

Written evidence submitted by Funding Circle UK

Executive summary

Funding Circle is pleased to provide written evidence to the Treasury Committee on the Economic Impact of Coronavirus.

We recognise the extraordinary support the UK Government has provided to UK SMEs to date. This includes measures such as the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLs). We believe these schemes have been vital in providing much-needed funding and breathing space to firms during an unprecedented reduction in normal economic activity. This has boosted investor confidence and allowed finance to flow into the real economy at a time of real need, and without these schemes businesses would have suffered much more. We also welcome the fact that non-bank lenders or 'FinTech'—including Funding Circle—have been able to participate in these schemes, allowing small businesses to begin to access this funding rapidly and seamlessly. Over this period FinTech firms have played an important role in ensuring access to finance through tried and tested online mechanisms.

The below submission outlines Funding Circle's view of the economic impact of coronavirus on small businesses, along with our role in supporting existing customers and providing finance under these schemes. With the economic impact of Covid-19 likely to be felt for some time, we also raise a significant opportunity for the Government to build on their successes in recent months by implementing a refined version of the existing Enterprise Finance Guarantee Scheme (EFG); creating a cost-effective mechanism to channel funding to small businesses over the long-term.

We hope this response is informative and we would be pleased to provide further information and evidence to the Committee.

Background to Funding Circle

Funding Circle is the UK's largest online small business loan provider. Since 2010, a wide range of investors—including tens of thousands of individuals, larger institutions and government-owned lenders such as the British Business Bank—have used our platform to directly lend c. £6.2bn to more than 57,000 UK small businesses. In 2019, our platform accounted for c.6% of the total flow of <£500k UK SME debt finance (excluding commercial mortgages) and we helped businesses located in all 121 of the UK's postal areas.

Prior to Covid-19, Funding Circle offered a simple way for small businesses to access fixed-term lending of up to five years. Loans were unsecured, with a Personal Guarantee to protect the investors lending through the platform. Funding Circle offers a simple and easy application process that typically provides a lending decision to applicants within 24 hours—sometimes within minutes—with funds typically received within three days of an offer.

The economic impact of coronavirus on small businesses

Our priorities during this period have been two-fold: to support as many businesses as we can (both existing and new) and to protect the returns of the investors that lend through our platform. The trading restrictions imposed as a result of the coronavirus have had an inevitable impact on the businesses that use our platform. While the vast majority continue to repay their loans, there has been an increase in requests for payment plans from otherwise healthy businesses that have prudently looked to suspend their repayments while their ability to trade is temporarily restricted.

We have supported these businesses by offering short-term payment plans of reduced or no payments, extending these for those in most need. While the FCA does not regulate business lending, we have tried as much as possible to align our measures with their guidance for consumer lending. In addition, we have also significantly increased our support capacity; hiring and re-deploying staff to answer calls and provide crucial support to businesses. This both gives breathing space to SMEs whilst minimising avoidable credit losses in the long-run, which protects the returns of the investors that lend through the platform.

Playing our part in helping to deliver Government SME funding schemes

Funding Circle strongly welcomes the steps the Government has and continues to take to support businesses throughout the crisis. CBILS, along with other Government-backed lending schemes, has provided vital support to UK SMEs since its launch in March. Given our role as a leading FinTech platform, we were pleased to see ourselves and other NBLs accredited under the scheme. This has helped to protect the choice and competition in the SME lending market built in the 12 years since the global financial crisis. We received our CBILS accreditation in April, and also expect to shortly be able to start supporting businesses through BBLS.

As a public company that only facilitates SME lending, we are unable to share full CBILS statistics until we have formally updated the public markets, which we expect to do soon and will provide an update to the Committee once this has happened. However, in recent weeks we have played an increasingly central role in delivering CBILS, facilitating fast and easily-accessible funding to thousands of SMEs that employ more than 15,000 people. These businesses are located in every region of the UK and represent a wide range of industries; broadly representative of the wider UK SME population. Approximately two thirds of CBILS lending through our platform has gone to new customers, in contrast to banks that typically lend to existing customers.

We would like to use the opportunity of this submission to highlight to the Committee how effective and responsive both HMT and the British Business Bank (BBB) have been throughout the crisis, especially given the time pressure and constraints they were working under. While the BBB worked fast to accredit our platform, as CBILS was repurposed from a pre-existing scheme for secured lending - the Enterprise Finance Guarantee (EFG) - an initial unlevel playing field existed between traditional banks that were already accredited under this scheme, and NBLs. We're glad this was resolved relatively quickly, however we believe we could have had an immediate and tangible impact were we able to facilitate funding as the scheme got underway in March.

Policy recommendation

While the UK economy is beginning to gradually re-open, data shows that small businesses will still require support in the coming months. 55% of businesses are expecting to require further finance in the next 6 months, and 38% are considering ceasing to trade if they do not receive it.² In addition, our experience of operating in Germany and the United States shows that guarantee schemes can also play a key role in delivering funds to SMEs outside crises. For example, between 2017 - 2019 c. \$75bn was lent to US SMEs through the Small Business Administration's (SBA) flagship 7(a) guarantee program, with more than €20bn channelled to German businesses through the KfW's schemes.

With CBILS due to end on 31 September, we believe the Government should implement a refined version of the UK's existing guarantee scheme—the EFG. This would provide the Government with a cost-effective mechanism to channel funding into the real economy; both through the recovery and over the long-term. Many of the adjustments needed to create a successful long term scheme have already been made in recent months as part of the re-purposing of the EFG for CBILS. These are:

- **Facilitating unsecured lending:** The EFG previously only allowed for secured lending, which is not a practical route to obtaining finance for many SMEs that typically own few assets. The CBILS and BBLs schemes show how facilitating unsecured lending has made Government support accessible to a significantly broader range of SMEs.
- **Leveraging a ready-made distribution network:** 99 lenders have been accredited onto CBILS, more than any other UK scheme. Maintaining these accreditations would provide the Government with a ready-made distribution network for SME funding. These include both banks and NBLs, protecting the choice and competition that has been built in the commercial lending market over the last 12 years. This network of lenders is based across the UK and can reach SMEs in every part of the country.
- **Underpinning lender confidence through the government guarantee:** We recognise the immense fiscal contribution the Government has made in supporting SMEs through this crisis, and that these levels cannot be maintained indefinitely. However, a government guarantee, as per CBILS, is essential for underpinning lender confidence, especially during uncertain periods. The upfront cost for the taxpayer can instead be minimised by reducing or removing the business interruption payment under CBILS. This would create a cost-effective way to funnel funding into the real economy through private investment.

By maintaining the above elements, a refined EFG scheme could act as a cost-effective conduit for Government investment, helping the Government invest in small businesses across the UK without disrupting or crowding-out private markets.

Conclusion

Funding Circle remains committed to working with the Government, and other public bodies, to support UK businesses at this crucial time. We hope that the above submission has outlined our work in delivering crucial finance under the Government loan schemes, as well as our continued commitment to supporting small businesses and the investors that lend through our platform. We also hope that we have explained to the Committee how we think the Government could help to ensure that small businesses continue to access support through the coming months and over the long term. Funding Circle would be happy to meet with members or staff of the Committee to discuss any of our points in greater detail, or to provide the Committee with any further information.

July 2020

²Funding Circle survey of 600 SMEs, June 2020

³Innovate Finance and EY data, March 2020