

Association of Accounting Technician's response to Treasury Select Committee SME Finance inquiry

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Treasury Select Committee 2018 SME Finance inquiry.

AAT has over 140,000 members, 60% work for or run their own SME. We also license over 4,250 accountants who provide accountancy services to more than 400,000 British businesses – the majority of whom are SMEs.

The problem

In 2013 the National Audit Office suggested there was a £6-£9bn funding gap between what SMEs seek and what was provided by banks¹.

More recently, the HM Treasury "*Financing Growth in innovative firms*" consultation document suggested a funding gap of between £3-6bn.

The solution

Policymakers failure to address this issue, together with the often outdated and overly cautious approach of banks, has meant that this gap is increasingly being met by more innovative, flexible and responsive organisations.

The new PayPal lending business established in 2014 is a case in point, having already provided almost half a billion pounds worth of credit to British SMEs. The PayPal system allows SMEs that already use PayPal to borrow up to £100,000 and then to make repayments equal to an agreed percentage of their sales. As the borrower already uses PayPal and the company therefore has access to considerable data about them, most lending decisions are made almost instantly.

Likewise, online retailer Amazon last year announced the expansion of its online lending offer to SMEs outside its 2m "marketplace" businesses.

In addition to new lenders, new forms of lending having taken a strong foothold in the UK over the last few years. Cumulative peer-to-peer lending in the UK has exceeded £8bn² and by far outstrips other European nations. Likewise, crowdfunding in the UK goes from strength to strength.

It could be argued that Government failure to intervene in this area has prompted the recent success of alternative finance and for this to continue it may be best if policymakers leave the alternative finance sector alone to flourish and help meet the needs of the SME community.

Government intervention

The success of the alternative finance industry does not mean Government should not help where it can do so. For instance, much has been made about the impact of Brexit on the future applicability of the European Investment Fund (EIF).

AAT believes Government should strongly press for the continuation of UK participation in the EIF. There are non-EU countries who participate in EIF, such as Turkey, so there is no legal reason why the UK could not continue to participate post Brexit.

In addition, shareholders in the EIF are not just states but a number of public and private banks and financial institutions – several of which are based in the UK - who would doubtless be keen to continue investing in high growth, high return sectors in the UK economy.

¹ NAO, 2013: <https://www.nao.org.uk/wp-content/uploads/2013/10/10274-001-SMEs-access-to-finance.pdf>

² P2P Finance Association: <https://p2pfa.org.uk/p2pfa-platform-facilitated-lending-exceeds-3-billion-2017/>



If EIF participation is to cease then there is no reason why the British Business Bank could not take up the slack. There are numerous benefits to doing so as the British Business Bank would be free from EU state aid rules, which have arguably hampered investment in some areas. For example, EU state aid rules prevent investment in companies that have been trading for more than seven years – often a problem in the life sciences sector where companies may not seek scale-up finance until several years of trading have passed. It would also be a great opportunity to enhance transparency, something EIF has often been criticised for i.e. failing to publish details of investment returns.

Regulatory structure

The regulatory structure of the investment landscape in the UK does have room for improvement. For example, BEIS and HM Treasury are understandably keen to deliver greater investment via patient capital in recognition of the significant benefits to the economy but the higher risk nature of such investment is of concern to the Financial Conduct Authority who are keen to prevent investment losses.

This is something that the FCA has recently acknowledged, having published a discussion paper³ in February 2017 that asks, "...whether a more fundamental reassessment might be valuable, focusing particularly on ways in which different forms of primary market structure and regulation might better support scale-up and patient capital..."

The same consultation document states that some have suggested there is "...a perspective amongst regulators that has produced market regulation which gives priority to the immediate and general dissemination of information, versus long-term engagement, and so reinforces a short-term focus."

Access to justice

AAT is pleased that the FCA is consulting on widening access to the Financial Ombudsman Service (FOS) as many SMEs find it hard to achieve a fair outcome in disputes with lenders.

Although AAT supports the FCA's changes to the definition of complainants as it will extend eligibility to a substantially larger pool of SMEs, the FCA proposals could go further and be achieved more speedily.

There is no suggestion of a new redress system, the FCA simply proposes to change the eligibility criteria, so it seems unjust to deny SMEs and guarantors access to justice for a further ten months (until Dec. 2010).

The current FOS award limit of £150,000 is also insufficient. It has not increased in six years, if it had done so in line with inflation, it would now stand at approximately £175,000. Furthermore, the FCA's own analysis suggests that around a fifth of all SME disputes are already above the current award limit⁴. An increase to £250,000 would not only take account of the inflationary rises that have not been delivered but by the FCA's own calculations would open the redress system up to an additional 7% of SMEs⁵.

More should be done to promote awareness and understanding of the FOS by working with credible third parties such as AAT, who have a substantial SME membership and encouraging those in authority, perhaps most notably the new Small Business Commissioner, small business minister and shadow minister to do the same.

About AAT

AAT has over 140,000 members, 70% are women, 60% work for an SME and 20% of our 90,000 students are apprentices. AAT also licenses over 4,250 accountants who provide accountancy services to more than 400,000 British businesses.

Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy, on 07392 310264, via e-mail at phil.hall@aat.org.uk or via twitter: @PhilHallAAT

³ FCA Discussion Paper, February 2017: <https://www.fca.org.uk/publication/discussion/dp17-02.pdf>

⁴ p22, Consultation on SME access to FOS, Jan. 2018: <https://www.fca.org.uk/publication/consultation/cp18-03.pdf>

⁵ p24, Consultation on SME access to FOS, Jan. 2018: <https://www.fca.org.uk/publication/consultation/cp18-03.pdf>

