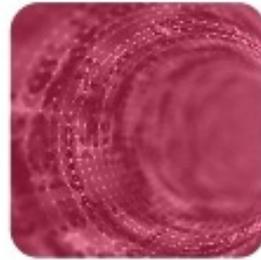


2. Management summary



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 loan or overdraft funding for their business. It also provides broader context information about SMEs including growth, profitability and perceived barriers to running the business.



4 in 10 SMEs were using external finance while slightly more met the definition of a Permanent non-borrower. These groups have remained stable over recent years. Demand for finance remained muted and most SMEs had been a Happy non-seeker of finance in the previous 12 months.

Overall use of external finance was stable

39% of SMEs were using any external finance (YEQ2 2017). This increased by size of SME from 35% of those with 0 employees to 69% of those with 50-249 employees.

This proportion has been stable since 2014 but remains lower than the 44% using finance in 2012. In the latest period (2016 to H1 2017) this stability was driven by the 0 employee SMEs where use of finance was unchanged at 33%. SMEs with employees all saw an increase in the use of finance in the same period, particularly those with 50-249 employees (64% in 2016 to 74% in H1 2017).

Current use of core finance (loans, overdrafts and/or credit cards) is stable at 30% for H1 2017 but lower than the 36% reported for 2012. Use of 'other' forms of finance has varied very little since 2012 (16-18%). Including users of crowd funding does not increase the proportion using finance overall.

Almost half of SMEs met the definition of a Permanent non-borrower

46% of SMEs (YEQ2 2017) met the definition of a Permanent non-borrower, an SME with no apparent current or future appetite for finance. Over time this group has grown from 34% of all SMEs in 2012 to 47% in 2015 and has been stable since (46% for H1 2017).

Size is a key predictor of being a PNB, but not all PNBs are small. Whilst 51% of 0 employee SMEs met the definition in H1 2017, a fifth (20%) of the largest SMEs with 50-249 employees also met the definition.

Other predictors for being a PNB include lower levels of planning, growth or innovation and agreement that future plans were based on what they could afford.

Demand for new or renewed finance remained limited

4% of SMEs reported having applied for a new or renewed loan or overdraft facility in the 12 months prior to interview (YEQ2 2017).

This has declined over time from 11% of SMEs in 2012 to 4% in H1 2017. Whilst larger SMEs remained more likely to apply than smaller ones (10% of those with 50-249 employees in H1 2017 compared to 3% of those with 0 employees) there has been a drop in applications for finance across all size bands.

8 in 10 SMEs had been Happy non-seekers of finance

Overall, 13% of SMEs reported a borrowing 'event' in the previous 12 months. 2% had wanted to apply but something stopped them (the Would-be seekers) leaving the largest group as the Happy non-seekers who had not sought, or wanted to seek, finance (85%).

Over time, the proportion of SMEs having an event has declined (23% in 2012 to 13% in H1 2017) as has the proportion of Would-be seekers (10% in 2012 to 2% in H1 2017) leaving the Happy non-seekers as an increasingly large group (68% in 2012 to 84% in H1 2017).



More SMEs hold £10,000 or more in credit balances and most say it reduces their need for external finance. Other sources of funding (trade credit and injections of personal funds) remained stable, as did the proportion of SMEs that had grown (and thus potentially requiring finance). Attitudinally, there is a continued preference for self-funding which is likely to be impacting on demand for finance:

Most SMEs reported making a profit	81% of SMEs reported making a profit (YEQ2 2017, excluding DK answers). Over time this proportion has increased from 69% in 2012 to 82% in H1 2017 and across all size bands.
An increasing proportion of SMEs hold £10,000 or more in credit balances	Almost all SMEs hold some credit balances. The proportion holding £10,000 or more has increased from 16% in 2012 to 26% in H1 2017, and across all size bands. Most of those holding such funds said it reduced their need for external finance.
A third of SMEs received Trade Credit	35% of SMEs were using trade credit (YEQ2 2017), increasing by size of SME to two thirds of those with 10-249 employees. A consistent 7 in 10 of those receiving trade credit said that it reduced their need for external finance.
A stable 3 in 10 reported an injection of personal funds into the business	28% of SMEs reported an injection of personal funds into the business YEQ2 2017. Smaller, younger SMEs and those with a worse than average risk rating remained more likely to receive such an injection. The proportion reporting an injection of funds declined from 43% in 2012 to 29% in 2014 and has been stable since. The balance between having to put funds in and choosing to do so has also changed, with a higher proportion now choosing to put in funds to help the business develop.
4 in 10 SMEs (excl Starts) had grown	41% of SMEs (excluding Starts) reported that they had grown in the previous 12 months (YEQ2 2017). This has varied very little since 2013 (39-42%) but this is due to consistent growth amongst those with 0 employees. SMEs with employees were more likely to have grown.
Not all SMEs would speak to their bank if a new opportunity required funding	Faced with a new business opportunity that required funding, 41% of SMEs said they would speak to their bank, but almost as many (38%) would fund it through the business or from the directors. This is due to the 0 employee SMEs, as when size increases, so does the willingness to approach the bank (61% amongst those with 50-249 employees, with 32% looking to self-fund). 18% of SMEs would not approach the bank because they do not want debt or to take on the risk of debt, a view seen consistently across all SMEs by age and somewhat more prevalent amongst the smaller SMEs.

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There is a continued attitude of self-reliance amongst SMEs

The proportion of SMEs willing to borrow to help the business grow is lower in H1 2017 (33%) than seen previously (42-45%), due to lower willingness to borrow amongst those with 0-9 employees.

There was more general agreement across SMEs that their plans for the business were based on what they could afford (81% agreed YEQ2 2017) and that they would accept a slower rate of growth rather than borrowing to grow faster (70% agreed YEQ2 2017), both little changed over time.



Most of those who applied in the last 18 months ended the process with a facility, but slightly lower success rates for smaller applicants and those applying for the first time have resulted in a somewhat lower overall success rate:

78% of all recent applications were successful	78% of loan and overdraft applications made in the 18 months to Q2 2017 resulted in a facility. This is somewhat lower than the 82% reported for the 18 months to Q4 2015 (due to lower success rates for those with 0 employees), but remains ahead of the 68% success rates across 2012 - 2013.
Renewals remained more likely to be successful than new money	96% of applications for a loan or overdraft renewal made in the 18 months to Q2 2017 resulted in a facility and this is little changed over time. 63% of new money loan and overdraft applications made in the 18 months to Q2 2017 resulted in a facility. As for success rates overall, this is lower than was seen for the 18 months to Q4 2015 (70%) but ahead of the 18 months to Q4 2013 (49%).
There are signs that first time applicants may also be less likely to end the process with a facility	Those applying for a loan or overdraft for the first time have always been somewhat less likely to end the process with a facility. The proportion who did increase from 41% for the 18 months to Q4 2012 to 60% for the 18 months to Q4 2015 but has declined somewhat since to 53% for the current period, due primarily to changes in success rates for first time overdraft applicants (success rates for first time loan applicants remained lower and relatively unchanged over time).
8 in 10 overdraft applications were successful	For the 18 months to Q2 2017, 82% of all overdraft applicants ended the process with a facility: 76% were offered what they wanted and took it, while 6% took the overdraft after issues. 6% took another form of funding and 12% ended the process with no facility.
7 in 10 loan applications were successful	For the 18 months to Q2 2017, 68% of all loan applicants ended the process with a facility: 53% were offered what they wanted and took it, while 15% took the overdraft after issues. 6% took another form of funding and 25% ended the process with no facility.



Looking forward, larger SMEs and those who trade internationally remained more concerned about the economic climate and political uncertainty. There are signs of planned growth amongst those with employees and appetite for finance remained stable:

SMEs were somewhat more likely to identify barriers to running the business, notably those trading internationally

36% of SMEs identified at least one major barrier to running their business. The top 3 were 'legislation, regulation and red tape' (14%), 'the current economic climate' (13%) and 'political uncertainty and future government policy' (13%).

Larger SMEs are more concerned about the economic climate and political uncertainty than smaller SMEs and also more concerned than they were in 2015.

International SMEs have shown the highest levels of concern about these two barriers. Amongst those who import and export, 19% rated the economic climate as an 8-10 barrier in Q2 2017 (from a peak of 35% in Q4 2016) and 29% rated political uncertainty as a barrier (from a peak of 32% in Q4 2016). A new factor 'changes in the value of sterling' was rated as a major barrier by 26% of international SMEs (compared to 10% of SMEs overall).

SMEs with employees are more likely to be planning future growth, those without less so

45% of SMEs were planning to grow in the year after Q2 2017. The larger the SME the more likely they were to expect to grow (72% for those with 50-249 employees).

The proportion of all SMEs planning to grow has declined somewhat over time from 49% in 2013 to 44% in H1 2017 but this is due to the 0 employee SMEs (46% to 40% over this period). Amongst those with employees there are signs of increased growth ambitions in H1 2017 (57% from 53% in 2016).

Future appetite for finance remains broadly stable

12% of SMEs in Q2 2017 planned to apply for finance in the next 3 months. For H1 2017 as a whole, 11% planned to apply, continuing a slight downward trend from 2012-13 when 14% planned to apply. 8 in 10 of those planning to apply were already using external finance.

In Q2 2017, half of applicants (55%) were confident the bank would say yes, maintaining the increase seen since 2013 when 39% of potential applicants were confident. Confidence remains lower than the hypothetical confidence amongst Future happy non-seekers if they were to apply (65%) and also lower than current success rates.

1 in 10 SMEs would like to apply for finance but think something will stop them

10% of SMEs in Q2 2017 met the definition of a Future would-be seeker of finance. This has changed little since 2015 but remains lower than 23% meeting the definition in 2012. The key barriers to application remained the current economic climate and discouragement, but this group were also the least confident of success with a hypothetical application (37%).