None of these	16%	10%	10%	17%	6%	2%	8%	10%

Q239/239a Future would-be seekers SMEs *SMALL BASE



As the table below shows, amongst those Future would-be seekers with no specific need for finance in mind, a 'reluctance to borrow' in the current climate presents more of a barrier than other factors (albeit with fewer mentions in recent quarters). Discouragement is much less likely to be mentioned by this group, but where it is, almost all of it is indirect:

Main reason for not applying

Future would-be seekers with no identified need	Q2-3 2014	Q3-4 2014	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016
Unweighted base:	1353	1038	990	904	840	897	931	933
Reluctant to borrow now (any)	58%	58%	59%	57%	59%	57%	50%	52%
-Prefer not to borrow in economic climate	43%	41%	38%	36%	35%	36%	28%	32%
-Predicted performance of business	14%	17%	21%	21%	23%	22%	22%	20%
Issues with <u>principle</u> of borrowing	5%	5%	7%	8%	5%	2%	3%	4%
Issues with <u>process</u> of borrowing	14%	14%	15%	17%	17%	18%	20%	20%
Discouraged (any)	13%	10%	9%	9%	12%	16%	18%	16%
- Direct (Put off by bank)	1%	1%	1%	2%	1%	*	1%	1%
-Indirect (Think I would be turned down)	12%	8%	9%	7%	11%	16%	18%	15%
None of these	10%	13%	10%	9%	7%	7%	9%	8%

Q239/239a Future would-be seekers SMEs



Other analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q2 2016).

By size, a 'reluctance to borrow now' was the top reason given, notably for larger SMEs, while the 'process of borrowing' is more of a barrier for smaller Future would-be seekers:

Main reason for not applying

Future would-be seekers by size Q2 16 only	Total	0-9 emps	10-249 emps
Unweighted base:	520	292	228
Reluctant to borrow now (any)	56%	55%	83%
-Prefer not to borrow in economic climate	40%	40%	42%
-Predicted performance of business	16%	15%	40%
Issues with <u>principle</u> of borrowing	4%	4%	2%
Issues with <u>process</u> of borrowing	22%	22%	4%
Discouraged (any)	12%	12%	9%
-Direct (Put off by bank)	2%	2%	1%
-Indirect (Think I would be turned down)	10%	10%	9%

Q239/239a Future would-be seekers SMEs

Excluding the Future would-be seekers with 0 employees makes relatively little difference to the overall picture above. 63% of FWBS with employees cited a reluctance to borrow now, with 44% citing the current climate and 19% their own performance. 15% cited discouragement.



The table below shows the main reasons given for not applying in Q2 2016 split by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings, especially for those FWBS with a minimal/low rating. The 'process of borrowing' was mentioned by 1 in 5 of those with an average or worse than average risk rating:

Main reason for not applying

Future would-be seekers by risk rating Q2 16 only	Total	Min/Low	Avg	Worse/ Avg
Unweighted base:	520	216	118	120
Reluctant to borrow now (any)	56%	66%	52%	58%
-Prefer not to borrow in economic climate	40%	39%	46%	41%
-Predicted performance of business	16%	27%	6%	18%
Issues with <u>principle</u> of borrowing	4%	3%	*	5%
Issues with <u>process</u> of borrowing	22%	14%	22%	22%
Discouraged (any)	12%	17%	12%	10%
-Direct (Put off by bank)	2%	9%	*	1%
-Indirect (Think I would be turned down)	10%	8%	12%	9%

Q239/239a Future would-be seekers SMEs



To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q2 2016.

7% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q2 16 only – Future would-be seekers	Main reason	All SMEs Q2	All SMEs excl. PNB
Unweighted base:	520	4500	3008
Reluctant to borrow now (any)	56%	7%	13%
-Prefer not to borrow in economic climate	40%	5%	10%
-Predicted performance of business	16%	2%	4%
Issues with <u>principle</u> of borrowing	4%	*	1%
Issues with <u>process</u> of borrowing	22%	3%	5%
Discouraged (any)	12%	2%	3%
-Direct (Put off by bank)	2%	*	*
-Indirect (Think I would be turned down)	10%	1%	2%

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (once the PNBs had been excluded), 13% were put off by the current economic climate (including their current performance in that climate).



Attitudes to seeking finance in future

This report has already highlighted lower levels of demand for finance and some attitudinal reluctance towards using external finance. In order to try to understand barriers to application in more detail, new questions were added from Q1 2016 and asked of all SMEs. These sought to explore the extent to which a lack of knowledge or understanding of financial products presented a barrier to SMEs.

The new questions asked SMEs how confident they were in their future ability to assess the advantages and disadvantages of finance products offered by either their own bank or another bank, or to put together an application for finance from someone other than their main

bank (as this would be likely to require more information about the business and its finances than an application made to an existing bank).

Across Q1 and Q2 2016 around 7 in 10 SMEs felt confident about assessing their own bank's products and services, while 6 in 10 were confident about assessing or approaching another bank for finance.

The tables below show levels of confidence in H1 2016 by size of SME. Larger SMEs were more confident about assessing the advantages and disadvantages of financial products offered by their own bank:

Confidence assessing financial products from own bank

H1 16 only – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	8907	1780	2873	2869	1385
Very confident	29%	28%	33%	38%	39%
Fairly confident	40%	40%	39%	39%	44%
Overall confidence	69%	68%	72%	77%	83%
Not sure	22%	23%	21%	18%	14%
Not confident	9%	9%	8%	5%	3%

Q240i All SMEs excluding DK



Larger SMEs were also more confident about assessing the advantages and disadvantages of financial products offered by other banks, but across all groups, levels of confidence were lower than for assessing such products from their own bank:

Confidence assessing financial products from another bank

H1 16 only – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	8849	1769	2851	2848	1381
Very confident	25%	24%	27%	30%	29%
Fairly confident	36%	35%	38%	38%	46%
Overall confidence	61%	59%	65%	68%	75%
Not sure	29%	30%	26%	25%	21%
Not confident	11%	12%	9%	6%	4%

Q240i All SMEs excluding DK

Levels of confidence in putting together an application for finance to a bank other than their own were very similar to those reported above for the assessment of products at another bank:

Confidence putting together application for finance to other bank

H1 16 only – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	8852	1771	2850	2852	1379
Very confident	26%	25%	28%	32%	34%
Fairly confident	34%	33%	35%	36%	41%
Overall confidence	60%	58%	63%	68%	75%
Not sure	27%	27%	25%	24%	22%
Not confident	14%	15%	11%	9%	4%

Q240i All SMEs excluding DK



The summary table below shows firstly how confidence varied by future plans for finance. Future happy non-seekers were the most confident about assessing products from their own or any other bank, and as confident as those planning to apply that they could make an application to a bank other than their own. In each instance, Future would-be seekers were somewhat less confident, which may help explain why they are a Future would-be seeker:

Confidence summary table					
H1 16 only – all SMEs excl DK	Total	Plan to apply	FWBS	FHNS	All excl PNB
Unweighted base (overall – will vary):	9000	1443	986	6571	5862
Confident assessing products at main bank	69%	63%	58%	71%	67%
• Very confident	29%	24%	21%	31%	27%
• Fairly confident	40%	39%	37%	40%	40%
Confident assessing products at other bank	61%	56%	49%	63%	58%
• Very confident	25%	22%	15%	27%	22%
• Fairly confident	36%	34%	34%	36%	36%
Confident applying for finance to another bank	60%	59%	53%	60%	57%
• Very confident	26%	24%	19%	27%	24%
• Fairly confident	34%	35%	34%	33%	33%

Q240i All SMEs excluding DK

The table also shows the impact of excluding the Permanent non-borrowers who appear to have little interest in applying for finance. Amongst those with some interest in finance, confidence is lower than it is for SMEs overall, meaning that PNBs must be as confident, if not more confident, than their peers about assessing banks or applying for finance. This is therefore unlikely to be a reason why they are not using finance.

Further analysis will be included as base sizes permit.

13. Awareness of taskforce and other initiatives



This final section of the report looks

at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.



Key findings

After prompting, 6 in 10 SMEs in Q2 2016 (58%) were aware of any of the initiatives tested.

- Overall awareness increased by size of SME from 55% of those with 0 employees to 73% of those with 50-249 employees. Excluding the PNBs increased awareness slightly to 62%.
- 52% were aware of any of the funding initiatives tested including Start up Loans (40%) and Funding for Lending (26%).
- 28% were aware of any of the support initiatives tested including 17% aware of the network of business mentors (10% of SMEs have a mentor).
- 14% were aware of any of the information initiatives tested including the Better Business Finance programme (8%).
- Awareness has changed relatively little over time.

41% of all SMEs in Q2 2016 (excluding the PNBs) had heard of crowd funding.

- There was wider variation in awareness by size of SME than previously seen (from 39% of 0 employee SMEs to 53% of those with 50-249 employees).
- Use of crowd funding remained limited (1% YE Q2 2016) while 12% were aware of the funding and would consider it in future. This has changed little over time.

18% of SMEs in Q2 2016 reported being contacted by a bank expressing a willingness to lend (20% once the PNBs were excluded).

- There has been a slight increase in such contact over time. In 2012, 13% reported having been contacted by a bank.



In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of those commitments, together with other relevant initiatives. This part of the survey has been revised several times, most recently in Q1 2016, so results are not always directly comparable over time.

The main change for Q1 2016 involved dropping the spontaneous awareness question asked before prompting on a range of specific initiatives and adding the Business Finance Guide to the list of initiatives tested.

Prompted awareness of funding initiatives

From Q3 2014 a revised list of funding initiatives has been used, and the question has been asked in a slightly different way. As the table below shows, when prompted with the various schemes listed, 52% of SMEs in Q2 2016 were aware of one or more of these specific schemes, with awareness increasing by size:

Awareness of specific funding initiatives		0	1-9	10-49	50-249
Q2 16 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4500	900	1450	1450	700
Start Up Loans*	40%	39%	42%	43%	42%
Funding for Lending	26%	24%	32%	35%	35%
Enterprise Finance Guarantee Scheme	18%	17%	20%	23%	25%
The Business Growth Fund	15%	14%	18%	25%	23%
The British Business Bank	9%	8%	13%	15%	23%
<i>Any of these</i>	52%	50%	58%	60%	65%
<i>None of these</i>	48%	50%	42%	40%	35%

Q240 All SMEs

Amongst those with employees, 58% were aware of any of these initiatives.

As many of these initiatives are aimed at those with an interest in seeking external finance, they are potentially less relevant to the Permanent non-borrowers who have indicated that they are unlikely to seek such external finance. Awareness excluding PNBs is provided later in this chapter.



Prompted awareness of other support initiatives

The table below shows awareness of other support initiatives tested in Q2 2016. Around a quarter of SMEs were aware of one or more of these initiatives, again increasing somewhat by size of SME:

Awareness of initiatives		0	1-9	10-49	50-249
Q2 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
A network of business mentors	17%	16%	19%	23%	21%
The Lending Code/principles	18%	17%	20%	25%	24%
Independently monitored appeals process	11%	10%	12%	17%	17%
Any of these	28%	26%	32%	39%	41%
None of these	72%	74%	68%	61%	59%

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 34% were aware of any of these initiatives.

A further initiative around loans was only asked of those SMEs directly affected by it, as detailed below:

Initiative	Awareness
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans was 7% in Q2. For 2015 as a whole it was 9%, unchanged from 2014.

As it applies only to specific SMEs, this initiative is not included in any of the overall summary tables below.



Prompted awareness of other information initiatives

The table below shows awareness of other communications and sources of information tested in Q2 2016. Around 1 in 7 SMEs were aware of one or more of these initiatives, again increasing somewhat by size of SME:

Awareness of initiatives		0	1-9	10-49	50-249
Q2 16 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4500	900	1450	1450	700
The Better Business Finance (BBF) programme and website	8%	6%	11%	12%	14%
The British Banking Insight website	6%	5%	8%	9%	12%
The Business Finance Guide published by the ICAEW and the British Business Bank	7%	6%	10%	11%	13%
<i>Any of these</i>	14%	12%	19%	21%	24%
<i>None of these</i>	86%	88%	81%	79%	76%

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 19% were aware of any of these initiatives.



Awareness of all initiatives by key groups

58% of all SMEs in Q2 2016 were aware of one or more of these initiatives after prompting. As with individual initiatives, total awareness increased by size of SME:

- 55% of SMEs with no employees were aware of any of these initiatives
- 63% of those with 1-9 employees were aware of any of these initiatives
- 66% of those with 10-49 employees were aware of any of these initiatives
- 73% of SMEs with 50-249 employees were aware of any of these initiatives

Excluding the PNBs increased overall awareness slightly to 62%.

There was relatively little variation in overall awareness by age of business. Those trading 2-5 years were most likely to be aware (64%) with between 55% and 58% in other age groups aware of any of these initiatives.

Those currently using external finance were more likely to be aware (66%) than those not using finance (53%), as were those planning to apply in the next 3 months (67%, compared to 57% for Future would-be seekers and 56% for Future happy non-seekers).

The tables below provide detailed awareness by other key demographic groups.



The table below details awareness by sector of all the initiatives tested in Q2 2016. Overall awareness varied from 48% for Agriculture to 63% for Property/Business Services:

% aware of initiatives									
Q2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<i>Unweighted base:</i>	300	375	800	450	300	500	900	375	500
Start Up Loans	33%	45%	42%	38%	33%	33%	44%	44%	32%
Funding for Lending	26%	29%	27%	28%	25%	22%	27%	24%	25%
A network of business mentors	9%	21%	15%	14%	13%	11%	22%	19%	22%
The Lending Code/principles	16%	20%	11%	18%	16%	11%	21%	24%	25%
Enterprise Finance Guarantee Scheme	18%	19%	14%	15%	14%	12%	24%	25%	14%
The Business Growth Fund	15%	19%	13%	16%	9%	8%	18%	18%	16%
Independently monitored appeals process	11%	15%	8%	11%	10%	8%	12%	15%	11%
The British Business Bank	10%	14%	6%	7%	11%	6%	11%	10%	9%
BetterBusinessFinance.co.uk	9%	10%	7%	7%	9%	5%	10%	5%	6%
The BBI website*	6%	7%	6%	5%	6%	2%	8%	5%	7%
The Business Finance Guide*	8%	7%	5%	8%	6%	3%	10%	8%	9%
<i>Any of these</i>	48%	61%	56%	57%	50%	49%	63%	58%	60%
<i>None of these</i>	52%	39%	44%	43%	50%	51%	37%	42%	40%

Q240 All SMEs * indicates new or amended question



Excluding the Permanent non-borrowers with little apparent interest in external finance slightly increases awareness of *any* initiatives to 62%. The table below shows awareness of all the individual initiatives tested in Q2 2016, once these PNBs have been excluded:

Awareness of initiatives		0	1-9	10-49	50-249
Q2 16 – all SMEs excluding PNBs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	3008	427	962	1064	555
Start Up Loans	44%	43%	45%	47%	46%
Funding for Lending	26%	23%	33%	38%	39%
A network of business mentors	19%	18%	22%	25%	21%
The Lending Code/principles	18%	16%	23%	29%	27%
Enterprise Finance Guarantee Scheme	18%	16%	21%	24%	28%
The Business Growth Fund	15%	13%	18%	26%	26%
Independently monitored appeals process	12%	10%	14%	18%	18%
The British Business Bank	8%	5%	11%	16%	26%
BetterBusinessFinance.co.uk	7%	5%	11%	13%	15%
The BBI website*	5%	4%	8%	8%	14%
The Business Finance Guide*	7%	5%	11%	11%	13%
<i>Any of these</i>	62%	59%	68%	71%	76%
<i>None of these</i>	38%	41%	32%	29%	24%

Q240 All SMEs * indicates new or amended question



Awareness over recent quarters for all SMEs is shown in the table below. The initiatives tested in Q2 2016 included some that were tested for the first time in Q1 2016, or where the wording has changed, as well as some that have been tracked consistently over the period shown. For many initiatives where trend data is available, the picture is broadly stable, but awareness of mentors and the Lending Code were both somewhat lower in 2016 to date:

Awareness of Taskforce initiatives

Over time – all SMEs By date of interview	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5023	5024	5038	5001	5004	5003	4500	4500
Start Up Loans	35%	34%	40%	40%	40%	42%	41%	40%
Funding for Lending	25%	24%	23%	24%	26%	24%	26%	26%
A network of business mentors	22%	19%	22%	19%	26%	24%	19%	17%
The Lending Code/principles	21%	17%	18%	19%	23%	22%	15%	18%
Enterprise Finance Guarantee Scheme	22%	17%	18%	18%	19%	19%	17%	18%
The Business Growth Fund	16%	15%	15%	15%	16%	16%	16%	15%
Independently monitored appeals process	14%	12%	12%	13%	14%	14%	10%	11%
The British Business Bank	13%	10%	11%	10%	12%	11%	9%	9%
BetterBusinessFinance.co.uk	14%	14%	8%	9%	10%	9%	8%	8%
The BBI website*	-	-	6%	9%	9%	8%	6%	6%
The Business Finance Guide*	-	-	-	-	-	-	8%	7%
Any of these	62%	58%	61%	62%	64%	61%	60%	58%
None of these	38%	42%	39%	38%	36%	39%	40%	42%

Q240 All SMEs



This second table excludes the Permanent non-borrowers, but shows a similar picture of awareness over recent quarters:

Awareness of Taskforce initiatives								
Over time – all SMEs excl PNBs	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	3576	3153	3220	3195	3258	3338	2854	3008
Start Up Loans**	36%	38%	44%	41%	42%	47%	42%	44%
Funding for Lending**	25%	26%	25%	26%	26%	26%	25%	26%
A network of business mentors	21%	20%	25%	22%	25%	24%	20%	19%
The Lending Code/principles	20%	19%	20%	21%	25%	24%	15%	18%
Enterprise Finance Guarantee Scheme**	21%	19%	22%	20%	19%	19%	18%	18%
The Business Growth Fund**	16%	16%	18%	19%	17%	17%	18%	15%
Independently monitored appeals process	15%	12%	14%	14%	15%	14%	11%	12%
The British Business Bank**	13%	10%	12%	10%	11%	12%	9%	8%
BetterBusinessFinance.co.uk	16%	14%	9%	9%	10%	8%	8%	7%
The BBI website*	-	-	8%	8%	9%	8%	6%	5%
The Business Finance Guide*	-	-	-	-	-	-	9%	7%
Any of these	64%	62%	66%	65%	66%	66%	62%	62%
None of these	36%	38%	34%	35%	34%	34%	38%	38%

Q240 All SMEs excl PNBs



The independently monitored appeals process

Not all SMEs borrow, or have any appetite for external finance. Initiatives such as the independently monitored appeals process therefore will not be immediately relevant to many SMEs. Awareness of this initiative is shown in more detail below, typically for H1 2016, and looking at those SMEs for whom it could have particular relevance:

The appeals process

Awareness amongst those declined for a loan or overdraft	As reported earlier, of those who, in the 18 months between Q1 2015 and Q2 2016, had applied for an overdraft and initially been declined, 18% said that they had been made aware of the appeals process. For loans the equivalent figure was 15%.
Overall general awareness	Overall awareness of the appeals process (asked of <u>all</u> SMEs at Q240) was 10% for H1 2016, somewhat lower than for previous years (14% consistently for 2013-2015). Once the PNBs were excluded awareness was 11%, also somewhat lower than previously seen.
Overall awareness by size	Awareness continued to increase somewhat by size of SME. Excluding the PNBs, in H1 2016 10% of remaining SMEs with 0 employees were aware of appeals, increasing to 17% of those with 10-49 or 50-249 employees.
Awareness by interest in finance	<p>14% of those reporting a borrowing event in the 12 months prior to interview were aware of the appeals process. Awareness was lower amongst both Happy non-seekers and Would-be seekers (9%).</p> <p>Looking forward, 11% of those planning to apply in the next 3 months were aware of the appeals process, compared to 10% of Future happy non-seekers and 9% of Future would-be seekers.</p>



Crowd Funding

Questions on crowd funding have been through several iterations in the SME Finance Monitor. They were originally included in Q2 and Q3 2012, when awareness of the concept was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees. Excluding the PNBs with little apparent appetite for finance did not change these figures.

When the question was re-introduced for the Q2 2013 survey the answers available were extended to cover both awareness *and* use of crowd funding and a quarter of SMEs (excluding the PNBs) were aware of crowd funding.

The question was revised again for Q1 2014, to provide more granularity on applications for crowd funding. Overall awareness since then is shown by quarter below. Since the start of 2014 awareness has increased and around 4 in 10 SMEs are now aware of crowd funding. Initial results for 2016 show a slightly lower level of overall awareness (41% in Q2 2016) due to lower levels of awareness amongst the smaller SMEs (39% of those with 0 employees v 53% of those with 50-249 employees):

Aware of crowd funding

All SMEs excl PNBs Row percentages	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	18%	25%	32%	32%	38%	36%	37%	45%	42%	41%
0 emps	16%	23%	29%	31%	38%	34%	37%	46%	40%	39%
1-9 emps	21%	32%	36%	33%	39%	41%	38%	45%	46%	44%
10-49 emps	24%	29%	35%	34%	40%	42%	40%	46%	47%	46%
50-249 emps	22%	29%	36%	38%	33%	40%	41%	44%	48%	53%
All planning to apply	25%	33%	37%	45%	47%	38%	40%	49%	47%	40%

Q238a3 All SMEs excl PNBs

Those planning to apply for new/renewed finance in the 3 months after interview have typically been somewhat more likely to be aware of crowd funding but this was not the case in Q2 2016.



The table below showing awareness and consideration of crowd funding is based on YEQ2 2016 to maximise base sizes. Very few SMEs were using crowd funding (1%) while a minority of those aware would consider using it (29% of those aware, the equivalent of 12% of all SMEs excluding the PNBs). Willingness to use declined slightly by size of SME:

Awareness and use of crowd funding

All SMEs excl PNBs YEQ2 2016	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	12,458	1877	4022	4405	2154
Aware of crowd funding	42%	41%	43%	45%	47%
- Using crowd funding	1%	1%	1%	2%	1%
- Unsuccessfully applied for crowd funding	*	*	1%	*	*
- Would consider applying in future	12%	12%	12%	11%	9%
- Would <u>not</u> consider applying	28%	27%	29%	32%	37%
Not aware	58%	59%	57%	55%	53%
% aware who would consider	29%	29%	28%	24%	19%

Q238a2 All SMEs excl PNBs

As the table below shows, since the start of 2014, awareness of crowd funding has increased from 22% to 42% of SMEs (excluding the PNBs) while the proportion of *those aware* who would consider using it has stayed broadly stable (32% in H1 2014 to 29% in H1 2016):

Awareness and use of crowd funding					
All SMEs excl PNBs Over time	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016
Unweighted base:	6884	6729	6415	6596	5862
Aware of crowd funding	22%	32%	37%	41%	42%
- Would consider applying in future	7%	10%	11%	12%	12%
% aware who would consider	32%	31%	30%	29%	29%

Q238a2 All SMEs excl PNBs



Overall consideration is driven by the views of the 0 employee SMEs:

- Between H1 2014 and H2 2015, the proportion of 0 employee SMEs (excluding PNBs) who were aware of crowd funding and said that they would consider using it in future dropped from 35% to 29%, before increasing again to 33% for H1 2016 (the highest level of consideration by size).
- For the equivalent group of SMEs with 1-9 employees, future consideration also dropped between H1 2014 and H2 2015, from 35% to 29%, and then dropped slightly again to 27% for H1 2016.
- Consideration amongst the equivalent 10-49 employee SMEs was at a consistent 26% H1 2014 to H2 2015, but was somewhat lower at 21% for H1 2016.
- Consideration amongst the equivalent 50-249 employees SMEs has been very consistent over time (19% in both H1 2014 and H2 2015 and 20% in H1 2016).



Bank communication about lending

SMEs were asked whether, in the 3 months prior to interview, they had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q2 2016, 18% of all SMEs said that they had received such a contact in the previous 3 months (12% of SMEs had heard from their main bank, while 8% had heard from another bank). There has been a gradual increase in reported contact over time (14% had been approached in Q2 2014), which was seen across all sizes of SME:

Approached by any bank in last 3 mths

Over time – all SMEs	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
All SMEs	14%	14%	14%	14%	14%	16%	17%	17%	18%
0 emps	14%	12%	12%	14%	13%	15%	16%	16%	17%
1-9 emps	15%	17%	17%	16%	17%	17%	19%	17%	20%
10-49 emps	16%	21%	17%	18%	18%	20%	21%	22%	19%
50-249 emps	19%	24%	22%	16%	18%	19%	17%	17%	18%
All SMEs excluding PNBs	15%	14%	16%	17%	16%	19%	20%	20%	20%

Q221 All SMEs

SMEs with employees remained more likely to have been contacted. 20% reported in Q2 2016 that they had been approached by a bank (14% by their main bank and 8% by another bank).



Analysis over time shows that the increased level of contact has been primarily due to increased approaches from the main bank:

Approached by banks in last 3 months					H1
All SMEs over time	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Approached by main bank	8%	9%	10%	11%	11%
Approached by other bank	6%	5%	5%	6%	7%
Any approach	13%	13%	14%	15%	17%

Q221 All SMEs

Those who had been contacted by a bank were more likely to be aware of *any* of the initiatives tested earlier in this chapter (71% compared to 56% of those who had not been approached and 61% of all SMEs). They were also more likely to be planning to apply for finance (18% v 12%).

Those who had heard from a bank were typically slightly larger SMEs with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to have impacted on awareness. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. Selected Graphs and Charts



This chapter presents

some of the key data in graphical form to provide data on longer term trends.



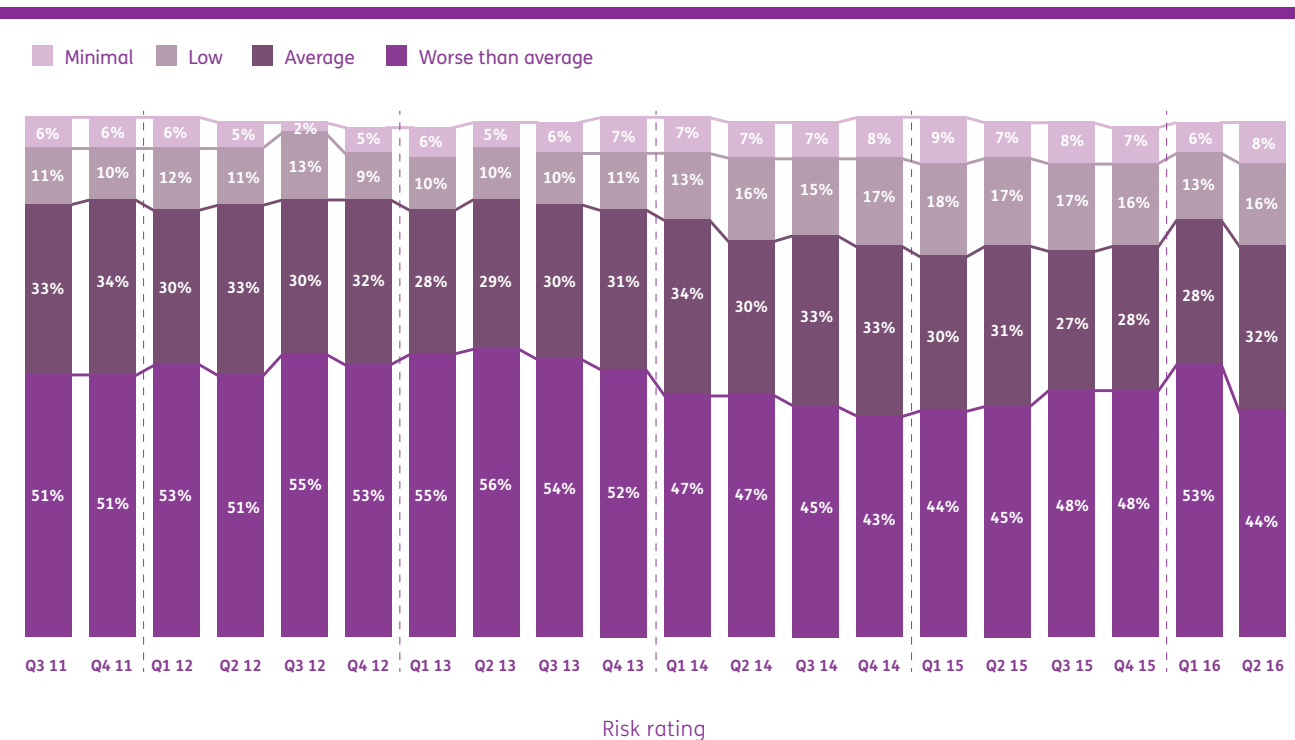
Much of the data in this report is provided and analysed over time, typically by quarter. After twenty one waves of the SME Finance Monitor, the tables containing data for each quarter have become too large to fit comfortably on a page. The main tables therefore show the most recent quarters only and a series of summary tables have been developed for key questions

to show longer terms trends on an annual basis. This chapter also provides longer trend data, but this time quarter by quarter for key questions. At the bottom of each chart there is a reference to the page in the main report where the current data is presented in a table, and a summary of the trend shown.

Charts reflecting data reported in Chapter 4

External risk rating from D&B or Experian

Time Series: Risk rating per quarter

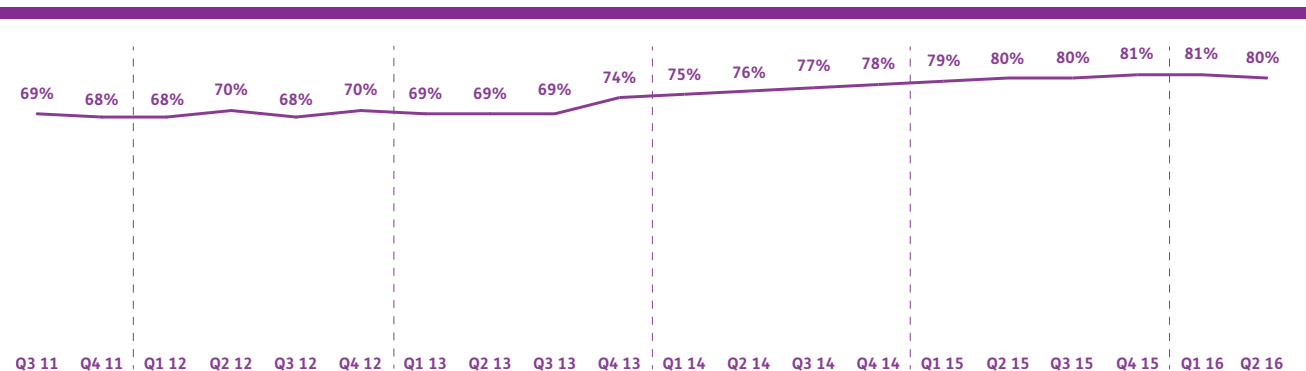


This chart relates to the analysis found on page 35 of the main report. The proportion of SMEs with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015 (and 22% in H1 2016). The proportion with a worse than average risk rating was lower in 2014 and 2015 than in earlier years but is currently slightly higher for 2016 to date.



% that made a net profit during last 12 month financial period

Time series: Reported profitability in past 12 months, per quarter, excluding DK

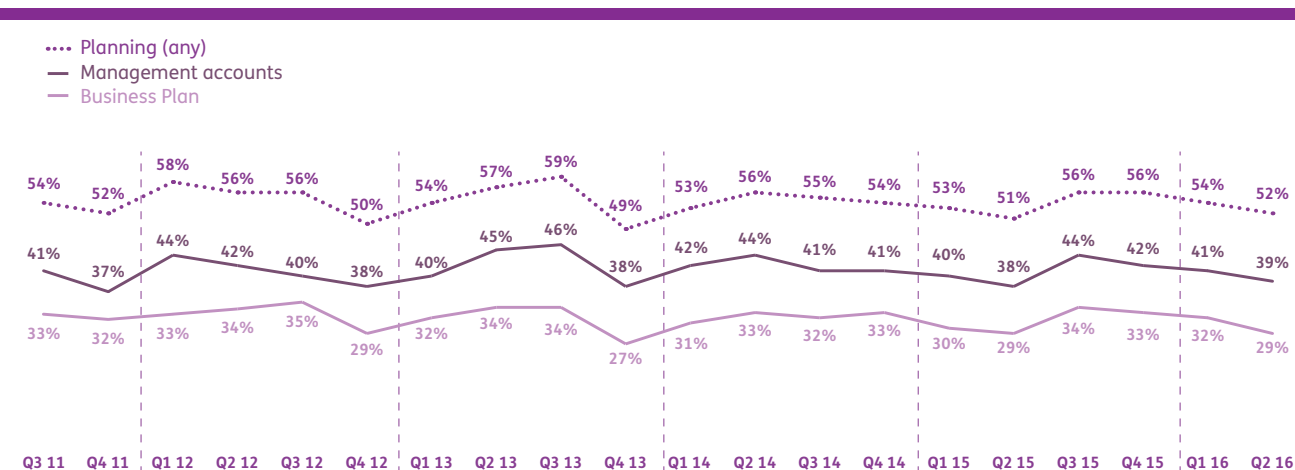


Q241

This chart relates to the analysis found on page 27 of the main report. The proportion of SMEs reporting a profit (once DK answers have been excluded) is stable at 8 in 10, having been 7 in 10 for 2012 and 2013.

Proportion preparing management accounts/business plans

Time series: Business planning



Q223

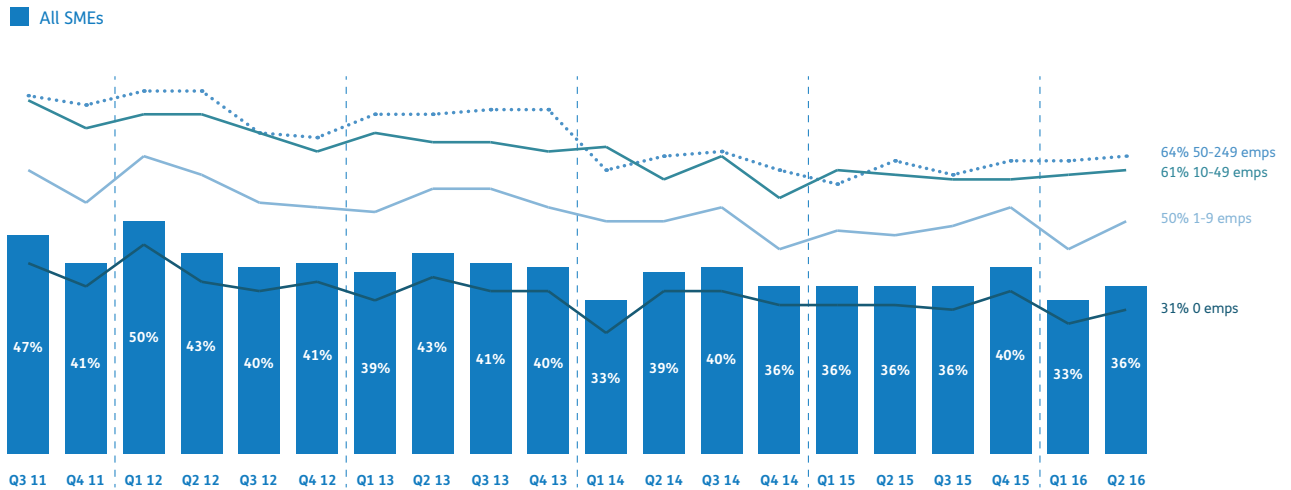
This chart relates to the analysis found on page 41 of the main report. Half of SMEs plan with relatively little variation over time.



Charts reflecting data reported in Chapter 5

Use of any listed forms of external finance currently – by size

Time Series: Use of external finance per quarter



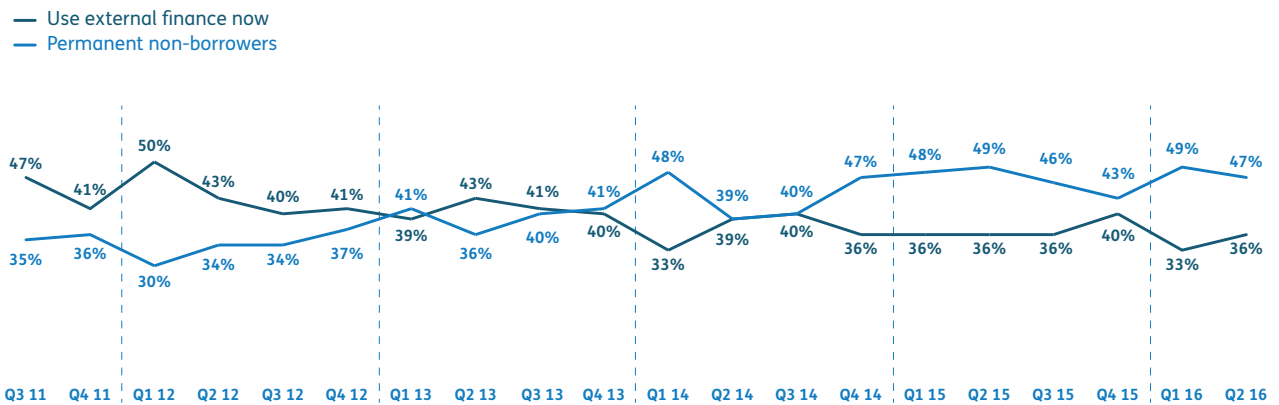
Q15

This chart relates to the analysis found on page 51 of the main report. A third of SMEs use external finance (36% in Q2 2016) increasing by size of SME from 31% of those with 0 employees to 64% of those with 50-249 employees.



Proportion using external finance v those who meet definition of “Permanent non-borrower”

Time series: Permanent non-borrowers and users of external finance



Q15/14 and others

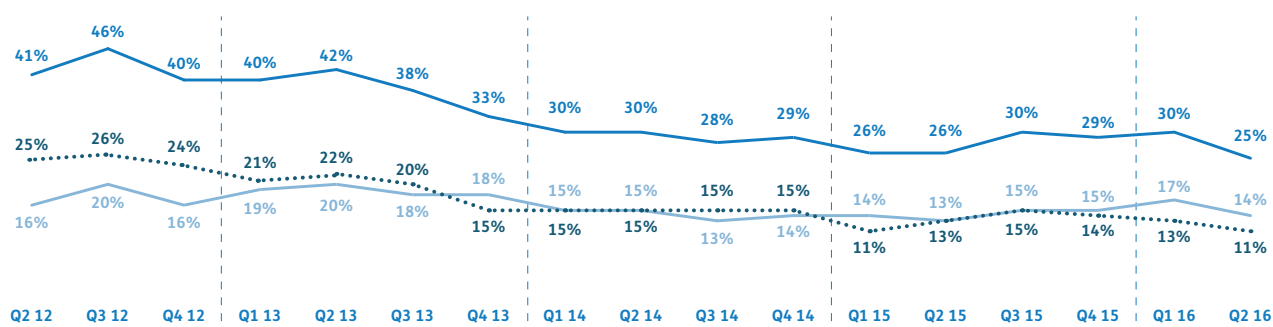
This chart relates to the analysis found on page 79 of the main report. The gap between the proportion of SMEs using external finance (36% in Q2 2016) and those who meet the definition of a Permanent non-borrower (47%) has widened again over recent quarters.



Proportion injecting personal funds into the business in last 12 months

Time series: Injections of personal funds

- Any injection of funds
- Chose to inject funds
- Felt had to inject funds



Q15/14 and others

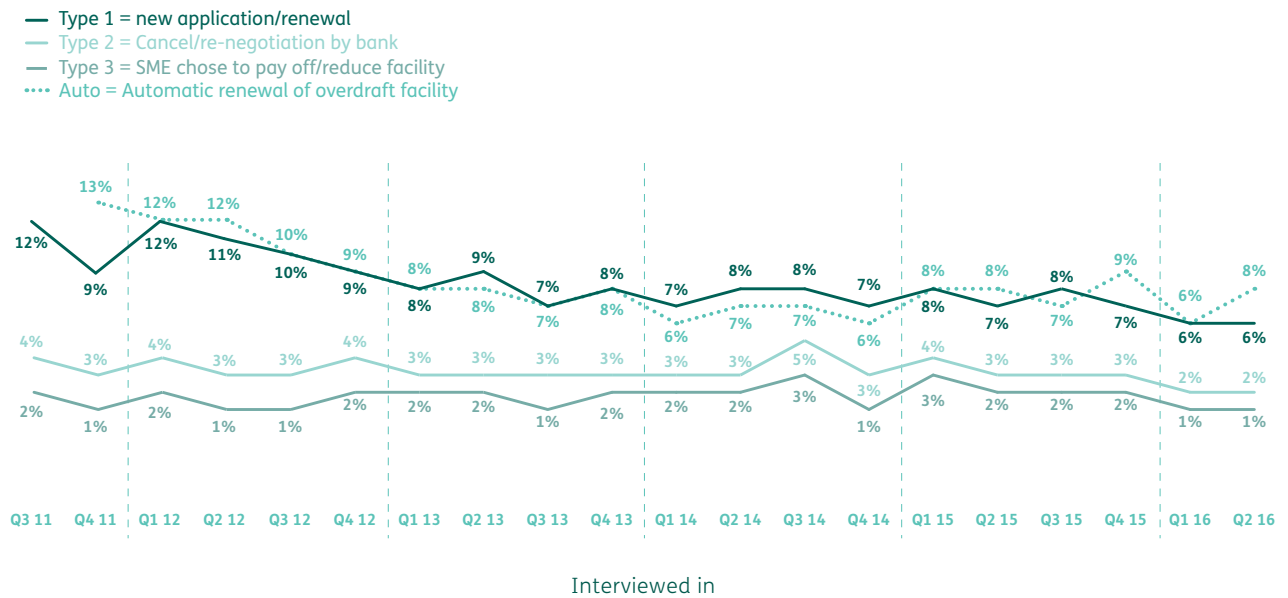
This chart relates to the analysis found on page 65 of the main report. 25% of SMEs reported any injection of personal funds in the 12 months prior to Q2 2016. This was slightly more likely to have been a choice (14% and relatively stable over time) than the SME feeling this injection had to be made (11% and declining over time).



Charts reflecting data reported in Chapter 6

Borrowing events in 12 months prior to interview

Time series: Borrowing events



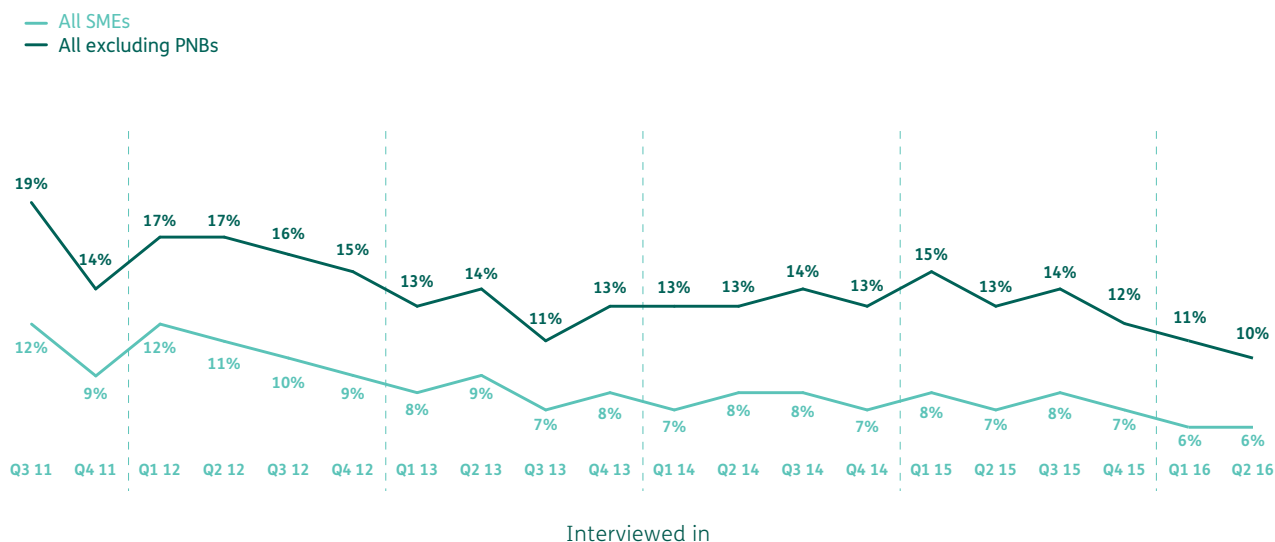
Q26

This chart relates to the analysis found on pages 96 and 110 of the main report. The proportion of SMEs reporting a Type 1 borrowing event continues to decline over time (from 11% in 2012 to 6% YE Q2 2016).



Applied for a new/renewed loan or overdraft in 12 months prior to interview – a Type 1 event

Time series: Type 1 events



Q26

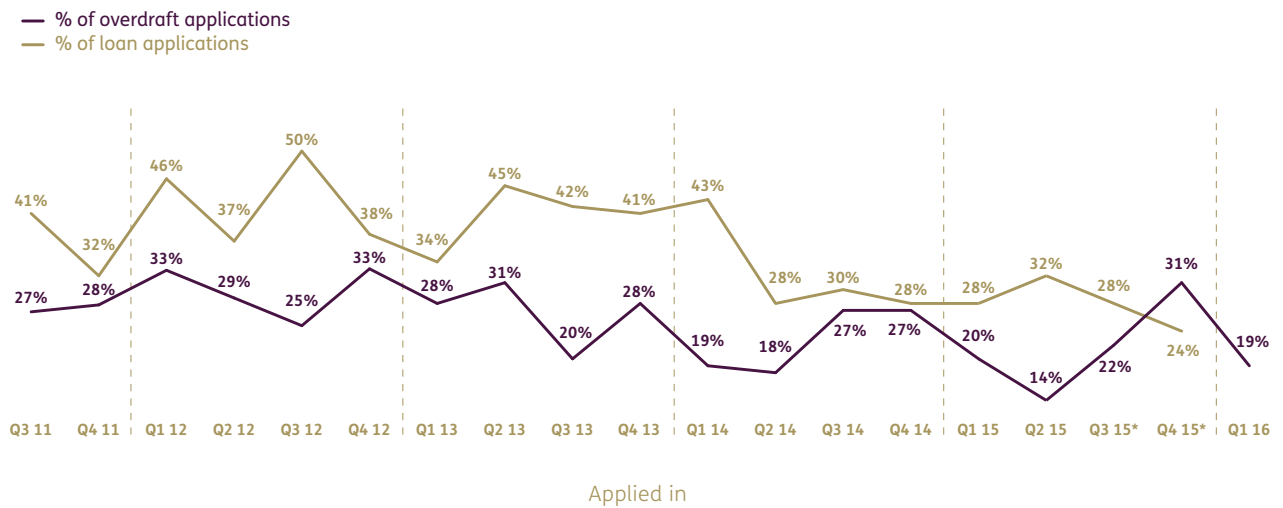
This chart relates to the analysis found on pages 96 and 97 of the main report. Excluding the PNBs increases the proportion of remaining SMEs that have reported a Type 1 borrowing event but this remains at lower levels to those seen previously, from 16% in 2012 to 11% in H1 2016.



Charts reflecting data reported in Chapter 7

Proportion of all applications that were made by first time applicants

Time series: Proportion of applications made by first time applicants



Q52/Q349

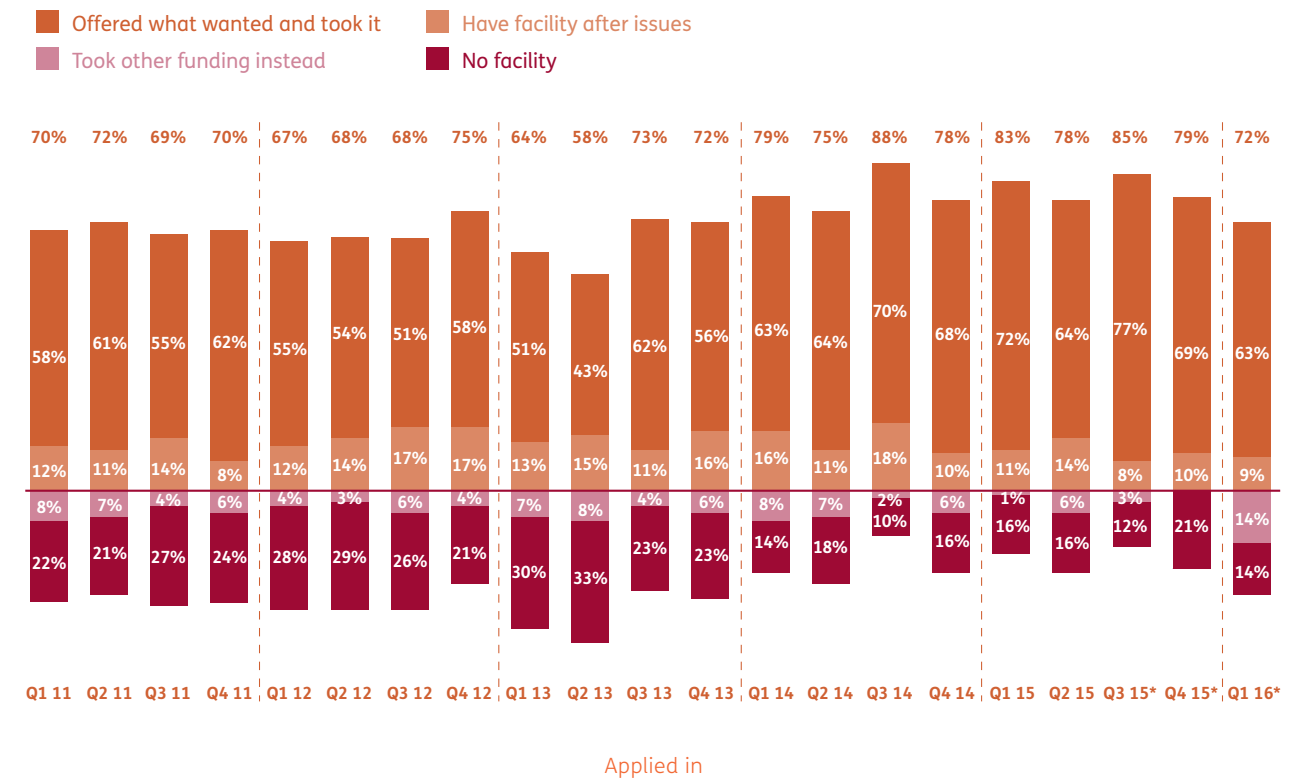
This chart relates to the analysis found on pages 117 and 123 of the main report. There is no consistent pattern over time, but typically a higher proportion of loan applicants are applying for their first loan.



Charts reflecting data reported in Chapter 8

Outcome of all loan/overdraft applications and renewals

Time series: Outcome by application date – ALL applicants/renewals (loans and overdrafts)



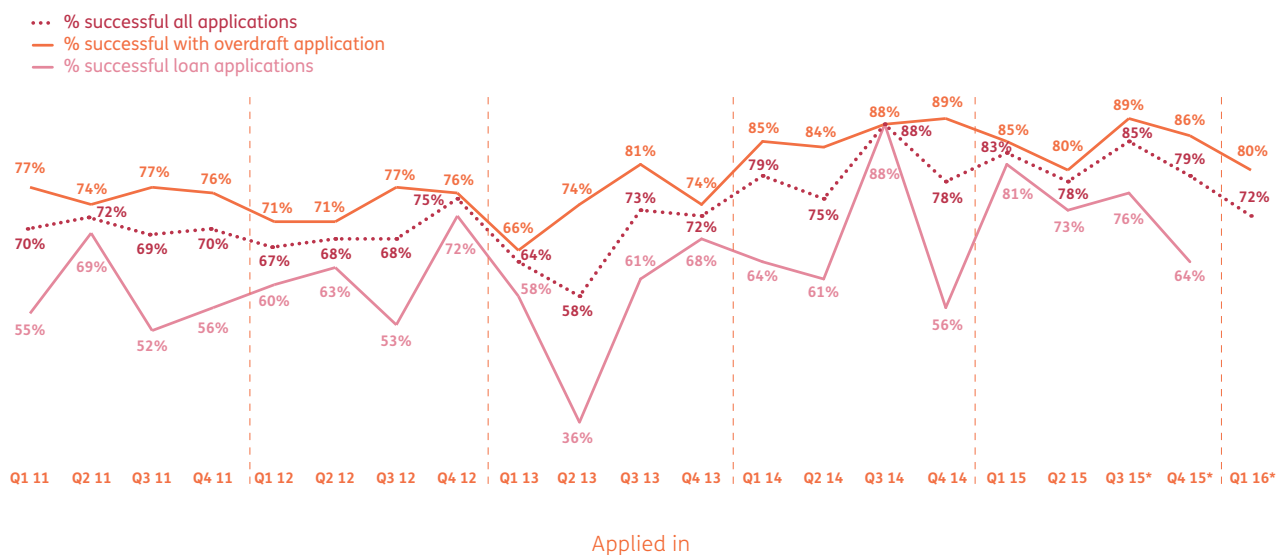
Q64/66/81/92/97

This chart relates to the analysis found on page 133 of the main report. Success rates in 2014 and 2015 have been higher than in previous years.



Proportion of all applications that were successful, and proportions of loan and overdraft applications

Time series: Successful outcome by application date

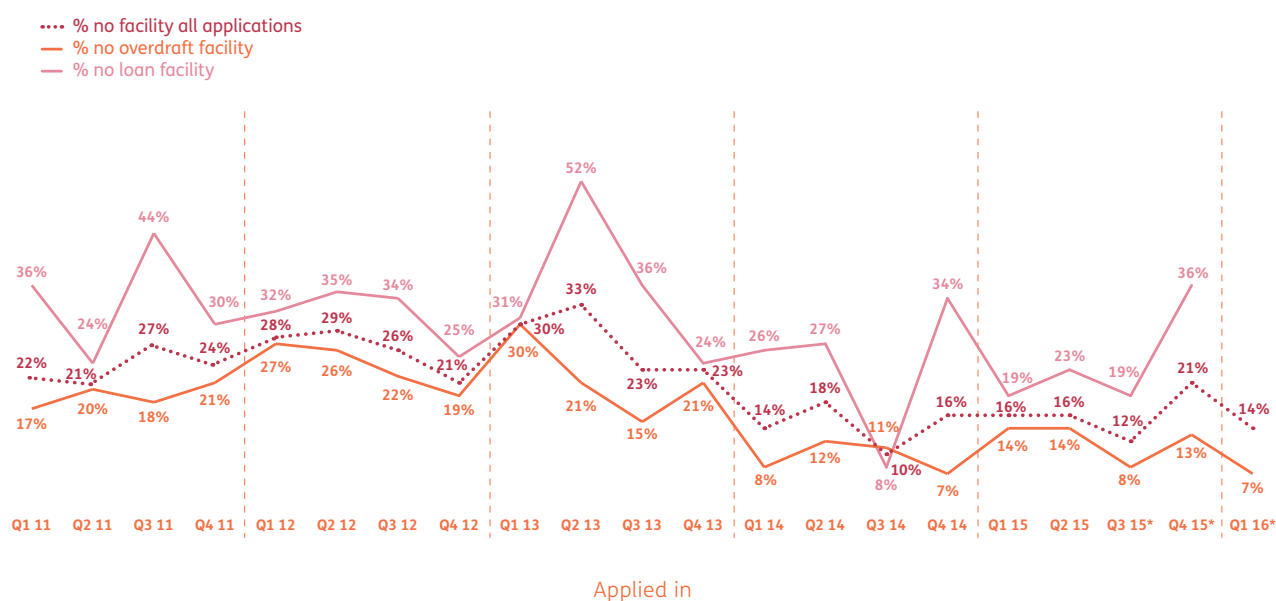


This chart relates to the analysis found on pages 133, 151 and 167 of the main report. Overdraft applications remain more likely to be successful than loan applications but both success rates have increased over time.



Proportion of all applications that ended the process with no facility, and proportions for loan and overdraft applications

Time series: Ended process with no facility by application date

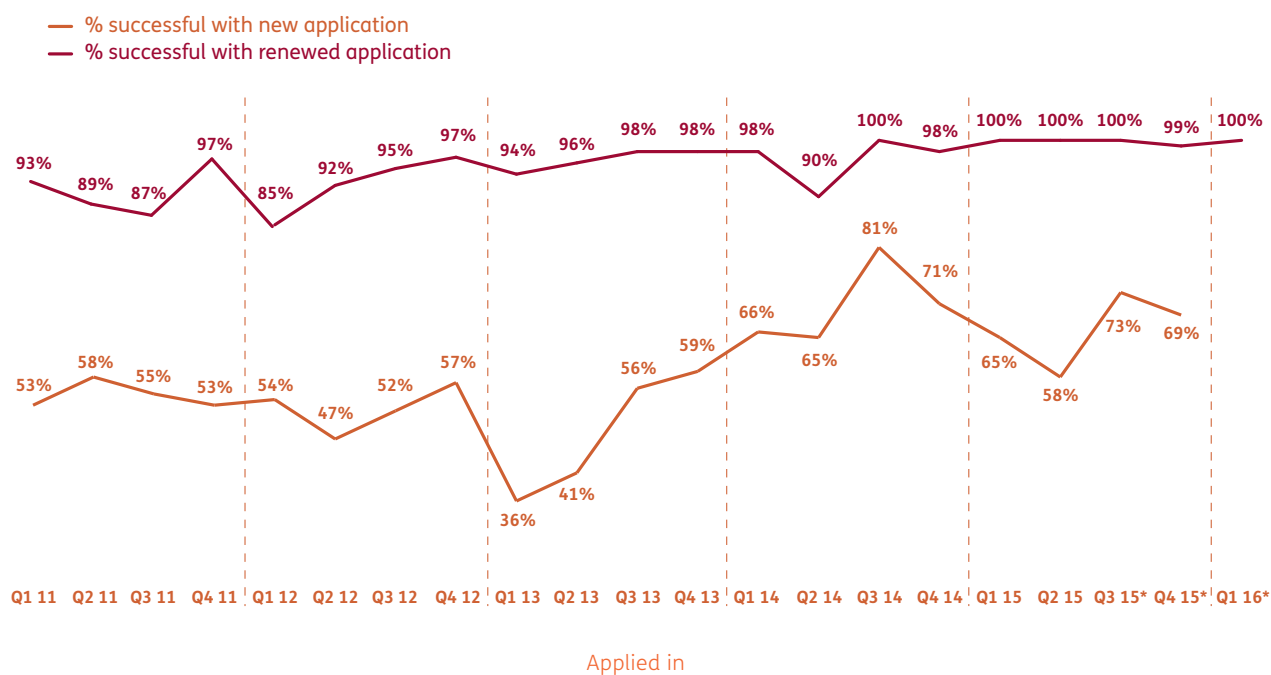


This chart relates to the analysis found on pages 133, 151 and 167 of the main report. Loan applicants remain somewhat more likely to be declined but the trend over time is for fewer applicants to end the process with no facility.



Proportion of all applications that were successful: Applying for new money and applying to renew an existing facility

Time series: Outcome by application date – all renewed v new money loans and overdrafts



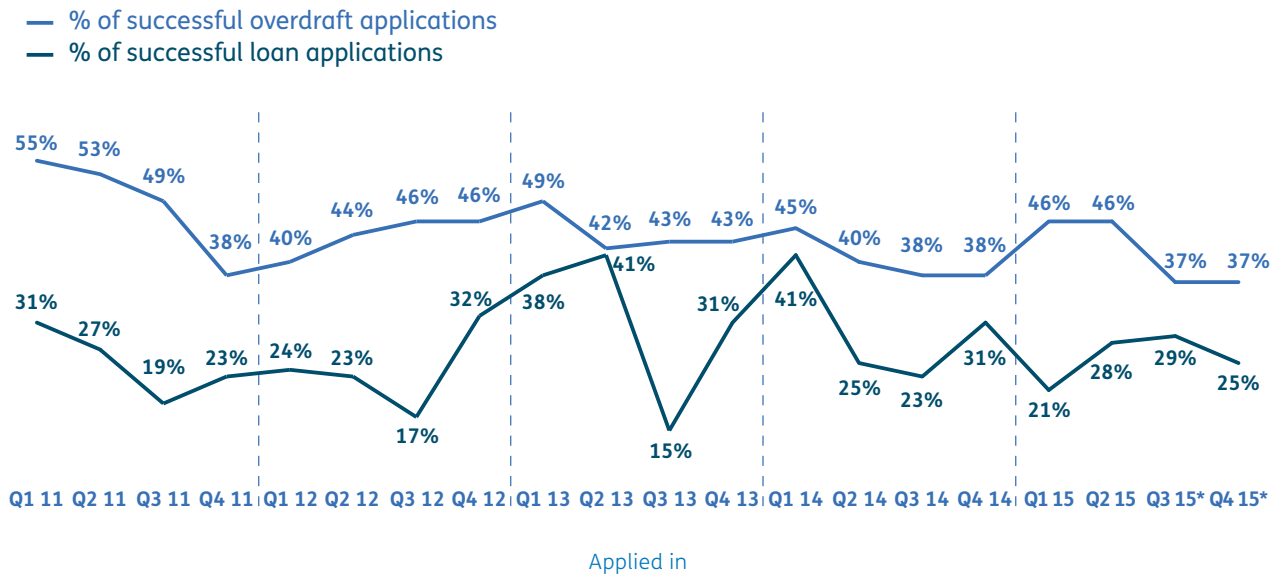
This chart relates to the analysis found on pages 171 and 172 of the main report. Almost all renewals are successful. Applicants for new money have become increasingly likely to be successful.



Charts reflecting data reported in Chapter 10

Proportion of all successful facilities that were on a variable rate

Time series: Proportion of Type 1 facilities that were on a variable rate, excluding DK



Q107/201

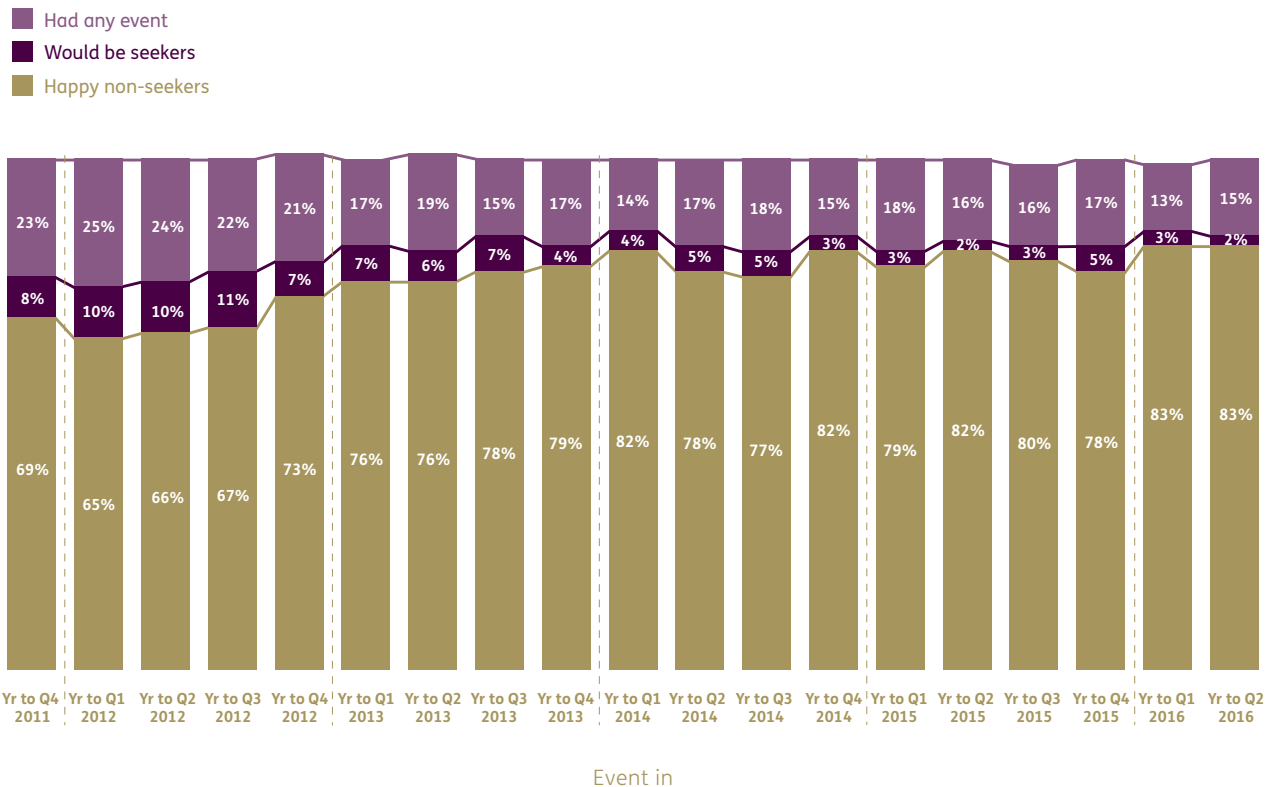
This chart relates to the analysis found on pages 193 and 203 of the main report. Overdraft applications remain more likely to be on a variable rate.



Charts reflecting data reported in Chapter 11

Classification of respondents based on borrowing behaviour in 12 months prior to interview

Time series: Borrowing profile in 12 months prior to interview



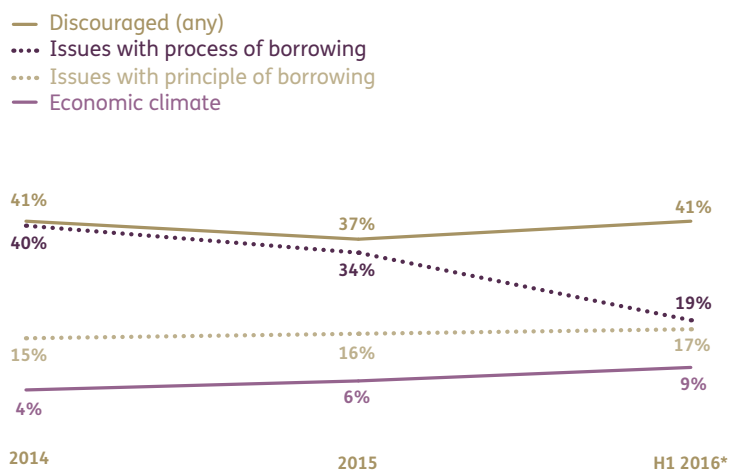
Q115/209

This chart relates to the analysis found on page 212 of the main report. This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (83% in Q2 2016), while the proportion of Would-be seekers remained low (2% in Q2 2016). The proportion of SMEs reporting an event remained at around 1 in 6.



Main barriers for “would-be seekers” over time

Time series: Main reason for not seeking borrowing amongst “would-be seekers”



Q116a/210a principle of borrowing no longer includes ‘prefer not to borrow’

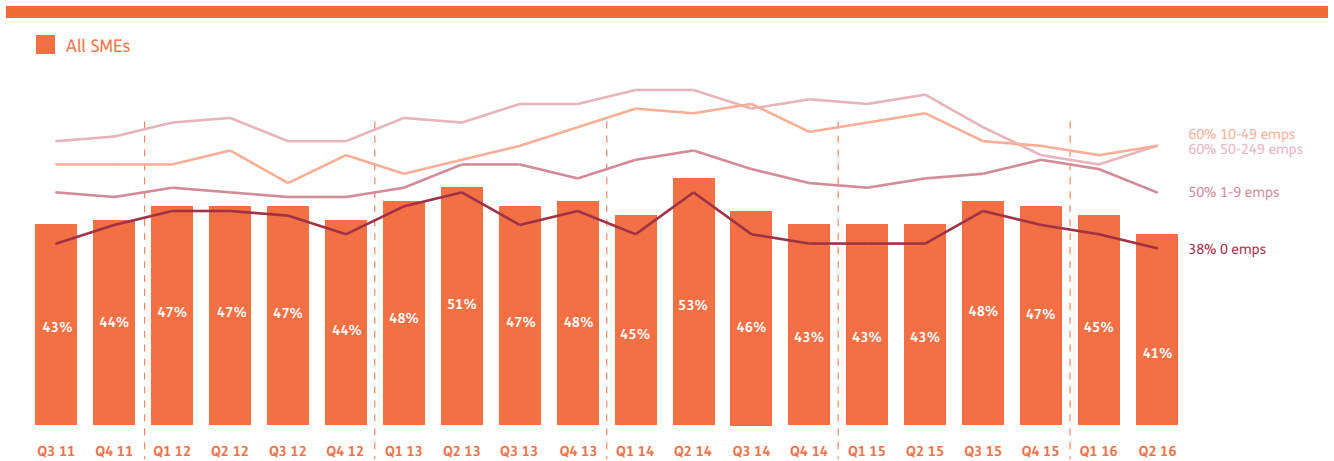
This chart relates to the analysis found on page 220 of the main report. Discouragement and the ‘process of borrowing’ have typically been the two main reasons for not applying for a facility.



Charts reflecting data reported in Chapter 12

Plan to grow moderately/substantially in next 12 months

Time series: Plan to grow



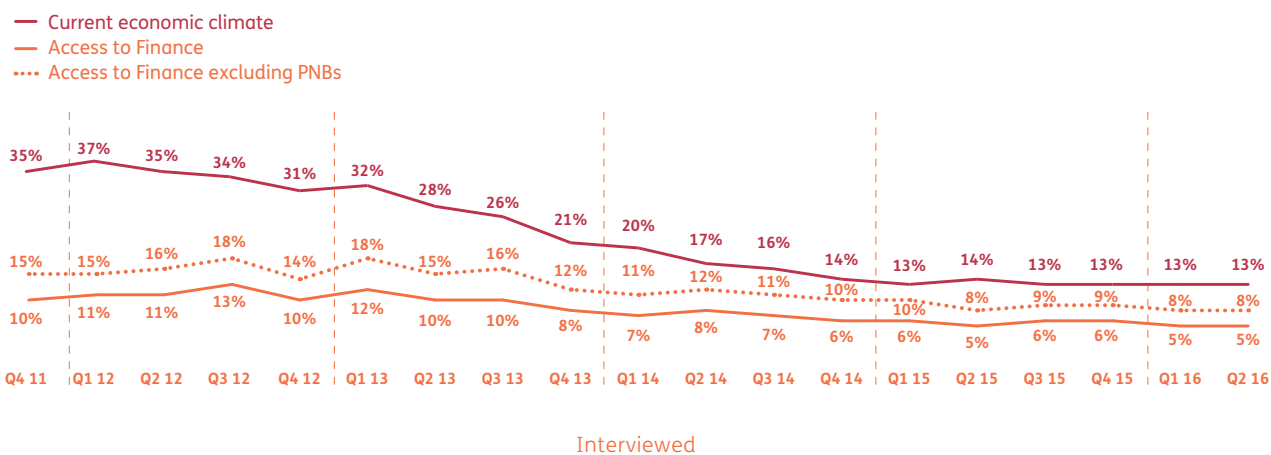
Q26/Q225

This chart relates to the analysis found on page 238 of the main report. Analysis on an annual basis reveals the steady decline in the proportion planning to grow from 49% to 43%. The decline was more marked amongst the smallest, 0 employee, SMEs and also the largest, with 50-249 employees.



Obstacles perceived to running business – Current economic climate and access to finance

Time series: 8-10 major obstacle



Q227

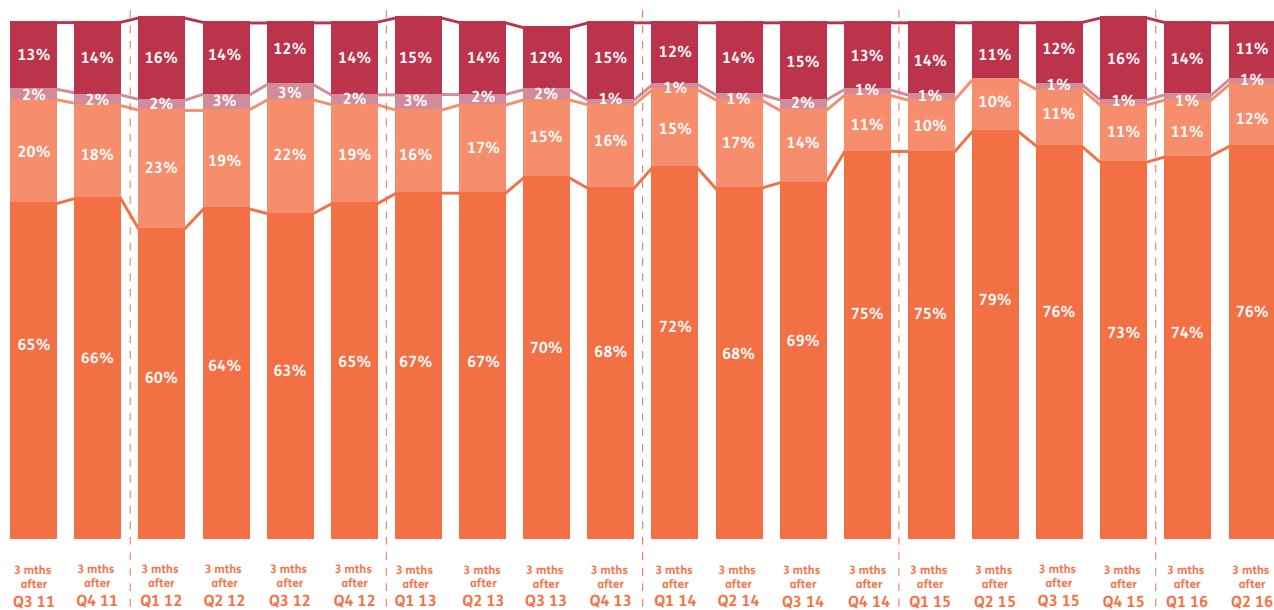
This chart relates to the analysis found on page 252 of the main report. The economic climate remains the main barrier but over recent quarters has only been mentioned by a minority of SMEs.



Classification of respondents based on expected borrowing behaviour in 3 months after interview

Time series: Anticipated borrowing profile for next 3 months

- Have plans to apply/renew
- Would be seekers – no need
- Would be seekers - with need
- Happy non-seekers



Q229

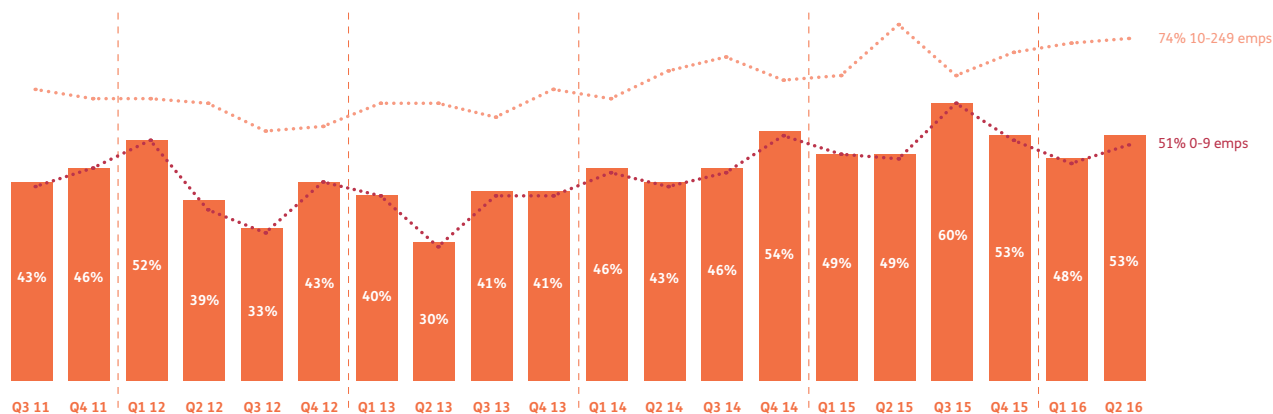
This chart relates to the analysis found on page 270 of the main report. Three quarters of SMEs in Q2 2016 met the definition of a Future happy non-seeker and this has changed little over recent waves.



Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

Time series: Confident bank will agree to facility next 3 months

■ SMEs planning to apply in next 3 months



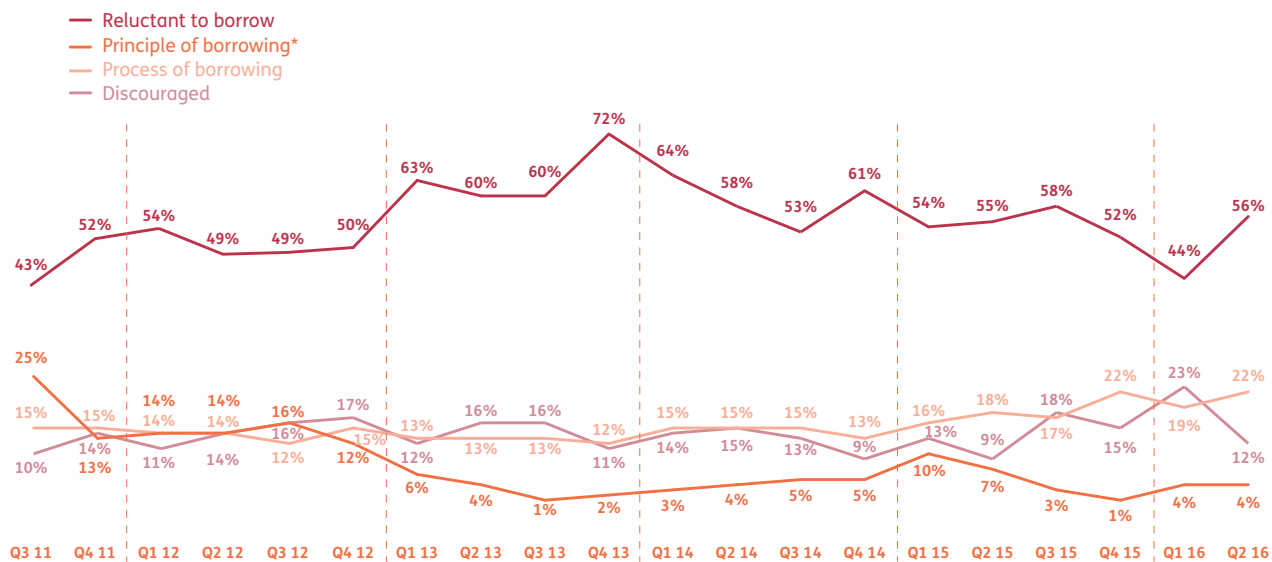
Q238

This chart relates to the analysis found on page 265 of the main report. Over the longer term, there has been a steady increase since 2012 in levels of confidence amongst applicants, with half of prospective applicants now confident their bank will agree. This though remains below the actual success rates achieved by applicants.



Main barriers for future “would-be seekers”

Time series: Main reason for not seeking borrowing amongst future “would-be seekers”



Q239a

*principle of borrowing no longer includes ‘prefer not to borrow’

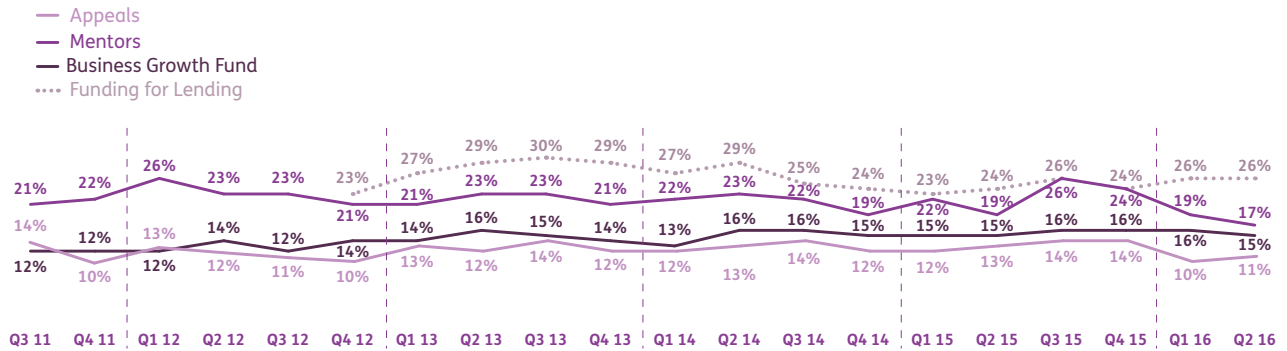
This chart relates to the analysis found on page 275 of the main report. A reluctance to borrow in the current climate remains the main barrier to Future would-be seekers but there have been more mentions of discouragement and the process of borrowing in recent quarters.



Charts reflecting data reported in Chapter 13

Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs



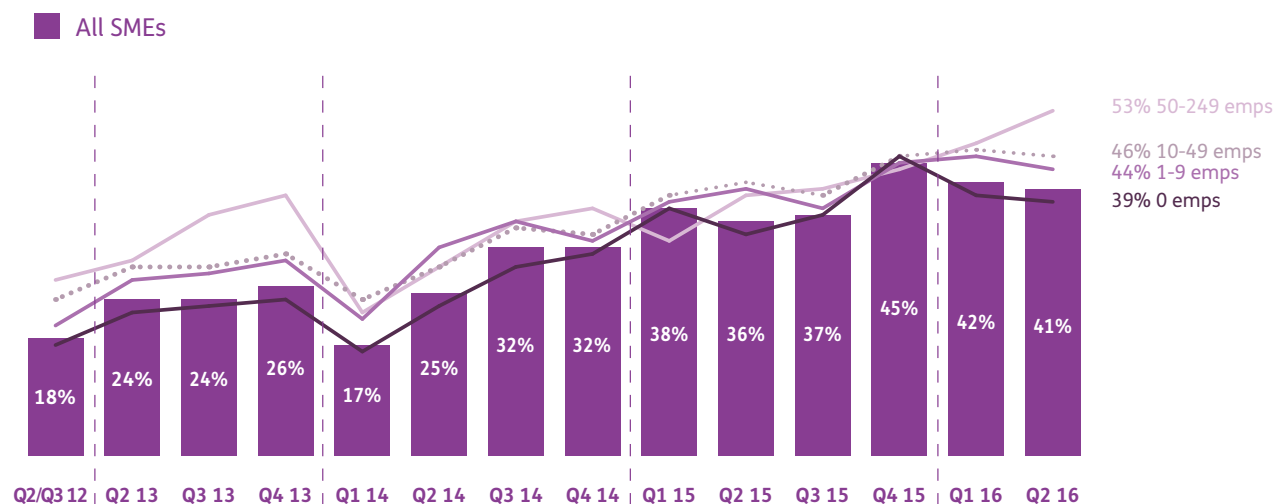
Q240

This chart relates to the analysis found on page 293 of the main report. Awareness of key initiatives has remained relatively stable over time.



Awareness of Crowdfunding

Time series: Awareness of Crowdfunding – excluding PNBs



Q236a2

This chart relates to the analysis found on page 296 of the main report. Since the start of 2014 awareness has increased and around 4 in 10 SMEs are now aware of crowd funding. Initial results for 2016 show a slightly lower level of overall awareness (41% in Q2 2016) due to lower levels of awareness amongst the smaller SMEs (39% of those with 0 employees v 53% of those with 50-249 employees).

15. Technical Appendix



This chapter covers

the technical elements of the report – sample size and structure, weighting and analysis techniques.



Eligible SMEs

In order to qualify for interview, SMEs had to meet the following criteria in addition to the quotas by size, sector and region:

- not 50%+ owned by another company
- not run as a social enterprise or as a not for profit organisation
- turnover of less than £25m

The respondent was the person in charge of managing the business's finances. No changes have been made to the screening criteria in any of the waves conducted to date.



Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall* weighting efficiency (once the size bands are

combined into the total), which is detailed later in this chapter.

The sample design shown below has been adopted for 2016 (based on 2015 BIS data), so the total sample size shown will have been achieved once the Q4 2016 interviewing is complete. The total sample size will have reduced from 20,000 interviews a year to 18,000 and the data is grossed to a total of 5,002,010 SMEs.

Business size	% of universe	Total sample size	% of sample
Total	100%	18,000	100%
0 employee (resp)	75%	3600	20%
1-9 employees	20%	5800	33%
10-49 employees	4%	5800	32%
50-249 employees	1%	2800	15%



Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector*

(SIC 2007 in brackets)	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	3%	1200	7%
D Manufacturing (C)	6%	1500	8%
F Construction (F)	19%	3200	18%
G Wholesale etc. (G)	10%	1800	10%
H Hotels etc. (I)	4%	1200	7%
I Transport etc. (H&J)	12%	2000	11%
K Property/Business Services (L,M,N)	27%	3600	20%
N Health etc. (Q)	7%	1500	8%
O Other (R&S)	12%	2000	11%

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Property/Business Services to allow for interviews in other sectors to be increased, in particular for Agriculture and Hotels & Restaurants.



A similar procedure was followed for the regions and devolved nations:

Region	% of universe	Total sample size	% of sample
London	18%	2200	12%
South East	16%	2200	12%
South West	10%	1600	9%
East	10%	1600	9%
East Midlands	7%	1300	7%
North East	3%	960	5%
North West	10%	1600	9%
West Midlands	7%	1500	8%
Yorks & Humber	7%	1400	8%
Scotland	6%	1520	9%
Wales	4%	1120	6%
Northern Ireland	2%	1000	6%



Weighting

The weighting regime was initially applied separately to each quarter. The four most recent quarters were then combined and grossed to the total of 5,002,010 SMEs, based on BIS 2015 SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted in a 4-quarter period gross to the total of all SMEs.

The table below shows the new weighting being applied to interviews from Q1 2016 onwards

		0	1-49	50-249	
AB	Agriculture, Hunting and Forestry; Fishing	1.99%	1.06%	0.01%	3.06%
D	Manufacturing	3.75%	1.61%	0.12%	5.49%
F	Construction	16.04%	3.04%	0.04%	19.12%
G	Wholesale and Retail Trade; Repairs	5.59%	4.74%	0.09%	10.43%
H	Hotels & Restaurants	1.09%	2.51%	0.05%	3.65%
I	Transport, Storage and Communication	10.05%	2.14%	0.06%	12.25%
K	Real Estate, Renting and Business Activities	20.22%	6.41%	0.14%	26.77%
N	Health and Social work	6.16%	1.18%	0.07%	7.41%
O	Other Community, Social and Personal Service Activities	9.94%	1.86%	0.02%	11.82%
		74.83%	24.56%	0.61%	



An additional weight then split the 1-49 employee band into 1-9 and 10-49 overall:

- 0 employee 74.83%
- 1-9 employees 20.46%
- 10-49 employees 4.10%
- 50-249 employees 0.61%

Overall rim weights were then applied for regions:

Region	% of universe
London	18%
South East	16%
South West	10%
East	10%
East Midlands	7%
North East	3%
North West	10%
West Midlands	7%
Yorks & Humber	7%
Scotland	6%
Wales	4%
Northern Ireland	2%

Finally a weight was applied for Starts (Q13 codes 1 or 2) set, after consultation with stakeholders at 20%.



The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 28% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant. The table below is based on the new sample design of 18,000 interviews per year:

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Total	18,000	28%	5040	+/-2%
0 employee (resp)	3600	79%	2844	+/-3%
1-9 employees	5800	77%	4466	+/-2%
10-49 employees	5800	78%	4524	+/-2%
50-249 employees	2800	82%	2296	+/-3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique, which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree', splitting each node by the most significant differentiator to produce

another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.



This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of regular reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results. Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC Continental's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.

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