

## International Trade Select Committee inquiry into the work of UK Export Finance

### Written evidence from Lloyds Banking Group

#### Executive Summary

1. Lloyds Banking Group (“**LBG**”) welcomes any opportunity to provide feedback on matters relating to UK Export Finance product offering. We are committed to playing our part to help British exporters, and any changes made to the scope of opportunity where LBG and UKEF can work together to support British firms are welcome.

#### Terms of Reference

2. **Question:** *How comprehensive is UKEF’s product offering - and how attractive are particular products when compared with private sector options?*

#### LBG Response:

- a. Overall the UKEF offering is comprehensive, and is aligned to our expectations, and especially since the recent addition of General Export Finance (“**GEF**”) and Export Development Guarantee (“**EDG**”) to the UKEF Product Suite, which both have filled in a gap that previously existed in the market.
- b. There is an opportunity, however, to refine the UKEF product offering further, by introducing an option for a Revolving Credit Facility (“**RCF**”) into the EDG scheme, which will benefit a number of clients who perceive an RCF to be more flexible than a term loan.
- c. Another improvement would be the introduction of an interest make up support scheme, such as a Commercial Interest Reference Rate (“**CIRR**”) scheme offered by other Export Credit Agencies (“**ECA**”).

3. **Question:** *How suitable is UKEF’s process for assessing applications for support?*

#### LBG Response:

- a. At times the application process on short term schemes appears to be slow and very manual (paper based), with no apparent Service Level Agreements (“**SLA**”) provided to companies, which may deter clients and banks from applying. There have also been slow responses on some of the more long term schemes, in large part likely due to the complexity of transactions involved.
- b. A potential solution to the above, should this be caused by resourcing issues at UKEF, would be to consider out-sourcing certain elements of the process. This approach has been adopted by some other ECAs, and so application of this to UKEF would be appropriate.
- c. Clear outline of SLAs would allow clients to anticipate whether it’s worth pursuing engagement with UKEF, or whether to approach a different route.

4. **Question:** *Do particular sectors, types of projects, or projects involving certain export destinations receive more UKEF support than others?*

#### LBG Response:

- a. UKEF has been very proactive in illustrating that it is able to support a wide variety of sectors and projects, and thus LBG has confidence that UKEF can be very flexible. This is the message it is delivering to its clients. We have seen a historic concentration of deals in the aerospace and defence sectors, and a greater diversification is needed to support the UK net zero carbon targets and UN Sustainable Development Goals.

- b. This diversification will be driven by exporters themselves, and all UKEF can do is to continue advertising its product offering by various means such as hosting future supplier fairs and expanding the contractor database.
  - c. The launch of the EDG scheme has opened up an opportunity for banks and UKEF to have conversations with clients around their investment in sustainability solutions. Further marketing of this scheme to focus more on a sustainability angle may lead to us seeing more diversity in sectors and types of projects.
5. **Question:** *Are UKEF's performance targets suitable? Is UKEF's current financial allocation from HM Treasury and risk appetite appropriate to allow it to meet these targets?*

**LBG Response:**

- a. Whilst LBG is not familiar with UKEF's performance targets, or its detailed risk appetite framework, we have not experienced a situation where a potential transaction has been declined due to UKEF being unable to obtain sufficient financial support from HM Treasury or due to a level of risk appetite which didn't match our own. Therefore, we believe the above is appropriate and thus we offer no recommendation for change at this stage.

**Engagement**

6. **Question:** *How user-friendly are UKEF products for its range of customers, including small and medium enterprises? How well does UKEF communicate its offering to new and existing customers?*

**LBG Response:**

- a. More can be done to advertise UKEF products to small and medium enterprises ("SME"). While there are schemes that help financing contracts that SMEs have won overseas, there should be more support offered to those companies at the beginning of their exporting journey who are perhaps not quite ready to win contracts overseas, but who are merely gearing up to explore exporting. Working capital schemes can therefore be highly valuable.
- b. The soon to be officially launched GEF scheme is a good starting point for targeting marketing at the SME level, and there should be a lot of focus in this space. It is likely that UK companies who are potential exporters may not even know about the support available from the UK Government. This would help address regional imbalances in the UK and be a part of the green recovery from Covid-19.

7. **Question:** *How does UKEF engage with DIT, the British Business Bank and private sector partners to ensure the requirements of businesses exporting overseas are met?*

**LBG Response:**

- a. From the experience of LBG, UKEF is doing a great job at engaging various sector partners to ensure it is well aware of the developments in the market. This is reflected in the various working groups that it regularly organises. Therefore, LBG is content with this item.

8. **Question:** *To what extent does UKEF draw on external expertise and knowledge in the design and review of its products?*

**LBG Response:**

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- a. UKEF regularly engages various partners to provide their views on product development through working groups. This is crucial if it is to maintain its status as a contemporary and forward looking ECA.
- b. The speed of product development however can be accelerated. As a bank, LBG is keen to provide timely solutions to its clients. The pace and speed of development seen in the development of GEF and EDG products could be improved.
- c. Where a new product opportunity is identified, UKEF should prioritise its development to ensure that clients can utilise solutions as soon as possible. With continuous innovation seen in the market on many fronts, it is important that UK exporters are not disadvantaged should a foreign ECA capitalise on a gap in the market much sooner than UKEF, enabling its exporters to win opportunities overseas sooner than their competitors.

9. **Question:** *What could UKEF learn from other successful export credit agencies around the world?*

### **LBG Response:**

- a. UKEF product offering and the strength of its guarantee, complemented by the cover of documentation risk, places UKEF at the forefront of the major ECAs.
- b. The speed of execution seen with the Nordic ECAs such as EKN (Sweden) is something that UKEF may take note of. This speed of execution, however, is likely due to the Nordic ECAs not being as involved in transactions themselves like UKEF is, through the documentation risk cover.

### **Summary and Conclusion**

10. Lloyds Banking Group is pleased to continue working with UK Export Finance and being its trusted partner. We are happy with the work UKEF has done so far in addressing the trade deficit seen in the UK, and increasingly coming up with solutions that help clients achieve their export ambitions. Continued marketing of UKEF offering is required and focus on SMEs may be a solution to address some of the trade imbalance, and to better equip the UK for Covid-19 recovery. With the UK government's focus on sustainability, a marketing strategy where the sustainability aspect is highlighted may be necessary to help UK move to its net zero carbon target in the near future.