

# OPEN BANKING

## SME lending Task Force Sprint Meeting 2 - 03/05/2024

### Attendees:

Chair : Charlotte Crosswell (CFIT)

Secretariat : Nick Davey, Richard Koch (Open Banking)

Name	Organisation
Alan Ainsworth	<b>CCAF</b>
Andrew Neeson	<b>Visa</b>
Aysha Fernandes	<b>UK Finance</b>
Celso Nogueira	<b>TransUnion</b>
Dan Scholey	<b>MoneyHub</b>
Gavin Starks	<b>Icebreaker One</b>
Glen Keller	<b>CRIF</b>
Helene Oger-Zaher	<b>FCA</b>
Hetal Popat	<b>HSBC</b>
Jason Turner	<b>Barclays</b>
Jon Roughly	<b>Experian</b>
Lauren Woolaston	<b>Experian</b>
Leighton Hughes	<b>CoLC</b>
Leon Jayasinghe	<b>Tide</b>
Linda McKensey	<b>Santander</b>
Mark Wilcocks	<b>Visa</b>
Markos Zachariadis	<b>Academic</b>
Martin McTague	<b>Federation of Small Businesses (FSB)</b>
Neil Taylor	<b>Mastercard</b>
Nick Lee	<b>OakNorth</b>
Nicole Green	<b>Yapily</b>
Nilixa Devlukia	<b>OFA</b>
Phillip Mind	<b>UK Finance</b>
Rebecca Hickman	<b>Addleshaw Goddard</b>
Robert Pivoris	<b>Intuit</b>
Robert Sullivan	<b>Token</b>
Sam Duxbury	<b>FCA</b>
Sandra Beisly	<b>Natonwide</b>
Shrey Agarwal	<b>Revolut</b>
Stephen Wright	<b>Natwest</b>
Terence Trench	<b>Sage</b>
Tim Birts	<b>Nationwide</b>

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CFIT: Ezechi Britton; Leon Ifayemi; Teresa Lam; Tom Laing-Baker

## **Apologies:**

Name	Organisation
Adam Jackson	<b>Innovate Finance</b>
Conrad Ford	<b>Allica Bank</b>
Dame Jayne-Anne Ghadia	<b>Ozone API</b>
Dom Hallas	<b>Startup Coalition</b>
Francesco Simoneschi	<b>Truelayer</b>
Ghela Boskovich	<b>Fdata</b>
Hannah Gurga	<b>ABI</b>
Henk Van Hulle	<b>Open Banking Limited</b>
James Guy	<b>Lloyds Group</b>
Krystyna Biller	<b>Iwoca</b>
Robert McKechnie	<b>Equifax</b>

## **Actions Arising:**

1. Secretariat to survey the taskforce in relation to data sources discussed in the CFIT blueprint work.
2. Participants to continue to provide relevant reports and information, including non-confidential non-published materials, to the taskforce.
3. Participants to continue provide information on commercial models to get started earlier than the proposed schedule.
4. Secretariat to summarise the information provided on commercial models based on input from participants.

## Summary of meeting:

### Agenda:

- 1) Welcome and background
- 2) CFIT presentation on Blueprint
- 3) Discussion on lessons learned and relevant proposals to be taken forward
- 4) Discussion on the data workstream
- 5) AOB

### Welcome and background

- The Chair welcomed attendees to the meeting and noted the tight timeframe and continued importance of covering as much ground as possible to get to final recommendations ahead of the mid-June timetable.
- The Chair noted that since the previous meeting a week ago, a good number of taskforce members had reached out to provide input and helpful suggestions. The Chair and secretariat had also spoken to a group organised by Innovate Finance and had engaged interested parties without the need for them all to join the taskforce. More feedback will be given to the Innovate Finance group when recommendations are being developed.
- The secretariat also stressed the actions from last time also included providing any helpful reports, data or information that exists on the issues surrounding SME lending. They also asked that if anyone had early ideas on the commercial model they start to discuss those ideas with the secretariat because there is not much time to develop principles and proposals ahead of the reporting deadline.

## Presentation on blueprint

- Ahead of the CFIT presentation the secretariat presented some data that has been published by the Office of National Statistics and by the British Business Bank. This showed that around 30% of SMEs had requested some form of finance over the last 3 years, the majority was shorter term unsecured finance often associated with working capital. However there was a tranche of SMEs looking to more structured finance in order to scale their business or to produce new products and services.
- Typically lending to SMEs was flat in nominal terms meaning in real terms it had fallen. The share of lending that is through challenger banks or specialist lenders has risen as a proportion of all lending and is greater than lending from the big banks. A member of the taskforce noted that the larger banks have effectively become more significant in wholesale lending and challengers and specialist lenders have grown because of their role in retail lending.
- Around 50% of SMEs only approach one lender, the hypothesis is that this is will be the bank that the SME hold deposit accounts with. The outcome will either be a successful application and the entire amount is loaned, that a partial amount is offered, or the loan is refused. The rates of offers of loans to SMEs from the larger banks has fallen over the last few years but this may reflect the move to a more wholesale lending environment. If a SME is offered a partial amount then only 25% of them accept that amount and take out the loan, the remaining 75% either give up, put finance on hold or looking for an alternative provider.
- While the data doesn't give any direct causal links, the hypothesis we are working to is that some of these refusals or offers of partial finance is because of a lack of information in the process. This gap is data lowers the lenders ability to understand the affordability of the loan by the borrower, and the risk that it entails for repayment. This is expected to be more acute if an SME approaches a lender that it has no prior financial arrangements with; making it even more difficult and time consuming to properly understand affordability. If a loan is provided under those conditions, the interest rates can be high reflecting the uncertainties involved.
- Leon Ifayemi (Director, CFIT) presented on the work that had happened under CFIT Coalition 1 that led to prototyping dashboards with two lenders to understand the enhancements and improvements that would be made by making more data accessible. Accessibility was synthesised on the basis that APIs would be used to provide data from different sources to

the lenders. Also the manner in which consent was captured via mobile apps was also prototyped.

- During the exercise Leon and his colleagues also got the group to provide views on different data sources and data items, aspects such as ease of automating access to the data, data quality, usefulness and other attributes were collected. These scores were refined into a ranking of data which is published in the blueprint document. Government sources such as HMRC data generally came out top.
- Leon also presented the expected impact that making data available in an Open Finance type framework. This included a more automated and faster loan application process, the ability to work out risk and affordability, and better outcomes for SMEs. Validating the problem statement that the earlier data analysis outlined and providing the task force with the important work to understand exactly what data could be made available and how it could be incentivised.

## Discussion on lessons learned and relevant proposals to be taken forward and the data work stream

- The taskforce noted that some of the data, highlighted as important, was public sector rather private sector. While the taskforce will generate proposals that can be implemented in the short, medium or longer term, public sector data via APIs was considered a longer term change. To focus on this too much would likely delay building models and achieve the benefits that have been outlined.
- Members of the task force noted that HMRC sourced data was particularly high in the rankings. But data submitted to HMRC, existing in other forms such as in accountancy packages or other digital forms prior to being submitted to HMRC. Providers of accountancy products are part of the task force and suggested that there could be benefit in opening up this data directly to lenders (with associated consent) but there are some legal and regulatory aspects that need to be looked into. The taskforce secretariat have agreed to research this in more detail.
- Members of the task force noted that consent was very important because there was a risk of 'consent fatigue' by users in a world of many different Open Data products and services; and consent would need to be clearly understood. This also includes education on the benefits of sharing the information and the parameters of its use in the process. While we expect to touch upon consent specifically for SME lending approaches in the report, we will

not be able to look in depth at consent frameworks for multi-sector approaches. The taskforce acknowledged however that the issue about consent fatigue can be stressed as a risk in the report.

- In terms of taking the data work forward the secretariat are looking to refine a set of data items and the providers of those data sets that can be taken forward as a solution to the problem. There are aspects of trust in the data and accuracy of the data that need to be explored with the taskforce in order to provide those workable solutions. This will be explored under the data workstream.
- There was no AOB so the chair thanked the taskforce members for attending and looked forward to the next meeting on 10<sup>th</sup> May.

[End Summary]