Alternative lending ‘flop’ helps just 800 small companies a year

James Hurley, Enterprise Editor

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A government drive to boost competition in banking is helping fewer than 800 companies a year, official figures show, as concerns grow that the initiative is proving to be a flop.

The Treasury’s bank referral scheme, which links small companies turned down for bank finance with alternative lenders, led to 796 companies being lent £16 million in the 12 months to June 30.

Since the programme was launched in November 2016, fewer than 1,700 businesses have been assisted, resulting in £32 million worth of funding.

Statistics from the Treasury show that only about one in twenty of the companies referred via the scheme secure finance. The Federation of Small Businesses said that the results were “underwhelming”.

The scheme, launched in November 2016, was designed to break the hold of a handful of lenders on small company credit provision.

Nine banks including Royal Bank of Scotland, Lloyds, Barclays and HSBC are obliged to pass on companies they turn down for lending to one of three online finance portals — Alternative Business Funding, Funding Options and Funding Xchange — that refer alternative lenders such as peer-to-peer platforms and independent asset finance providers.

The scheme was introduced in response to evidence which shows that small companies tend to approach their main bank when seeking credit and that, if rejected, many give up rather than seek alternative options.

Mike Cherry, federation national chairman, said the figures equated to “helping well under 1 per cent of the small business community secure a few million over three years” which he said “doesn’t scream roaring success”.

He added: “There needs to be more encouragement on the demand side, small firms may be wary of handing over details to funding platforms.”

More referral platforms needed to be brought on board if the scheme is to take off, Mr Cherry said.

A source with knowledge of the three referral platforms’ business model said that the companies being referred were often unsuitable for debt finance.

They added that the platforms are often more reliant on human brokerage skills than people realise, meaning that it is not yet possible to refer thousands of companies automatically to a suitable alternative lender.

The initiative’s poor performance has been the subject of an official review.

John Glen, the economic secretary to the Treasury, claimed that the referral programme was going from “strength to strength” since it grew by more than a third last year compared with the previous 12 months.

The average loan secured was £19,399, up from £17,285 a year earlier. Conversion rates have also improved.

“I want to see more of our trailblazers and entrepreneurs use this scheme to get the backing they need to grow and help to boost our economy,” he said.