

Business, Innovation and Skills

Oral evidence: Access to finance, HC 84

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Members present: Mr Iain Wright (Chair); Paul Blomfield; Richard Fuller; Peter Kyle; Amanda Milling; Amanda Solloway; Michelle Thomson; Kelly Tolhurst; Craig Tracey; Chris White

Questions 163 - 260

Witnesses

I: Christopher Woolard, Executive Director of Strategy and Competition, Financial Conduct Authority and Keith Morgan, Chief Executive Officer, British Business Bank

II: Rt Hon. Anna Soubry MP, Minister for Small Business, Industry and Enterprise, Department for Business, Innovation and Skills

Examination of witnesses

Witnesses: Christopher Woolard and Keith Morgan

Q163 **Chair:** Gentlemen, welcome to the Business, Innovation and Skills Select Committee. We are very grateful that you are coming to give evidence on our access to finance inquiry. For the purposes of the record, could you tell us who you are and which organisation you represent, starting with you, Christopher?

Christopher Woolard: I am Christopher Woolard; I am Director of Strategy and Competition at the Financial Conduct Authority.

Keith Morgan: I am Keith Morgan. I am CEO of the British Business Bank.

Q164 **Chair:** Keith, may I start with you? The British Business Bank is a relatively new organisation. Where do you fit into the financial landscape? What gap are you trying to fill?

Keith Morgan: The way to think about the British Business Bank is that it is an economic development bank. That means it is a bank that has a purpose other than maximising its profits; it is there to make a difference to the economic prospects and outcomes of the economy. It is an arms-length organisation, 100% owned by the taxpayer. We have a board, like you would see in any other financial institution. There are 11 members of the board; there is one board member who represents a shareholder, and the rest of them are either executive or non-executive.

Where do we fit in? Our objectives are to focus entirely on finance for small businesses. We have been given four objectives associated with that. One is that we increase the supply of finance in areas where the markets do not work properly. Secondly, recognising that we start here with a very concentrated market—particularly for banking finance—is that we have been asked to help create a more diversified marketplace for finance. Every marketplace has a demand and a supply; a lot of what we do is about the supply side, and I can tell you more about that, but we have also been given an objective to have an impact on the demand side. That means increasing the levels of information, awareness and confidence of small businesses in seeking the right finance option for them.

The fourth thing, which is a discipline, is that we are there to manage the taxpayers' money effectively, and so we have accepted a return target, which is set according to a formula, but it is in line with what the cost of funding is for the taxpayer to fund the British Business Bank. Those are the four things that we have been asked to do, and that means that we are focused on trying to identify in the small business landscape where we think the market is not working well. We then design programmes that aim to improve the workings of those pieces of the market.



As a final word, if I can, when we started off on this, we thought very carefully about how we should operate. We work not as a direct competitor in the marketplace, not in competition with existing players, but through the marketplace. We work through close to 90 different existing banks—large banks and small banks—non-banks, and asset finance companies. It is a full range, including equity and venture capital investors, and that is our route to the marketplace. In brief, that is what we do. I am very happy to elaborate in any more detail.

Q165 **Chair:** I would like you to, particularly in terms of the first objective, which is essentially trying to address market failure. You talked about particular areas of the market; where are you focusing on? Where do you identify market failure? You have mentioned small businesses as well. Tell us where your particular niche is in trying to resolve this finance gap.

Keith Morgan: As you well know from other evidence that you have seen, banking markets have improved since the depth of the financial crisis, but it is still the case that the smaller you are as a small business, the shorter your track record, or the more ambitious your growth plan, the less likely you are relatively to get the finance that you need. We are focusing on those dimensions. That means that we have broken our view of the marketplace up into three areas: one is start-ups, where we fund and oversee the delivery of the start-up loan programme through the Start-Up Loans Company.

Scale-ups is a very important issue, and I will come back to that in just a second. We operate in the venture capital world, the angel world and the growth finance world—so debt finance for growth. Then we define the third area of the market, where companies want to stay ahead of their competition. It is for more mature companies, and issues for them are around choice and diversity. Those are the three areas that we focus on.

Let me say a few words about the first two. As you might know, this country has a large number of small companies and is very good at starting them up. In the league tables on number of start-ups per capita or as a proportion of the economy, we are close to the top of the OECD league tables. However, if you look at the next stage—which we call the scale-up phase—we do much worse. In fact, in the same league tables, you find us at number 13. That is measured in different ways, but this league table is about how many start-ups over a three-year period grow to be more than nine employees. On that dimension, we are not doing very well.

Every year, we conduct a very in-depth review of the marketplace. When we did this most recently in February this year, for 2015, we identified that this was a big issue that we needed to work on. Our strategy and our business plan for 2016-17 has focused upon providing more resources to the scale-up segment, and that, for example, includes doubling our allocations to venture capital over the period and introducing what we call a help to grow scheme. A help to grow scheme



HOUSE OF COMMONS

is a new scheme to prompt the delivery of debt for growing companies. The focus is on maintaining our support for start-ups, but focusing much more on the scale-up segment.

Finally, on this third segment and choice, it is still the case that we have a concentrated marketplace. We feel that there are great benefits from increased choice and more competition: wherever there is competition, you end up with more innovation and better value for money. We have been engaged in providing funding to some of the newer, smaller and alternative providers in the marketplace. We do this through something called the investment programme. It makes investments alongside other private sector investors, and so far, that has included investments into peer-to-peer lenders. I know Funding Circle were here at the Committee recently; it is one of the recipients of our funding.

We do this to asset finance providers: there is a long, long list of regional asset finance providers who play a very valuable role in providing finance for small-scale growth to small companies. We are providers of funding to those companies. Also, there is a very interesting segment that is essentially disintermediating the banking sector, called the private debt area—so private debt funds—and we have invested close to 60% of our investment programme in private debt funds, which will offer debt lending, very often cash flow-based debt lending, to small businesses. That is a thumbnail sketch of where we hit the marketplace.

Q166 Chair: That is very helpful, Keith. You mentioned the various segments of the market; you mentioned start-up and scale-up, and you particularly mentioned newer companies with, perhaps, less of a track record, which other lenders therefore might not touch. How do you reconcile your first objective to get more cash to businesses, more access to finance, and trying to resolve that structural weakness with your fourth objective, which is managing taxpayers' resources in a robust risk framework?

Keith Morgan: There are tensions in those objectives, and it is important that we manage the trade-offs between them. That is why we have established ourselves as a financial institution with the financial controls and risk management controls that you would see in a private sector organisation. Our workforce is drawn, in the main, from the private sector, and we have people with experience of judging risks across the full range of our investments.

Q167 Chair: Forgive me for interrupting, but what are doing differently that other, perhaps more established, lenders are not? Your risk appetite, by its very nature, has to be a little more relaxed, does it not?

Keith Morgan: Sorry, I understand. The essential difference is that we do not have the same return target as a private sector organisation. To reduce it to its absolute essence, we are able to do our work at the Government's cost of capital, rather than the private sector's cost of capital. We are able to offer some of our products and solutions where we know that the financial return may not be strong; in fact, in some of



these cases, the financial return is negative, and we know that we will earn a negative financial return, to be offset elsewhere. However, when we conduct our economic analysis, we conclude—and we reassure ourselves—that the impact we are having on the economy is positive.

Q168 Chair: I have a final question in relation to your success. We have been told everything that is complimentary about you. You have been referred to as an “unsung hero” in the financial ecosystem, and there has been nothing but praise. Where do you feel that you have been less successful, though? Where are the areas that you need to improve in order to make sure that these structural, cultural weaknesses about access to finance have been addressed?

Keith Morgan: In terms of what we have achieved, overall, there is now £3.1 billion of local investment that goes through our programmes to 48,000 small businesses. 90% of what we do goes through partners other than the big four banks: that is 86 smaller, younger, innovative operators that we are encouraging. We expect to earn a return close to, or around, 2% for this last financial year, but I will come to the point now, which is “What is the area where I would like to see more impact?”

We have made a very good start around improving levels of awareness and information to help small businesses get a better handle on what is important: what is the right kind of finance for them at this stage, and where would they seek to find it? We did this by working together with the ICAEW, the accountants, and we brought from the whole industry another 21 different partners. This is one of the strengths of the Business Bank: we have some convening power here. There used to be 23 different voices, with people like the Chambers of Commerce, the Federation of Small Businesses or the CBI saying what they thought was important.

We brought them all together to create one business finance guide; this is it. It has been quite well-received. We have about a million copies of them accessible to small businesses, but we can do a better job. There needs to be greater awareness of this guide. This needs to work hand-in-hand with other initiatives that we have been helping with: for example, the referrals initiative, where we have been providing advice to Her Majesty’s Treasury. However, I would like to see more awareness of the options and more confidence among small businesses to go and seek out other options.

Q169 Amanda Solloway: I have a quick question on what you were saying about the investments. You said that you could afford to invest in businesses that perhaps are not going to be as successful, so you can take a risk. I was just wondering at what point that risk counteracts or becomes not a good business model.

Keith Morgan: Financial services is all about investing across a very wide portfolio. You know that, on average, you are expecting to get a certain level of return. Some will be stellar; they will be fantastic, and



others will be poor. You have to judge all of these, keep monitoring your portfolio, take corrective action where you think things are not going well and readjust your criteria. That is the approach you have to take; you know you will have some that do not succeed, but you will have others that succeed more, and, on average, you will earn your 2% return.

Q170 Amanda Milling: Good afternoon. I want to come back to the Business Finance Guide; I have a couple of questions, but, just taking one step back, access to information and guidance has come through as a topic or theme throughout the inquiry so far. It would be interesting to understand what your view is on the current landscape, in terms of information, advice and guidance. What is working? You have already touched on how you could do more. Can you elaborate further on that, too?

Keith Morgan: When you are thinking through solutions, you have to have a really good idea of what the problem is that you are trying to solve. One of the issues that we find with smaller businesses—and the CMA has pointed this out—is that 90% of them go to the provider of their current account for their bank loan. That adds up to a market share of about 80% for the top four big banks. The behaviour is that many of these small businesses are then multi-tasking; not all of these people have dedicated finance directors, so they will go to their high street bank. If they do not get what they need from the high street bank, unfortunately, what we know is that half of them go back to base and take no further action.

That is a lost opportunity. It does not mean that every single one of those deserves finance, but it is a lost opportunity. Therefore, we have been discussing with the BBA that this finance guide should be available and handed out at that point, so, at the point at which you have been given a “no”, you have something that gives you the range of other alternatives.

Q171 Amanda Milling: Can I just pick you up on that? Do they not have a responsibility to actually do that? If they have said “no” as a bank, they have a duty to go, “We cannot necessarily provide this lending or finance, but here are some solutions or other options.”

Keith Morgan: Yes. That is where this has to work in parallel with this new referrals initiative. The legislation has gone through; there are nine designated banks that are now required to offer small businesses the option of a referral. The role that we have played is that we have provided advice to HM Treasury on designating three finance platforms. We held a competition; we opened doors and said, “We would like to receive innovation from the marketplace.”

We held it, and we designated three. That was passed on to HM Treasury and, at budget time, they announced that there were three finance platforms. Over the course of this year, that system is being put in place by Treasury. I would like to see this finance guide work in parallel with



that system, so that people are offered both the information resource that they want and the option of the referral to the finance platform. The finance platforms, by the way, will have the full range of lenders on the other side, so that they are attempting to match between the referral who needs the loan and the provider who wants to give it.

Q172 Amanda Milling: When you talk about this, you are saying that businesses often go to the banks that are their traditional banks in the first place. You can do things once a customer has been turned down, but there is an argument to suggest that there is a structural problem in the industry that is causing this. Would that be a fair thing to say?

Keith Morgan: It is interesting whether you call it “structural” or not, but there are problems there. The point I mentioned was about where the person or the small business gets turned down. Of course, the objective is to get information to those people before they are in that position, as well. That is the point that I would take from it. Just to give you some idea of what we are doing, these 21 different partners all have networks into small businesses. For example, a large number of the ICAEW’s members are accountants to small businesses. The Federation of Small Businesses has a membership of hundreds of thousands, and the CBI is similar. We want to get information out through those, and we are co-ordinating that group of partners to pursue that as a campaign, so that we get this information out, not just at the point of refusal.

Q173 Amanda Milling: On that, we have seen other areas where, if you have lots of different partners, providing information and advice becomes incredibly complicated. You then come to a situation where nobody knows where to go. How are you overcoming that problem?

Keith Morgan: First of all, those partners exist at the moment. There are two things: first, they all agree upon a single fact base, or the content is all agreed, and that is then the script. Secondly, we bring them together to co-ordinate activity, and that is a way of trying to get a better outcome than 21 different organisations doing their own thing.

Q174 Chris White: A business has gone to a high street lender. It has been turned down; as you say, 50% of businesses have been. Then it is passed your guide by that lender. Is that the sort of situation that you envision?

Keith Morgan: That is what we are working towards, yes.

Q175 Chris White: In other inquiries, we have had UKTI in, for example, and it has looked at a web portal-based transmission relationship with new clients and new prospects. I think you also said that you have a million of those ready to distribute. The general point that I am making is: do you think this is as user-friendly to business as something that could be more web-based?

Keith Morgan: Sorry, it is actually web-based, as well. I just brought along the paper version to show you. It is web-based.



Q176 **Chris White:** In terms of being interactive?

Keith Morgan: It is interactive, so you can go to businessfinanceguide.co.uk, and you will be able to see the options you have and get on a journey. The other thing we are doing is co-ordinating with all the other government agencies to make sure that this appears on their websites, as well.

Q177 **Chris White:** That is great. What sort of traffic do you see?

Keith Morgan: We only launched the web approach about four weeks ago, so I do not have any data to share at this point. One of the great things is that these days, with technology, both the web page itself and also the finance platforms will have a much richer stream of data to work on.

Q178 **Amanda Milling:** Can we talk about the guide a bit more? You mentioned earlier on that it has been well-received. Can you elaborate a little bit further in terms of how you got that feedback, and a little bit more in terms of the responses you have received from those who have used it?

Keith Morgan: I can tell you what we have. Certainly, the feedback from the different partners involved has been positive; when they have exposed it to their management teams and their membership groups, it is positive. For what it is worth, there was a review of it in the *Evening Standard*, which was a very good review. We will seek feedback on it; we will do some structured surveys to make sure that it is hitting the spot.

Q179 **Richard Fuller:** Mr Woolard, welcome to the Committee. We heard from some of the providers of alternative finance about some of the differences in regulation for them, depending on the type of service they are offering. Why is there disparity in the level of regulation? How is it working, and what might change?

Christopher Woolard: Thank you very much. That is obviously a reasonable question. The first thing to say is that, as a regulator, most commercial lending is not covered by us; it is not within our statutory remit. There is a limited range of things that—when we are talking about commercial lending—we actually cover. Those were set out in our evidence to the Committee in writing, but, in broad terms, it is around equity-based crowd-funding and loan-based crowd-funding, and loans that are made to unincorporated businesses by banks, which includes small overdrafts and some kinds of mortgages as well. There is quite a limited sphere that is formally covered by our powers. We then bite upon a much wider range of things, depending on the nature of what is being regulated.

Q180 **Richard Fuller:** Some of them are quite new, and some of them are growing quite rapidly, aren't they? It might be limited from the top of the stack, but it is actually quite important.



Christopher Woolard: Yes, absolutely. I think you have taken evidence from some of the smaller, newer challenger banks that have decided to incorporate as banks, and since we have changed our processes for bringing those newer banks online, we have seen around 15 banks in the last three years. We have seen an increase in small, quite niche banks, but they are trying to do very traditional deposit holding, maturity transformation and those kinds of activities that have traditionally been quite heavily regulated; we still set quite a high bar there.

In other parts of the market, we have seen the emergence of loan-based crowd-funding in particular. We only took responsibility for regulating that in 2014. One of the interesting aspects of that particular market is that it is an industry that has campaigned very hard to be regulated. Most industries tend to try to campaign not to be regulated, obviously, but I think they see that having a degree of a regulatory system around them provides confidence to investors, and also potentially provides confidence to those who might borrow from them. Without a doubt, loan-based crowd-funding is the area where we have seen the greatest growth within the market in the last two to three years.

Q181 **Richard Fuller:** What are your concerns about that sector from a regulatory perspective, or just confidence in the alternative finance sector as a whole? What is on your worry list?

Christopher Woolard: I will focus on the crowd-funding space, because that is the area of greatest growth, and it is where we published something last week, as well. The first thing that is worth saying is that we have seen this as a possible new source of competition to traditional lending. As Keith was saying, there is a very significant concentration of market share among the larger banks, and we have wanted to make sure that we have a proportionate regime here that allows for a degree of consumer protection in this space, but at the same time encourages competition from the crowd-funders coming into the market. That is the regime that we set in 2014.

Although only around 1% of small firms are using crowd-funding, the actual volume there is somewhere closer to 7% of business loans, and you can deduce from that that we are seeing the larger SMEs making more use of crowd-funding as a new and different source of finance.

Q182 **Richard Fuller:** Does that not seem counter-intuitive? Would you have not thought that the early adopters would have been smaller people, trying to take a punt?

Christopher Woolard: Not particularly. The business model that we have seen within the crowd-funding market in general, whether it is loans to individuals or loans to businesses, is that most of the firms there have a business model where they target what they see as being relatively good risks, so A-class and above individuals, in terms of their likelihood to repay. For an industry that is trying to establish itself, that does not



HOUSE OF COMMONS

feel illogical, in the sense that they want to get confidence within themselves as a particular brand and a particular business model.

Also, the business model that is being pursued is about saying, "We can provide funding, on the whole, either more cheaply or more efficiently than some of the larger banks might be able to do". Again, that means targeting what might be seen as prime customers in that space, whether they are prime SMEs or prime individuals, and again, at this stage of this industry's development, that does not seem particularly illogical to us.

In terms of the document that we published last week, which was really around the call for input, we are two years into this market being regulated by us, and we always said we would take stock at two years. What are we seeing now, and how do we take that balance, once again, between saying, "Here is a market we want to see work well; here is a market we want to see provide competition", and asking "What are some of the emerging issues that we are seeing within this wider market?"

For example, when we think about financial promotions or due diligence, do we need to be more specific about the standards that apply, particularly, to crowd-funding? We are seeing a lot more firms want to enter the space. I suspect they will have different business models to those original pioneer firms. Do we need to bring in some regulation that is more in line with what people perhaps face elsewhere, around mortgage lending or whatever it might be? However, whatever we do in this space, we are very conscious of being proportionate about what has so far emerged as a young and relatively dynamic industry, and wanting to preserve that dynamism as much as to make sure that we have the right protections in place.

Q183 Richard Fuller: We always want regulators to use the word "proportionate", because that sounds right, but, when a decision has to be made, you are going to have to veer to being either liberal and permissive to enable the sector to grow, or restrictive and well documented in order to protect those who use a service. Which way would you lean?

Christopher Woolard: We have the call for inputs there. We have said that, once we have had that, we will then decide whether we have a further consultation.

Q184 Richard Fuller: You must have a hunch. Are you permissive, or are you more concerned, at the moment?

Christopher Woolard: In terms of the way in which you set up that particular question, and which particular end of the scale you might go to, what we are talking about here is: "How do you apply appropriate standards?" For example, one of the things that was given in earlier evidence to this Committee was some questioning of whether the underwriting standards used in making credit assessments by



peer-to-peer lenders was a lesser standard, or a less good standard, than that applied by banks—even smaller, challenger banks.

In fact, in terms of our rules, the requirements that we place on both the existing crowd-funders as they stand today and banks are exactly the same. We allow a degree within those rules for individual firms—whether it is a Barclays or a Metro Bank, or a crowd-funder like a Zopa or someone like that—to tailor their assessments to their overall business models, but the basic standard that we require across all of those is the same. When we talk about this—when we talk about what standards are appropriate—we have to be quite careful here. We are talking about whether there are areas in which there needs to be a bit more of a levelling of that standard. I do not think anyone is, at this moment, basing our call for inputs on “Will it be tighter?” versus “Will it be more liberal?” in the way that you set up that particular question.

Richard Fuller: May I ask Mr Morgan one question about the Angel CoFund?

Chair: Certainly, but I would like to come back to Christopher at some point about regulation in the wider sense.

Q185 **Richard Fuller:** Keith, on the Angel CoFund, one of the issues about angel investors—I think I am right in saying this—is that, historically, they have been located in a limited number of geographies: London, Cambridge, Oxford and Edinburgh. Therefore, the opportunity in other parts of the country—Warwick, Bedford, other fine towns across the country—is more limited, and therefore there is an opportunity for the CoFund to help stimulate more widespread access to early-stage venture capital investing skills and investing funds. Are you trying to pursue that through the Angel CoFund? Is my premise correct; are you trying to diversify?

Keith Morgan: The Angel CoFund is a great fund. You have probably heard about it, but it has about 60 investments in total, providing £130 million to small, growing companies. It does that, as you say, by co-investing alongside a syndicate of angels. We are currently in discussions with the Angel CoFund. The Angel CoFund is a company limited by guarantee, so it is a private company, and one of the great things about it is that the board and the investment committee comprise people from the industry. Industry expertise comes together to try to make this initiative work.

We are discussing further funding of the Angel CoFund with them, and, at the same time, we have been doing a lot more work looking at the regional differences. This topic is up for discussion. The issue you find, of course, is that if you look at the spread of equity investments—and I mean small business equity investments, not larger LBOs or MBOs—then there is a significant skew towards London and the south-east, and places like the Midlands and the north are under-represented. Discussions with the Angel CoFund, and also the work we are doing with the Northern



Powerhouse Investment Fund and the Midlands Engine Investment Fund, are designed to try to correct some of that. It is a topic, but no firm plan is in place at this point.

Q186 Chris White: You mentioned the work you have done with the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund. Is there any chance we could have a submission on where you are with that work?

Chair: That would be very helpful for one of our future inquiries about local economic devolution, the northern powerhouse and the Midlands engine.

Keith Morgan: Would you like that as a written submission?

Chris White: I would certainly like to know where you are in those plans, in terms of your wider strategy.

Keith Morgan: Would you like me to summarise that now?

Chair: A written submission with some more detail would be very helpful.

Keith Morgan: Yes, we will certainly provide that; we are very happy to. There are 39 LEPs in England; there are 10 across the north and 10 in the Midlands. We have created the idea of a Northern Powerhouse Investment Fund and a Midlands Engine Investment Fund, and we are essentially pooling resources—European resources and some resources from the British Business Bank—to create these two funds. The northern powerhouse was conceived first. We have a strategic board that comprises the senior LEPs in the area. We developed the investment strategy, and we are currently at the point where we have opened a competition for fund managers to deliver equity, debt and micro-finance to small businesses. That competition will be closing at the end of the summer. The Midlands engine is slightly behind, but we are just in the process of finalising the investment strategy.

Q187 Chair: Keith, I was interested in your phrase “senior LEPs”. What constitutes a non-senior LEP?

Keith Morgan: Sorry, I probably should not use the word “senior”, because it is a representative. We asked the LEPs in both regions to agree among themselves who would be on the strategic oversight board, and they selected a sub-set.

Q188 Chair: We may come on to Brexit, inevitably, but I have a question from complete ignorance from my point of view—and I will start with you, Christopher, but I would like your views as well, Keith. Should we be concerned about that ominous storm going off in the distance that is the Italian banking crisis? Will there be some degree of contagion from that, and what impact will it have on access to finance for businesses in the UK?

Christopher Woolard: It is very hard to make those kinds of predictions, and I will not even attempt to try in this forum. On the wider



HOUSE OF COMMONS

issues that we see around Brexit, it is far too early to tell in terms of where some of those dynamics might go. It is fair to say that, in the wider business financing sector, we see a lot of European funding. A lot of European investment funding channels through into this particular sector, and so we might reasonably expect, in due course, to see some effects there, but it is far too early to speculate.

Q189 Chair: Will you see financial institutions that are a big strength of the British economy wanting to move to the likes of Berlin and Frankfurt in order to take advantage of the single market?

Christopher Woolard: Again, it is far, far too early to speculate around that. We can all read the press coverage, but, particularly when we are talking about small funding, by its very nature, it happens locally.

Chair: Keith, have you any views on that?

Keith Morgan: Yes. Once again, we see both sides of the market: the demand from the small businesses and the supply from the banking sector and others. The supply side of the finance market is in much better shape than it was the last time we came across a major crisis, which was in 2008. All the work that the regulators, the Bank of England and the Treasury have done has created a much sounder system.

On the demand side, it is interesting and worthy of mention here that, since the second half of 2015, we have seen declines in small business confidence. If you look at the Federation of Small Businesses and the surveys they produce, since Q3 2015, confidence levels have been dropping, the proportion of small businesses that intend to grow quickly has been dropping and investment intentions, which are also surveyed, have fallen as well.

Now, investment intentions are at the same level as the back end of 2012, so we have entered a new period of uncertainty. We do not know how that uncertainty will impact the demand side, but we certainly will be looking very closely at the upcoming surveys. We also get information in, slightly more anecdotally, from our delivery partners as to what is happening. We are looking very closely to see whether, on the demand side, there is any subdued confidence and demand for funding.

Q190 Chair: Do you see your role as kick-starting that subdued feeling? Do you see your role as almost a Keynesian-type stimulus, to help push along firms if they are a bit reticent? Is that a valid interpretation of what the British Business Bank will do?

Keith Morgan: It is partially valid. Some of our schemes are naturally counter-cyclical—some of the guarantee schemes, in particular. If you take something like the enterprise finance guarantee, that is the one scheme that operates in the major part through the big banks. Where a borrower can afford to repay the loan but does not have the security behind the loan, we offer a guarantee to share the risk. That allows the loan to go through. All I am saying is that, in situations where there are



lower levels of risk appetite or where collateral values have come down, clearly, that guarantee can play a role. Of course, if you go back to 2009—shortly after the guarantee was first put in place—the volumes were higher. It has come down; it can go back up again if the cycle demands it.

Q191 Craig Tracey: Can I just come back to you, Christopher, on the regulation of the alternative finance sector? How well does the FCA understand the alternative finance sector or industry?

Christopher Woolard: In terms of the pieces that sit within our regulatory envelope, I would hope that we understand them reasonably well. Beyond that, we take an interest in various forms of alternative finance. In terms of seeing innovation in this particular market, we have a specific initiative—Project Innovate—which is aimed at trying to get small fintech firms, and larger firms as well, to innovate; to come into the space and offer alternative opportunities, alternative ways of thinking about funding. There is a range of things that we do in this space, but that probably gives you a sense of them.

Q192 Craig Tracey: Given that it is quite quickly-moving, do you think there is an opportunity for sectors to not really understand whether they fall within their remit or not, or, from the FCA point of view, whether it should be regulating a particular industry?

Christopher Woolard: In terms of those industries that are closest to us and very clearly regulated by us—for example, crowd-funders—there is a real understanding in that market. Given that that is by far and away the biggest chunk of this new funding that we are speaking about, there is a real understanding there.

If you dig a couple of layers below that—for example, if we start to talk about firms that have very complex business models and are not quite sure what they are: whether they are collective investment schemes, crowd-funders or something else that somehow sits outside of the regulatory boundary—we occasionally have conversations with particular firms to try to clarify that. However, I would say that, on the whole, that is the exception rather than the rule. For most firms that approach us, they are reasonably clear about whether they are regulated or not, and so are we.

Q193 Craig Tracey: Do you have a proactive approach in terms of going out to firms that you think might come under your remit, or is it up to them to come to you to say, “Should we be regulated?”

Christopher Woolard: On the whole, firms come to us and say, “We think we may have a regulated activity. Do we need to come within your regulation?” One of the things we do, particularly through Project Innovate, is to try to make that conversation with the regulator as simple as it possibly can be. Historically, that has always felt like quite a daunting conversation that you might spend a lot of time and money



preparing for before you even go and ask some simple questions of us, so we are trying to make that a simpler relationship.

We have a unit within the FCA—part of our enforcement division—called “unauthorised business”. It will look for firms that are basically running financial services businesses without being authorised and approach them, and the first step there is usually trying to get people into authorisation and to regularise themselves, but, unfortunately, there are also people there who deliberately seek to run a business on an illegal basis.

Q194 Craig Tracey: Can you quickly summarise Project Innovate? I have not come across that myself.

Christopher Woolard: As I said, Project Innovate is targeted at two types of firm: firstly, those that are broadly within the fintech area; and, secondly, larger firms that are wanting to innovate in some particular way to try to break the mould that they have previously been in. We started it just over 18 months ago now.

Since its inception, we have helped 500 firms in some way, shape or form. Of those, around half—so 270—we have offered some positive assistance to make sure they get into the market in some way, and from the first tranche, of 100-odd, we now have 40 firms that are either operating or just about to be authorised. It is really about trying to find new and innovative firms. Not all of them will be funders; some of them will be providing other financial services, but it is about getting them into the market as players alongside the more traditional banks and new challenger banks.

Q195 Craig Tracey: I have one quick question to both of you, I suppose; let us start with you, Christopher. How do you perceive the likelihood of a collapse of one of the alternative finance providers?

Christopher Woolard: I will limit myself to talking about crowd-funders for a second. Clearly, we have tried to set up a regulatory regime that acknowledges that most crowd-funders operate, effectively, as a platform. The important piece of this is that, if the platform were to collapse, there is a means for the relationships either side of that platform—in other words, the investor, who is normally a consumer, and the borrower, who is normally a firm—to continue.

As part of our rules, we provide that every authorised firm has to have in place arrangements for what would happen if it were to collapse, and, indeed, it has to have a relatively limited amount of money available from a prudential perspective to cover money that might be in transit between other borrowers and lenders at the point of collapse. In the industry, you will often hear them talk about this as a “living will”, but it is something that will allow the borrowers and lenders to still function effectively and repay each other, even in the event of a collapse of the platform.



HOUSE OF COMMONS

The bigger question is what that might do to wider confidence in the industry. Clearly, there have been some high-profile cases, most notably in the US recently, with crowd-funders that were getting themselves into a tricky situation. I do not think the circumstances in the UK are quite the same at this point in time, so, while you can never say never, the bigger risks that we perceive would be around a series of investments within a portfolio possibly failing, rather than necessarily being immediately worried about platforms as the first and foremost risk. However, that is something we pay close attention to.

Keith Morgan: When we make our investment decisions and when we have made investments, we look exactly at those rules. We are ensuring that, from their regulatory point of view, they have the mechanisms—the back-up or the run-down services—so that, if things did not go according to plan, that can be implemented. Additionally, we are very eager to conduct detailed due diligence on the underwriting of the finance platforms that use our money. We go in; our chief risk officer will often visit to review the credit processes and we will extract data to understand how that is conducted. We conduct the due diligence that you would expect before an investment is made.

Q196 **Amanda Solloway:** I am trying to explore further the relationship that you have with the Government, specifically from the bank's point of view. How often do you meet with the Minister, and what kind of relationship do you have with the Department?

Keith Morgan: It is a very close relationship. The UKGI, which was formerly the Shareholder Executive, is the agency of government which acts as our shareholder. I have meetings with the senior officials in that department certainly every other week, and probably every week. As you would expect, it is a bit like a private equity shareholder relationship: there is one shareholder with 100% ownership, and it has a duty to oversee us.

Q197 **Chair:** Has the frequency of meetings increased since 23 June?

Keith Morgan: They were already every fortnight, so that was frequent enough. We also connect up with other government officials and Ministers generally. Last week, I meet with the Commercial Secretary to the Treasury, Lord O'Neill. Last month, I met with Harriett Baldwin, the Economic Secretary to the Treasury. In May, I could not make it, unfortunately; my chief operating officer met Anna Soubry, the Minister for Small Businesses, and I probably see the Secretary of State for BIS on average once a quarter.

Q198 **Amanda Solloway:** It sounds like you have a lot of communication, but are you happy with the level of independence and budgetary control that you have?

Keith Morgan: That is very clear. The constitutional arrangements are very clear. We have an undertaking of operational independence. The board has essentially been delegated responsibility to form the plan and



HOUSE OF COMMONS

to deliver the plan for the shareholder. Once a year, we agree a business plan, and that is signed off by the shareholder—as you would expect—but the roles within that are quite clear, and it means that the board of the Business Bank and the executive team have day-to-day responsibility for the business.

Q199 Amanda Solloway: Just on local organisations as well, you have previously mentioned the northern powerhouse and the Midlands engine for growth, but it would be interesting to see how you link with growth hubs, Catapult centres and other regional bodies.

Keith Morgan: On the growth hubs, first of all, as part of the northern powerhouse and the Midlands engine, we are setting up a new initiative whereby we will have people who will be in the northern powerhouse LEPs and in the Midlands engine LEPs in order to ensure that the funds are well connected to the source of new inquiries and new origination that could come through the growth hubs. For us, that will form an additional benefit, because having people on the ground means that our relationships will be even stronger than they are today.

With Catapult centres, we have contact—and very strong, ongoing contact—with Innovate UK, who are the funders of the Catapult centres. We have struck up relationships to be able to understand whether there are opportunities for our finance to be provided through people who use the Catapult centres, including, in some instances, looking to see whether venture capital could be formed around the Catapult centres as well.

Q200 Amanda Solloway: Just out of interest—because I am from Derby, so in the Midlands—how is it proportioned out? How do you work out what goes to the northern powerhouse and what goes to the Midlands? Is there a formula?

Keith Morgan: It was based upon the amount of funds the LEPs themselves had in control, and it just so happened that the LEPs in the north had more than the LEPs in the Midlands. We then put in money ourselves, which was proportionate to that, so that is how you ended up with the different sizes of the initiatives.

Q201 Peter Kyle: I should declare that I am an FCA-regulated non-exec director. I should probably put that on the record, and I should assure you, Christopher, that I will not wreak revenge for the questions you asked me in order to get that accreditation.

Christopher Woolard: It was not personal.

Peter Kyle: We are speaking a lot about the new, emerging crowd-sourcing and crowd-funding sector. We are talking about it as a problem, when it is actually quite an exciting development, and I would just like to say that from the outset: we are having this conversation about how to regulate it and not regulate it and so forth, and how to integrate it into the systems we have at the moment, but it is quite an exciting emerging market. Do you view it that way, or do you see it as a



problem?

Christopher Woolard: As I said earlier, one of the interesting things about the crowd-funding sector is that it positively wanted to be regulated; in fact, I think it lobbied Government very hard to be regulated at one point. That is fundamentally because it understood that, in the right way, regulation can actually help build markets; it can certainly build the confidence that potential investors can have in products in financial services. So far, first, we have seen really significant levels of growth from this sector since it has come into regulation. We have seen it offering a competitive challenge—at the moment, a small one, but nevertheless a significant one—in the area of small business funding to the traditional big four or big five players around that space.

As you see sectors grow significantly, one of the questions is how you make sure that the regulation around them keeps pace, so the level of confidence that consumers might feel can be maintained and the particular sector can grow forward. That is the balance we are trying to strike here.

Q202 **Peter Kyle:** Is there an advantage? Does the part of the sector that is not regulated by the FCA have an advantage in terms of the lack of reporting that it needs to do? Does it have a competitive advantage, which is conversely a burden for the sector that is regulated by the FCA?

Christopher Woolard: When we talk about crowd-funding, there is very little that is meaningful that is not regulated by the FCA. There are certain types of crowd-funding—for example, if you took shares in a brewery, but only in the expectation of a free case of beer every year or something; in other words, hobby investing—that are not covered by us, but, if you are expecting to invest for a return, then that is covered by us. There is a relatively level playing field there.

Q203 **Peter Kyle:** Is it clear cut? Are there any industries or any companies that are on the cusp, which you feel could be brought in but where there is uncertainty?

Christopher Woolard: I do not think there are more that could be brought in, in terms of the uncertainty or particularly wishing to bring them into regulation, in the space that we are talking about. As I said earlier, there can sometimes be some questions about what kind of entity something really is—whether it is a collective investment scheme or a crowd-funder, for example.

Q204 **Chair:** Gentlemen, as our final question, are there any recommendations that you would give to us in terms of making sure that any structural or cultural weaknesses are addressed in terms of a regulatory framework? In terms of making sure that good potential businesses have the flow of and access to finance to make them more productive, what do you suggest that we should be thinking about? We will start with you, Christopher.



Christopher Woolard: Yes, start with me; I suspect Keith might give a slightly fuller answer. Given where the regulator starts from, we do not principally have a duty towards access to finance, in respect of encouraging the flow of funding, but we can set a framework in which that happens.

One of the things we all need to be conscious of and bear in mind is something that Keith was referring to earlier: when many small firms are approaching and thinking about taking finance, there are certain things that happen—when thinking about competition in the market—that are worth bearing in mind. Most small firms will not be experts in finance themselves; they will be experts in doing whatever they do as a small business. There will often be significant asymmetry between them and the lender, in terms of the information and knowledge that they have.

Also, we need to think about the opportunity costs that small firms face. We often want them to behave in a very economically rational way and spend lots of time shopping around, getting the right deal, but that is time that will not be spent on running their own firm, which is the core of what they do. Anything that we think about—whether we think about regulation or wider initiatives—needs to have that thought in mind.

Keith Morgan: We have made some important strides in ensuring that the supply side of the access to finance issue is better understood, with the right tools in place to make a difference. I feel that our model is well-established. We should focus on providing information and advice in a co-ordinated way.

Q205 **Chair:** Can I interrupt you there, Keith? I think Amanda mentioned this: it has been really striking throughout this inquiry that people have said that there is not necessarily a funding gap, but more of an information gap. Would you absolutely agree with that?

Keith Morgan: There are both. They are both equally important, and you could do the numbers and say that the people of people who do not get finance because they do not know is possibly a similar number to those who do not get finance because they do not get offered the right thing. In my mind, it is probably of equal magnitude, and that is something that we as an industry need to focus on and make sure is co-ordinated.

The other thing is that finance is an important piece of these issues, but it is not the whole piece. Certainly, when you think about things such as scale-ups, there are other issues that you need to think about holistically, such as whether these growing companies have access to the right skills—the finance directors to step in and take up the role; whether the infrastructure is appropriate; whether they can get their connections to do their business; and whether there are the right capabilities, the right kind of leadership and the right role-models in place as well. Those are other important issues that have to come in around the outside.



Chair: Gentlemen, thank you very much. We are very grateful for your time.

Examination of witness

Witness: Anna Soubry

Q206 **Chair:** Minister, good afternoon.

Anna Soubry: Mr Wright, what a great delight it is to be before you again. It feels like it was only, what, two weeks.

Chair: If that.

Anna Soubry: It is more than that.

Chair: It could be the last time.

Anna Soubry: Where are you off to?

Chair: We hope that you come back. I have not had the call yet from the new Prime Minister.

Anna Soubry: I am in the Cabinet now, Mr Wright.

Q207 **Chair:** Minister, thank you. You have been exceptionally helpful to the Select Committee and we are very grateful; and I think you will be helpful again during our inquiry here today about access to finance. Do you think there is a problem with access to finance for firms?

Anna Soubry: I do not know, and I will tell you why I say it like that. I hope that is not misquoted. There is a perception that often runs in politicians. There was a committee where I once gave evidence—I will not repeat which it was; it was not this Committee, by the way—and on the committee everybody agreed that there was a particular problem. It did not matter how many times we gave them the stats and everything else; they were absolutely adamant that this myth was going to pertain whatever they were told. The trouble is that there will be some people who will have difficulty with access to finance. Of course, for that individual business, that is a genuine problem. You get the anecdotal evidence, but actually I think things have got a lot better.

The one sector I was very concerned about was the construction sector and the small and medium-sized builders which is why, back in December of last year, I had a roundtable with the Federation of Master Builders: excellent, and real-life builders, not just their representatives—no disrespect to them—who were actually at the sharp end. There is a problem in the construction sector for small and medium-sized businesses. Then I got the banks in and talked to them about it, and they explained to me their difficulties. Then we brought them together and let them talk and listen to each other's problems, to see whether or not these new banks could be more helpful to them and so forth. We will have another catch-up to see whether or not we have made progress.

There is a problem for some individuals, but that is an example of a



HOUSE OF COMMONS

sector. Overall, I am told by a lot of businesses that there was a big problem, but it has got a lot better over the last three or four years.

Q208 Chair: Can I press you on that? In the aftermath of 2008, the Labour Government put steps in place, and then the coalition Government and now the Conservative Government put steps in place. This is not party-political bashing; this is a long-term acknowledgement of something that is structurally weak in the British economy. The Macmillan Committee from 1931 mentioned a structural weakness in getting good finance to productive businesses. Do you think that, not in the aftermath of 2008 or what has happened since 2010, but for the long view, there has been a problem; and what can we do to address that?

Anna Soubry: There was a problem, and the work we have done and the improvement in the economy generally have improved things. Some of the problems have been—no disrespect—down to small businesses. This is what we found when we talked to the construction sector: “I bank with X bank; I have always banked with them and they will not lend me money”; “What about this thing called crowd-funding?”; “What? What is that all about?” You have that, and then there are all these other sources, not just the high street bank that frankly, with great respect, you have been doing business with for the last 20 or 30 years.

Some of it has been about explaining to people that there are alternatives to high street banking and they have to think very differently. Giving people the information about the alternatives has been a big part of why the problem that was there has now diminished.

Q209 Chair: What is the Government’s role in all of this? Can the Government intervene to try to address both the finance gap and the information and perception gap?

Anna Soubry: The information gap, absolutely. We have produced a booklet that I thought I might have a copy of. The proper detail of it is in here somewhere, and you will forgive me because I am not very good, as you know, at reading out answers and all that. We asked ourselves how we would give people this information, because a lot of it is just not knowing about things and what is available. The best way to inform businesses is often through HMRC; so HMRC is also going to be part of that information about alternatives to the traditional way of getting finance. When we introduce the Small Business Commissioner, I want him or her, as part of his or her role, to have a website with portals so that, when you say, “I need money for my business” or words to that effect, you will be able to click on there and then go through the links, so you get that understanding of the alternatives to the traditional models of finance.

Chair: We are expecting a vote quite shortly so I hope that we can crack on as much as possible; and I am hoping that you will be able to come back as well.

Anna Soubry: Yes, alright.



HOUSE OF COMMONS

Chair: You do not sound so enthusiastic about that.

Anna Soubry: I am so sorry, Mr Wright.

Chair: I know you will have to find your new department.

Anna Soubry: No, not at all. It is just that you have had the British Business Bank in and I take the very firm view that they know considerably more about this than I do.

Q210 **Amanda Milling:** Good afternoon, Minister. Picking up on the point about access to information, advice and guidance, it is fair to say that it has been a theme that has come out of the inquiry to date in terms of trying to signpost and the need to signpost small businesses to the right information about the options available to them. I would be interested if you could elaborate a bit further in terms of your view on the current landscape, what is working and what we could be doing better.

Anna Soubry: We know where the interest rates are and that, if you get a loan from the bank or wherever it might be, then your repayment is going to be of a sensible proportion. The only thing I would say that concerns me is these things called the risk weightings. That is the one of the things that we specifically looked at for the small and medium-sized businesses and housebuilding, so for those construction companies. When we had the big crash, those were the very companies that took that hard tumble very, very quickly and experienced a great drop. Therefore, the risk, according to the ratings, is much higher, and that is why there is such a reluctance from the standard ordinary banks—the ones that most people are familiar with—to lend money to them, because they do all these calculations and they show that the risk is much higher. That is why they have to go to alternatives.

Q211 **Amanda Milling:** Do you feel that the banks are doing what they should in terms of referring those customers that they have had to decline for lending to the alternatives?

Anna Soubry: If they are not, they are in trouble, because they should. I signed a lot of letters to Members of Parliament who have written to me on behalf of constituents complaining about why banks refused. It is a really good role for Members of Parliament either bring it into BIS or to take it up individually with those institutions, especially when people have not been referred on. However, I do not get many complaints that banks are not fulfilling their duty on that.

Q212 **Amanda Milling:** When you speak to small businesses, do you feel they understand the breadth of options that are available to them?

Anna Soubry: Many of them do, but not enough of them understand the full range of options. The Federation of Small Businesses has a big role to play. It cannot promote schemes, but it can give people information that there are alternatives to the usual way of doing things. Like that, the Chambers of Commerce and the "Business Finance Guide" that will be



produced by this Government jointly with the Institute of Chartered Accountants—that was the thing I was referring to, which will be delivered through HMRC—are ways of improving people’s knowledge of what is available.

Q213 Amanda Milling: That guide sounds like something somebody would use once they have been to a bank and directed to the guide for the alternative options. One thing that is interesting is why these small businesses are going to the banks in the first instance. Is there a structural problem in the industry that needs to be addressed? A lot of small businesses go to the high street bank that they bank with, rather than going to the alternatives or looking at other options.

Anna Soubry: It is a lack of knowledge about the options that are available to them. When I came into this job, I was still of the mind-set that it was unfortunate that you did not have a bank manager in the way that I am old enough to remember a relationship with a bank manager—a named individual. Actually, my bank pretty much has that. They do not call them “bank managers” anymore; they have some really hideous name now: “personal relationship manager”. I do not want a personal relationship, thank you very much. I want someone to sort out my account and give me some money.

In all seriousness, I have to say that my bank, RBS, has always provided me with an exceptional service. It provided that service to all the barristers in my chambers and we had, as individuals, a brilliant relationship with it. I have never really understood why more banks cannot do that, because I value it hugely, as with anything where you have that sort of relationship.

We want people to shop around and to look at the alternatives. I have a business in my constituency specifically to help small businesses get access to finance. It is an online service and, if you have a problem, you go into it and you explain what your problem is and they then say to you, “You have a problem with your credit rating” or “you have not done this right” or “you need to do this and you need to do that”. There are services available to help small businesses to get them the access to sharpen up their own operations for how they go forward and present that business plan and get the money that they need.

Q214 Amanda Milling: The problem, though, is that it is still the major high street banks that dominate the lending market. We have challenger banks, but is there enough competition in the market? There is the advice and guidance side, but what can happen within the market itself to create more competition?

Anna Soubry: We have met with the challenger banks; we had them all in. The challenger banks are clearly very proud of the services that they offer. They want to bash away at the high street banks that they see, in some cases, as having more of an advantage, a name and so forth. A lot of those challenger banks are absolutely breaking through.



HOUSE OF COMMONS

I would quickly add that my other half, who had a very bad service with his bank, is now with a challenger bank; and he is older than I am, so it is not a generational thing. There is an awakening in a lot of people about the genuine alternatives that are out there in the banking sector, and that is good news. We have done a great job on that as Government.

Q215 Amanda Milling: Are they breaking through the business market?

Anna Soubry: He runs small businesses and so forth, so, yes, they are beginning to. It is the old adage of getting the information out there. This guide that we are doing, by the way, is going to all Members of Parliament; both the hard copy and the online links as well. Good Members of Parliament know their small businesses. We know our Federation of Small Businesses, our chambers and so forth. We sometimes forget that we can have a hugely important role, as Members of Parliament, in making sure that our small businesses get the knowledge and services that they need. We should never underestimate it.

Q216 Michelle Thomson: Thank you for coming, Minister. We will try and crack on before the vote. No session would be complete without moving on to Brexit or "WEexit", as we are becoming fond of calling it in Scotland.

Anna Soubry: What does that stand for?

Michelle Thomson: Wales and England exit.

Anna Soubry: Right, okay.

Q217 Michelle Thomson: There is always a good place for good people who know about business in Scotland going forward.

What do you believe will be the potential impact or opportunities for net bank lending to SMEs in the event of a Brexit both in the short term and in the medium term?

Anna Soubry: Since slightly less than a week before the vote, I have been out and about talking to businesses. I went up to the north-east, over to the north-west; I have been in the Midlands and back in my own constituency. While I am hearing a lot of real concern about our future, I am not hearing that people are worried about access to finance at the moment.

Michelle Thomson: Really?

Anna Soubry: I am not hearing that. The problem is the overall downturn in the economy; that will have an effect, but, apart from the potential damage to our economy as a whole, I do not honestly think there is a Brexit angle to this. I might be wrong but that is not what I am hearing.

Q218 Michelle Thomson: Do you think that it has just not played through



HOUSE OF COMMONS

yet?

Anna Soubry: Maybe. The concern at the moment is about what will happen with investments. People make investments now for five or 10 years down the road. People want to know about tariffs and whether or not we will have that access to the single market. If we do not get those things, that will have a big impact, especially on some of our major employers, which will lead to a downturn in our economy, which presumably will then affect the fluidity and the access to finance. At the moment, no, it is not an issue.

Q219 **Chair:** You are not getting any intelligence on that.

Anna Soubry: I am not.

Q220 **Chair:** In the aftermath of 23 June, two or three weeks ago, are firms both large and small thinking "let us just hold off on buying that latest piece of kit", because there is so much uncertainty?

Anna Soubry: That is different. You are absolutely right on that. We have had big roundtables with all the big players and all the representatives, including CBI and the automotive sector. I have been up to the north-east and met the manufacturers at their dinner; these are serious conversations. Yes, there is real concern about people not investing and people not going through and signing contracts. That is actually happening, but that is not the same as access to finance, though it will have a spin-off in the future.

Q221 **Chair:** It flows through. A downturn in business investment will have an impact upon the demand for access to finance.

Anna Soubry: Yes, that is right. At the moment, I am not getting that. At the moment, it is that initial shock and it is the shockwaves going through. Then things will stabilise and, if we can get some surety on certain things like tariffs, it would be hugely important especially, for our automotive sector. That would be hugely important, but, at the moment, I personally am not getting people saying that they are having problems getting access to finance because of the decision that has been made. I am getting concern about investment tariffs and contracts not being signed. That is actually happening in the real world.

Q222 **Michelle Thomson:** Have you had a meeting with the likes of the British Business Bank, who we had in earlier, to ask whether they anticipate in the short-term that their supply side will maintain the same proportion?

Anna Soubry: I have not had a meeting with them. I do not need to have a meeting with them. The relationship that we have with them is such that they can send anything in; I do not have to have a formal meeting with them.

Q223 **Michelle Thomson:** In terms of the European Investment Fund, do you anticipate any funds being at risk that had previously been ear-marked for the UK going forward; or have you done any costing in terms of, if



funds were withdrawn, how they could be made up?

Anna Soubry: They will not be withdrawn. The problem is that we have the 2020 thing, which I cannot remember the full name of, but my brilliant officials will remind me of it. That is a real concern—no debate about that—and I have heard a lot of people talking about it. Of course, the problem is that we do not know when we will leave the EU; that is the problem. Now we have that certainty—thank goodness—of who is going to be our next Prime Minister, which is why we saw the pound and the stock market react with real positivity.

Businesses want certainty. That is the thing they always want to know: where they are going and what is happening. That gives them the confidence and the stability. We have the new Prime Minister about to begin, and then she can start that work to plan the exit. That will have a huge impact on stability and confidence for people. At the moment, there is this lack of certainty: when are we leaving? Is it 2020? Is it going to be later? Is it going to be sooner? That will also affect those grants and those funding streams. Knowing the timetable is critical, and I hope to God that we will move towards that quite quickly.

Q224 **Michelle Thomson:** If you were running an SME now in the construction sector, which you referenced earlier, how optimistic would you feel going forward about access to finance in the light of the current political climate?

Anna Soubry: I can tell you what is happening. There is not much confidence in the construction sector at the moment.

Q225 **Michelle Thomson:** Do you anticipate that changing?

Anna Soubry: There will be some stability going in. I have already had those conversations at a local level with my council, by way of example, specifically about three or four planning permissions—brownfield sites and one greenbelt, unfortunately—to deliver hundreds and hundreds of houses that have suddenly completely stopped. We will have a roundtable in my constituency about where we are and how we are going to get these projects up and running to deliver those houses, because we need to do it and we need to do it as soon as possible. Those conversations have already begun, but I think things will calm down hugely. I really do. I think we will now enter a much more stable period.

Q226 **Richard Fuller:** Can I drag us away from the exciting topic of what may or may not happen post-Brexit to the issue of access to finance? One of the great successes of the coalition Government and this Government has been getting people to start a new business through start-up loans. You may have heard from our previous session with the British Business Bank about the Angel CoFund, which is trying to stimulate private investors to provide equity finance. What are your thoughts or observations in terms of the role of equity finance to encourage people to start a business? We have put the EIS and SEIS funds into ISAs. Is there anything more that we can do to encourage people to put their money at risk to help out



small businesses?

Anna Soubry: There is an argument that, in America, people do not have a problem with investing in small business—they really rather like it—but I am hearing that people are getting the whole crowd-funding thing that is occurring. They really find it very exciting and they enjoy it, both as a recipient but also as somebody who is part of it. Again, as the knowledge of it broadens out, we will find that more people will be interested in it.

Sitting suspended for a Division in the House.

On resuming—

Anna Soubry: I have some statistics. Apparently, there has been a year-on-year increase since 2010 in equity investment flowing to UK SMEs, reaching a total of £3.5 billion in 2015. Total angel and venture capital equity investment in our country's SMEs was 58% up in 2015 compared to 2014. The British Business Bank will have told you about their own stats on venture capital and angel investment: 9% total equity investment in UK SMEs since 2011, or £909 million in cash terms.

We are talking about equity investment. There is an understandable resistance among small businesses, i.e. those that employ up to about 50 people, which want people to invest in their business but not necessarily take a piece of it, in terms of the ownership, the running and the control of it. That comes over for a lot of small businesses, which is why equity is not necessarily the right way for them.

Q227 **Chair:** We were talking about this as we were going down to vote, and I was asking whether there is a cultural problem in terms of British corporate culture, in that owners of firms would prefer to have 100% of a smaller pie than 70% of a much larger pie. Do you think that is a cultural issue or a cultural problem? Do we need to fix it?

Anna Soubry: I can understand that, if you have a business that you have built up from scratch that has been successful, you would not want to lose a piece of the control over it by an equity partner coming in. You would obviously have to give up that control.

Q228 **Chair:** Not necessarily. You would still be majority shareholder; you would still be controlling the business.

Anna Soubry: I know, but you would have somebody else to always think about and discuss with. I am not saying there is anything wrong in discussing things with people, but it is just not the same as when you are running your own business and it is your baby. That might be part of the reluctance, if it is there. It is understandable when there are other ways of getting finance.

Q229 **Chair:** Does the system we have in this country, relative to other developed nations, push us towards debt finance rather than equity



HOUSE OF COMMONS

finance; and should we be addressing that?

Anna Soubry: I do not know the answer to that.

Q230 **Peter Kyle:** We need another vote so that you can think about it again and get some more stats.

Anna Soubry: That is a bit out of order.

Peter Kyle: You did some very good homework during the vote.

Anna Soubry: I have a brief this big. I am sorry, but I have not learnt it all off by heart and I am not going to read out answers, because that is tedious, so I just give you answers to the best of my knowledge.

Q231 **Peter Kyle:** I certainly congratulate you for it. Could I bring you back to Brexit and congratulate you again, as a Back-Bench MP who stood in admiration for the campaigning work that you did during the Brexit campaign and the effort that you put into it? Looking at where we stand now and the impact that it has both on the Government and your Department, we know that George Osborne has already abandoned the budget surplus target that he set; very clearly, at the very heart of the Treasury, there is re-adjustment. What re-adjustment do you think there will be in your Department with regards to the targets that you have?

Anna Soubry: I am not aware of any targets that are relevant to this. The other one we have to talk about is the Bank of England, which has put liquidity into the markets as well; we worked out that it has freed up about £250 billion of money that is available for people. The Bank of England has made a big difference in the way that it got a grip and a handle on things very quickly. Initially—within days—we got an extra £250 billion of liquidity to ease the situation and the shock to our economy that the vote brought about.

Q232 **Peter Kyle:** For example, your Department has the target for achieving £1 trillion worth of export, plus 100,000 more exporters, which was already, according to most expert opinion, a very challenging target to meet. According to the data you very kindly submitted to this Committee, you are already not on target to meet that. Is it not time to abandon that target? By the statistics that you were using during the Brexit campaign, the EU is our biggest market.

Anna Soubry: To be honest with you, I just do not think that is a priority in the slightest at the moment. Targets are not a priority at the moment. The priority at the moment is making sure that we achieve what British business needs, which is that certainty and stability. The thing that is really important in my Department is that, when we talk to people like Oliver Letwin and that unit that is going to start that work towards Brexit, they know some of the things that British business particularly wants and needs as a matter of urgency. That is actually the role of our Department, in my view, not resetting the export target.



HOUSE OF COMMONS

It has to be said that Brexit has concentrated minds in my Department on exports even more. You have already seen the Chancellor of the Exchequer out in America. The Secretary of State was going to go to America but had to come back. If things go to plan, there are a number of other trade missions. Lord Price is doing his thing anyway, but there are other things that we will do as Ministers to drive forward trade even more in the wake of the Brexit vote.

Q233 **Peter Kyle:** Are you therefore saying that you still think the export target is achievable?

Anna Soubry: Yes, I am going to say that. I am going to be positive about these things. I got told off last time for trying to be positive about things. I am going to be positive. It is up to you, because you ask the questions.

Q234 **Peter Kyle:** Markets need security, stability and clarity. That is the reason for having targets in the first place before Brexit, so surely they still play the same role after Brexit.

Anna Soubry: I do not think they do in the market.

Q235 **Peter Kyle:** You have already said that the targets are no longer important at the moment and that what is important is something else.

Anna Soubry: I did not say that they were not important. You always play these games with me. I did not say that they were not important. What is important is that we do everything we can to meet that target. You ask whether it should be re-adjusted. That is not a priority. Looking at it as a figure, that is not the priority. The priority is to get out there, sell our country and make sure that people know we are open for business and that we are doing everything we can throughout the whole of the world to sell British goods. That is the priority, not looking at the figure and saying, "Do we need to tweak the figure or do we need to change it?"

Q236 **Peter Kyle:** Let me rephrase the question: has the vote for Brexit changed our ability to deliver upon the export target?

Anna Soubry: I am not well placed to be able to answer that question. You will have to talk to somebody who knows more about these things than I do.

Q237 **Peter Kyle:** The apprenticeship target has been embraced by industry here—the business sector, the private sector. Do you think that the instability within the economy at the moment is going to impact on the ability to deliver on the apprenticeships that the Government have committed to?

Anna Soubry: I have come to talk about access to finance. I am not talking about apprenticeships.

Q238 **Peter Kyle:** Okay. You have already mentioned construction. I know



HOUSE OF COMMONS

construction is not strictly part of your brief, but you have touched on it a couple of times because it is such a bedrock of our economy. What do you think are the knock-on effects of the impact on construction? You have talked about the impact that it has on your constituency; I am seeing it having exactly the same impact on my constituency. What downstream impacts could the shock in the construction industry create?

Anna Soubry: It is always seen as a really good weathervane of where we are in the economy. If the construction industry is feeling good and confident about things, because it knows that people want to buy houses and they feel that they have the money to buy a house, to move up the housing ladder or to get on it in the first place, it is a very good indicator of our economy. The fact that its share prices have taken such a hit is an indicator that the confidence is not there at the moment. Obviously, if we do not build houses, the first impact is that we do not have people who want to be owning their own home, and then there are subsequent knock-on effects, not just on the fact that people can buy their own home, but on the stimulation and benefit of the local economy and then the national economy. Then whether people buy carpets and curtains and how they furnish their house affects confidence on the high street in the retail sector.

Q239 Craig Tracey: You quite rightly said after the break that there is much increased access now to venture and equity markets. I had a meeting recently with the London Stock Exchange who backed that up. I also chaired an event for the Female Founders Forum, which also said that there is plenty of money around there. However, it does seem to be London-centric in terms of how it is used. How do we get that out more to the regions and how do we have a more consistent approach in how that is delivered? In particular, the Female Founders Forum pointed out that only about 3% of female business-owners saw venture or equity capital as a viable funding model. What can BIS do to promote that?

Anna Soubry: It is interesting. This is on the basis that we want people to take up more venture capital and equity partnerships, and on the basis that it is a good thing. However, some people do not see it in those terms, and they may well be right not to see it in those terms, because they want to run and control their own business.

You make a really good point: we know that we have a problem in our country with so much being London-centric and not getting out into the real world; because London is very different from the rest of the country. There is no debate about that. Again, maybe I am being a bit structural here, but those structures of LEPs, chambers of commerce and the Federation of Small Businesses exist in a structural way outside of London; and it may be that they could play a much bigger part in explaining to people what is available and encouraging people.

One thing has happened, which has not been a great thing for our country. Classically, if you were running a business in a small town, you would automatically be a member of an organisation, such as the town's



chamber of commerce or the Lions Club, where businesspeople would essentially get together and network, as we call it nowadays. Undoubtedly—and we can talk forever as to why this has happened—there is now a lack of people actually wanting to get involved in things and getting stuck in like they used to. A lot of those structures and organisations have become bigger; my chamber of commerce now covers the whole of Nottinghamshire, Derbyshire and Leicester. I am old enough to remember when Worksop had its own chamber of commerce. It is about encouraging people to get involved with those sorts of organisations for their benefit, because they not only make those contacts and network, but they also pick up from other people what they have tried and what they have looked at. That exchange of information has a real part to play.

Q240 Craig Tracey: I take that point on board, but the question is: how do we deliver the consistency in advice so that everybody has the same access to the same advice and it is not dependant on how good your LEP is or how good your chamber is?

Anna Soubry: I feel quite strongly that it is not the job of Government to do this. Who talks business best? It is people who run businesses, whether it is the chamber of commerce or an organisation like the FSB. It is not the job of Government to do that. Most people do not trust Government anyway; we know that. We have just been through a referendum where people clearly did not trust big business, Government and institutions—the elite or whatever you want to call it. In any event, I do not think it is the role of Government. The people who can deliver this information are the businesses themselves. Do you think it is our job, as Government?

Q241 Craig Tracey: I am looking at it from a lot of perspectives, but there needs to be some kind of consistent approach, based on area, so people know who to go to. As a former small-business-owner myself, I was not a member of the FSB.

Anna Soubry: You would not trust the Government. If you are not going to join the local chamber of commerce, why would you trust the Government?

Q242 Craig Tracey: It is about the costs of joining and being a member; there are other barriers. About 30% of female business-owners in the UK take advice from Government-backed schemes, as opposed to about 3% across—

Anna Soubry: It might be different if Government is backing something that is provided. One of the great things about the British Business Bank is that people do not see it as something to do with the Government at all. I just do not think it is the role of Government to do this. Maybe I am being quite controversial there.

Q243 Amanda Solloway: We have a really good chamber of commerce in Nottinghamshire, Derbyshire and Leicestershire.



HOUSE OF COMMONS

Anna Soubry: We do; it is outstanding.

Q244 **Amanda Solloway:** It is outstanding. We also have quite a strong LEP, D2N2. I wonder, following on from Craig's point, who then holds to task when a chamber is not as good as it should be. Whose job would that be? There is a responsibility for the chambers and for LEPs to be offering a service. We are lucky, but I do not know.

Anna Soubry: The brilliant woman who started up the Cambridge Satchel Company put a really good argument to me. I do not want to mis-represent her, Mr Wright, and I am always conscious that the press go and publish things. However, there is a good argument that, if you are an entrepreneur and you are running your own business, you go out and get the information, in the same way that you look for customers or business. You do not sit there waiting for the world to come to you. That is part of being a great entrepreneur. That is part of being a great businessperson. You do not sit there expecting the world to come and knock on your door. There is this idea that we have to go to people.

I would make a comment about the chambers. They are excellent, but they do not offer a specific service for small businesses, because they cost quite a lot of money to join in small-business terms; I am talking about those that employ one or two people, proper microbusinesses. I have spoken to our chamber about whether or not they could have a special fee specifically for small business. However, the truth is that our chamber will go anywhere and they will talk to anybody.

Q245 **Amanda Solloway:** Following on from that, we heard evidence a while back when somebody described entrepreneurship as wanting lots of self-starters in business, and I absolutely get that. I just wonder whether there is a gap that we are not exploring or supporting in terms of people who, while having the entrepreneurial spirit, maybe do not have the background or the support. That bothers me.

Anna Soubry: I agree with you. I have businesses in my own constituency who say, "I do not know where to go for finance. If I go to the bank, there is nobody really there." I get all of that, and that is why, with the Small Business Commissioner, by way of example, I want something on the website that tells people how to get a loan or access to money. The British Business Bank does all of that stuff as well. It cannot give you advice about the best product for you, but it can signpost you, and I want the Small Business Commissioner to be a signpost for people, with those portals through, so that nobody has the excuse of not knowing how to get finance. Some of the people in my constituency who have said that to me actually do not have access to the internet, which is a little bit scary and worrying.

Q246 **Kelly Tolhurst:** There has been a massive change over recent years and the ability for people to gain a greater access to finance has definitely changed for small businesses, as far as I am concerned. When I set out in 2002, I only had the option of the bank and it is quite clear, when I



HOUSE OF COMMONS

speak to small businesses, that there are more options that they are aware of. I want to move away from those lifestyle businesses and focus on what we could do, or are doing, with regards to the medium-sized businesses that are looking to become larger.

Anna Soubry: This really is important, because we have a big problem with medium-sized businesses, so those with between 250 and 3,000 employees, who are then going to scale up to be big businesses. Apparently the evidence suggests that, in America, there is not the difficulty that we have in the United Kingdom. When I have talked to people about this, people who really know about this particular problem with scale-up, one of the things that they tell me—and it is only one of many things but it is an important thing—is that a lot of these businesses are family-owned businesses, well-established and very good, but which took a bit hit in 2008 and will not take that gamble again.

As you will know, there are lots of amazing businesspeople who will mortgage their homes. These people take real risks and almost gamble to get to the next level and to scale-up. A lot of those people, those family businesses, took a hit in 2008; so there is a real reluctance to take that gamble and that risk again, because of the consequences. It is not just them as a husband-and-wife team; it is often right across the extended family—brothers, sisters, older parents, aunts, uncles. These are proper, long-established family businesses. I am told that that is one thing that has held them back from the scale-up. Scale-up is a big problem that we have, and that also goes to productivity as well.

Q247 **Chair:** We would like to do an inquiry on scale-up in the very near future.

Anna Soubry: Yes. Did that help? Was that alright?

Q248 **Chair:** Craig mentioned the London Stock Exchange. We had them before us on the inquiry into access to finance. Do you have a position on the proposed merger between the London Stock Exchange and Deutsche Boerse?

Anna Soubry: Our position is that it is a matter for the European and domestic competition authorities and the prudential regulators. Therefore, I cannot comment any further.

Q249 **Chair:** Are there any words you can say on whether it will impact upon access to finance?

Anna Soubry: I do not know the answer to that question.

Q250 **Chair:** I asked the representative from the London Stock Exchange about AIM, the Alternative Investment Market, which is very good.

Anna Soubry: It is very good.

Chair: Do you have a view on that in terms of how AIM helps access to finance for small and growing businesses?



HOUSE OF COMMONS

Anna Soubry: On access to finance, I do not know. I do not know the answer to that. All I know is that it works very well and a lot of people think that it has been hugely successful. On that basis, I suspect that it will also help people with access to finance.

Q251 **Chair:** Given the merger and the need for cost savings, do you think that AIM could possibly be seen as surplus to requirements and not business-central, and therefore might be jettisoned? Is that something that you would then intervene in?

Anna Soubry: I have no idea. I cannot believe that that would happen, Mr Wright.

Q252 **Chair:** Are you looking at this directly to make sure that this does not happen?

Anna Soubry: Not me personally, but my excellent officials are always highly tuned and alert to these matters.

Q253 **Chair:** Good. Minister, you also mentioned the Small Business Commissioner. My understanding is that it is based upon the imbalance of power between large and small firms; it is about late payments and ADR—alternative dispute resolution—and not necessarily about signposting access to finance. Are you changing the remit of the Small Business Commissioner?

Anna Soubry: No, it is the website. Do not write to the Small Business Commissioner if you want advice on finance. What I want is a website with portals. My task at the moment is to persuade people that that website can be constructed a lot more quickly than what I am currently being told. I want to get this up and running. There was a talk at one time about: "Why should Government do this again? If you were an entrepreneur, would you not get your own thing up and running?" If you google access to finance for a small business, you will not get an awful lot of information.

In that absence, I do not have a problem with the Small Business Commissioner having a website that has those portals. It will need to have that, because people will contact the Small Business Commissioner for all sorts of things that will not be at the heart of his or her remit, which is absolutely about late payment. They will need to be signposted away so that he or she can concentrate on that.

Q254 **Chair:** My final question almost goes back to where we started in terms of whether there is a problem with access to finance for businesses, and it is in relation to the regulatory regime. Do you think that we have the right balance in terms of the regulatory regime to ensure not that unsuccessful business applications are provided with the money, but that there is a degree of rigour that allows businesses to receive the finance that they need?

Anna Soubry: We have probably got the balance. I am getting the take that we actually have the right balance.



HOUSE OF COMMONS

Q255 **Chair:** There would be no suggestions for improvement from you as the Minister for Small Business.

Anna Soubry: If there were, then I would take that forward.

Q256 **Chair:** In terms of alternative finance, such as peer-to-peer lending, do you think the regulatory regime is appropriate, given that this is a new and emerging business model?

Anna Soubry: Yes, but you always have to keep your eye on it, don't you, to make sure that it is properly regulated and so on? It is about the balance in these things. I always talk about an example of a business that I know, which is a small business that employs about 50 people. The man who runs it said to me, "I had difficulties with the banks" and all that anecdotal stuff that a lot of us are familiar with. I said to him, "Have you looked at crowd-funding?" No word of a lie, Mr Wright: he said to me, "Sorry, what are you talking about?" He had never heard of crowd-funding. That was two years ago. He certainly knows what it is now. That shows that there is still a level of ignorance out there in the real world. London gets it because it is London but, out in the real world, we still have a bigger job to do with showing people that there are alternatives to the traditional methods of access to finance.

Q257 **Chair:** Minister, thank you for your time. We are due to see you again on Tuesday. You do not look so thrilled about that.

Anna Soubry: Mr Wright, how many inquiries has your Committee got going?

Q258 **Chair:** We are very active. We believe in intervention quite considerably.

Anna Soubry: What I am doing with you on Tuesday?

Q259 **Chair:** Pubcos. I was going to say that we look forward to seeing you on Tuesday but a week is a long time in politics—they say a tweet is a long time in politics these days—so it may be that we will not see you on Tuesday.

Anna Soubry: You might be really lucky and I might not be here.

Q260 **Chair:** If that is the case, your work and help on our inquiries into the productivity plan for your Government, the steel debates and access to finance have been done with humour and with courtesy. We have always valued your contributions in order to make sure that we can add value in order to help businesses in this country. Whatever you do in the next chapter of your ministerial career, we have been very grateful for your time and your input. Thank you very much.

Anna Soubry: Thank you, Mr Wright, but you know that your nightmare is that I return to the Back Benches and there is a vacancy on your Committee and I end up sitting on it.

Chair: We have discussed that, Minister, and Peter wants you to sit next to him at every single meeting.



HOUSE OF COMMONS

Anna Soubry: That I would enjoy. Thank you, Mr Wright. I think you all do a brilliant job.

Chair: Thank you. Best of luck. Who knows? We also have a session for 20 July with the Secretary of State for Business. We could be seeing you then.

Anna Soubry: You will not be, but is that another inquiry?

Chair: That is about the work of the Business Department. However, on a serious point, thank you for all your help and input. We are very grateful.